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**ECONOMY - PART 1**

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**Q.1) Consider the following pairs:**

Author	Famous Book
1. Adam Smith	An Enquiry into the Nature and Cause of the Wealth of Nations
2. John Maynard Keynes	General Theory of Employment, Interest and Money
3. Abhijit Banerjee	The Economic Consequences of the Peace
4. Amartya Sen	Good Economics for hard times

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

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

**Q.1) Solution (a)**

**Correct pairs:**

Author	Famous Books
Adam Smith	An Enquiry into the Nature and Cause of the Wealth of Nations (1776)
John Maynard Keynes	The Economic Consequences of the Peace (1919) General Theory of Employment, Interest and Money (1936)
Amartya Sen	Collective Choice and Social Welfare
Abhijit Banerjee	Good Economics for Hard Times (2019)

**Q.2) Match List-I with List-II and select the correct answer using the codes given below:**

List-I (Type of Goods)	List-II (Example)
1. Capital Goods	A. Steel sheets
2. Consumption Goods	B. Machines
3. Intermediate Goods	C. Home Computers

Select the correct code

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

Q.2) Solution (b)

Types of Good	Example
Consumption goods	food and clothing, and services like recreation
Consumer durables(preserved, maintained and renewed)	Television sets, automobiles or home computers
Intermediate goods	Steel sheets used for making automobiles and copper used for making utensils
Capital goods	Tools, implements and machines.

Q.3) Which among the following activities constitute Secondary sector in an Economy?

- 1. Forestry
- 2. Construction
- 3. Manufacturing

Choose the correct answer using the codes given below

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

d) All of the above

**Q.3) Solution (b)**

**Basic Information:**

**Primary Sector**

- Agriculture
- Mining
- Forestry
- Grazing
- Hunting and gathering
- Fishing
- Quarrying

**Secondary Sector**

- Manufacturing
- Processing
- Construction

**Q.4) Consider the following economic elements**

1. Entrepreneurship
2. Capital
3. Land
4. Labour

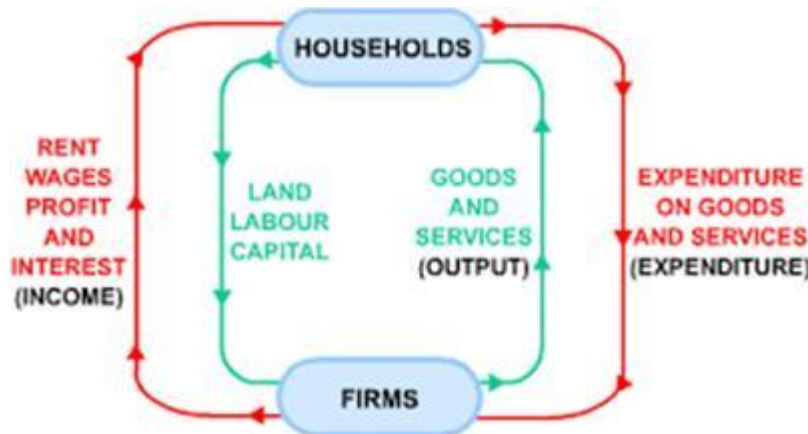
**Which of the above elements are considered to be a part of four factors of production?**

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

**Q.4) Solution (d)**

Land, labour, capital and entrepreneurship are called the factors of production.

Production of goods and services is a result of joint efforts of four factors of production. The producers try to produce maximum amount of goods and services by using various combination of factors of production.



Contribution made by human labour, remuneration for which is called wage.

Contribution made by capital, remuneration for which is called interest.

Contribution made by entrepreneurship, remuneration of which is profit.

Contribution made by fixed natural resources (called 'land'), remuneration for which is called rent.

**Q.5) With Reference to Expenditure method of GDP (Gross Domestic Product) calculation, Consider the following statements:**

1. This method adds up consumer spending, investment, government expenditure only.
2. Both private and public sector expenses incurred within a country's borders will give the total production value of finished goods and services over a time period.

**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 expenditure method is a system for calculating gross domestic product (GDP) that combines consumption, investment, government spending, and net exports.

**The Formula for Expenditure GDP is:**

$$\text{GDP} = \text{C} + \text{I} + \text{G} + (\text{X} - \text{M})$$

Where,

C = Consumer spending on goods and services

I = Investor spending on business capital goods

G = Government spending on public goods and services

X = exports; M = imports

Private and public sector expenses incurred within a country's borders will give the total production value of finished goods and services over a time period.

**Q.6) Consider the following statements with respect to Gross value added (GVA):**

1. GVA is defined as the value of output less the value of intermediate consumption
2. It measures the contribution to growth made by an individual producer, industry or sector.
3. In India, the base year has also been shifted to 2011-12 from the earlier 2004-05.

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

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

**Q.6) Solution (d)**

GVA is defined as the value of output **minus** the value of intermediate consumption and is a measure of the contribution to growth made by an individual producer, industry or sector.

Earlier, India had been measuring GVA at '**factor cost**' till the new methodology was adopted in which GVA at 'basic prices' became the primary measure of economic output. The base year has

also been shifted to 2011-12 from the earlier 2004-05.

**Q.7) Consider the following statements**

1. Growth is a quantitative concept; it can either be positive or negative.
2. Development is a qualitative aspect; it is always positive from everybody's perspective.

**Choose the correct statement/s using the codes given below**

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

**Q.7) Solution (a)**

Growth is always measurable; it is generally estimated in terms of numbers. Hence is a quantitative concept. It can be either positive growth like increase in GDP or can be negative like reduced growth due to slowdown in the economy.

Development is not measurable, as it is a subjective concept. Some development for a particular group cannot be considered development for the other group. Eg: Mining supports government revenue but negatively impacts tribal population in the mining region.

**Q.8) According to economists, the term development means:**

1. The level of nutrition
2. Expanded healthcare facilities
3. Improved levels of education

**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.8) Solution (d)**



Economists measure the level of development in terms of the all above measures/variables on which the quality of life depends. Development is a more comprehensive concept when compared to the term growth. Hence all the options given are correct.

**Q.9) Identify the incorrect statement mentioned below about various types of Gross Domestic Product (GDP):**

- a) Nominal GDP: The total value of all goods and services produced at current market prices.
- b) Real GDP: The sum of all goods and services produced at constant prices.
- c) Actual GDP: Represents market value of goods and services, but rather than capturing the current objective state of a nation's economic activity, it attempts to estimate the highest level of output an economy can sustain over a period of time.
- d) Potential GDP: Ideal economic condition with 100% employment across all sectors, steady currency, and stable product prices.

**Q.9) Solution (c)**

**Nominal GDP** – the total value of all goods and services produced at current market prices. This includes all the changes in market prices during the current year due to inflation or deflation.

**Real GDP** – the sum of all goods and services produced at constant prices. The prices used in determining the Gross Domestic Product are based on a certain base year or the previous year. For India it is 2011-2012 as base year.

**Actual GDP** – real-time measurement of all outputs at any interval or any given time. It demonstrates the existing state of business of the economy.

**Potential GDP** – ideal economic condition with 100% employment across all sectors, steady currency, and stable product prices.

Potential GDP represents the market value of goods and services, but rather than capturing the current objective state of a nation's economic activity, potential GDP attempts to estimate the highest level of output an economy can sustain over a period of time.

It assumes that an economy has achieved full employment and that aggregate demand does not exceed aggregate supply.

Potential GDP is important because monetary policymakers use the difference between actual and potential GDP—the output gap—to determine whether the economy needs more or less monetary stimulus.

**Q.10) In the context of economic terms, consider the following statements:**

1. Factor cost: Factor cost includes only the payment to factors of production, it does not include any tax.
2. Basic Prices: The basic price is the amount receivable by the producer from the purchaser for a unit of a good or service.
3. Market price: Market price is the price at which a product is sold in the market.

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

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

**Q.10) Solution (d)**

**Factor cost:** Total cost of all factors of production consumed or used in producing a good or service. Factor cost includes **only the payment to factors of production**, it does not include any tax.

**Basic Prices:** The basic price is the amount receivable by the producer from the purchaser for a unit of a good or service produced as output **minus any tax payable, plus any subsidy receivable**, on that unit as a consequence of its production or sale.

**Market price:** Market price is the price at which a product is sold in the market. It includes the cost of production in the form of wages, rent, interest, input prices, profit etc. It also includes the taxes imposed by the government and the subsidies provided by the government for the producers would also be reflected in the price.

**Q.11) The stock of skill, ability, expertise, education and knowledge of a nation at a given point of time known as**

- a) Human Resource
- b) Human Capital
- c) Human Development
- d) None of the above

**Q.11) Solution (b)**

Human capital is a term popularized by Gary Becker, an economist from the University of Chicago, and Jacob Mincer that refers to the stock of knowledge, habits, social and personality attributes, including creativity, embodied in the ability to perform labor so as to produce economic value.

Human capital is a measure of the economic value of an employee's skill set. This measure builds on the basic production input of labor measure where all labor is thought to be equal. The concept of human capital recognizes that not all labor is equal and that the quality of employees can be improved by investing in them; the education, experience and abilities of employees have economic value for employers and for the economy as a whole.

Alternatively, human capital is a collection of traits – all the knowledge, talents, skills, abilities, experience, intelligence, training, judgment, and wisdom possessed individually and collectively by individuals in a population. These resources are the total capacity of the people that represents a form of wealth which can be directed to accomplish the goals of the nation or state or a portion thereof.

It is an aggregate economic view of the human being acting within economies, which is an attempt to capture the social, biological, cultural and psychological complexity as they interact in explicit and/or economic transactions. Many theories explicitly connect investment in human capital development to education, and the role of human capital in economic development, productivity growth, and innovation has frequently been cited as a justification for government subsidies for education and job skills training.

Resources are the total means available or an available supply that can be drawn on when needed. Resources, quite simply, can be drawn on until exhausted. Capital, however, is defined as any form of wealth employed or capable of being employed in the production of more wealth. Capital can grow with investment to produce more capital.

**Difference between Human Resource and Human Capital:**

- Human Resource is simply human potential. Potential with infinite capabilities and capacity with the possibility of beneficial engagement. Potential however, it must be noted does not have to be productive and that an opportunity has to be provided to translate potential into real value.

- Human Capital is a well employed human resource that is actively engaged in meaningful, worthwhile work and delivering some level of desired productivity. Human Capital is a question of factoring knowledge and application to physicality.
- Human Investment is determined by the degree to which the human capital is productive and producing dividends. Human Investment is a question of physicality, knowledge and application channeled towards great returns on investment.

**Q.12) Which among the following is not an example of micro economic phenomenon?**

1. A family deciding to buy different types of clothes for a festival.
2. A company looking for ways to reduce the operating cost of manufacturing a good.
3. Government taking steps to invest more in skill development programme so as to reduce the unemployment level in the country.

**Choose the correct code**

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

**Q.12) Solution (d)**

Microeconomics deals with the individual economic agents and the nature of the motivations that drive them.

For example, consumers choosing their respective optimum combinations of goods to buy, given their tastes and incomes; and producers trying to make maximum profit out of producing their goods keeping their costs as low as possible and selling at a price as high as they could get in the markets. In other words, microeconomics was a study of individual markets of demand and supply and the 'players', or the decision-makers, were also individuals (buyers or sellers, even companies) who were seen as trying to maximise their profits (as producers or sellers) and their personal satisfaction or welfare levels (as consumers).

Macroeconomics tries to **address situations facing the economy as a whole**. In the above example unemployment is a macro economic condition which affects the economy as a whole.

**Q.13) Which of the following expression correctly explains depreciation?**

- a) Depreciation = gross investment – net investment
- b) Depreciation = net investment – gross investment
- c) Depreciation = gross investment + net investment
- d) None of the above

**Q.13) Solution (a)**

A part of the capital goods produced in a particular year goes for replacement of existing capital goods and is not an addition to the stock of capital goods already existing and its value needs to be subtracted from gross investment for arriving at the measure for net investment. This deletion, which is made from the value of gross investment in order to accommodate regular wear and tear of capital, is called depreciation. So new addition to capital stock in an economy is measured by net investment or new capital formation, which is expressed as

$$\text{Net Investment} = \text{Gross investment} - \text{Depreciation}$$

**Q.14) Which of the following are NOT taken into account while considering the circular flow of income in simple economy?**

- 1. Government
- 2. Households
- 3. External sector
- 4. Savings
- 5. Firms

**Choose the correct code**

- a) 1, 2 and 3 only
- b) 1, 3 and 4 only
- c) 1, 3 and 5 only
- d) 1, 2 and 4 only

**Q.14) Solution (b)**

Simple economy assumes circular flow of income with households and firms at its core– without a government, external trade or any savings.

The households receive their payments from the firms for productive activities they perform for the latter. There may be four kinds of contributions that can be made during the production of goods and services

- (a) Contribution made by human labour, remuneration for which is called wage
- (b) Contribution made by capital, remuneration for which is called interest
- (c) Contribution made by entrepreneurship, remuneration of which is profit
- (d) Contribution made by fixed natural resources (called 'land'), remuneration for which is called rent

**Q.15) What does the term GDP deflator represents?**

- a) Ratio between Nominal GDP and Real GDP
- b) Ratio between Nominal GDP and Price Level
- c) Ratio between Real GDP and deflation
- d) Ratio between Nominal GDP and inflation

**Q.15) Solution (a)**

The GDP deflator, also called implicit price deflator, is a measure of inflation. It is the ratio of the value of goods and services an economy produces in a particular year at current prices to that of prices that prevailed during the base year.

This ratio helps show the extent to which the increase in gross domestic product has happened on account of higher prices rather than increase in output.

Since the deflator covers the entire range of goods and services produced in the economy — as against the limited commodity baskets for the wholesale or consumer price indices — it is seen as a more comprehensive measure of inflation.

GDP price deflator measures the difference between real GDP and nominal GDP. Nominal GDP differs from real GDP as the former doesn't include inflation, while the latter does.

As a result, nominal GDP will most often be higher than real GDP in an expanding economy.

The formula to find the GDP price deflator:  $\text{GDP price deflator} = (\text{nominal GDP} \div \text{real GDP}) \times 100$

**Q.16) If the price of an inelastic good is increased, then the total expenditure of the consumer of the good will**

- a) Increase
- b) Decrease
- c) Will not effect

d) Can't say

**Q.16) Solution (a)**

A situation in which the demand for a product does not increase or decrease correspondingly with a fall or rise in its price is called a condition of inelasticity. From the supplier's viewpoint, this is a highly desirable situation because price and total revenue are directly related; an increase in price increases total revenue despite a fall in the quantity demanded. An example of a product with inelastic demand is Petrol.

**Q.17) Which of the following statements are correct regarding 'Derived Demand'?**

1. It is a demand of a product created as a result of the demand of another product.
2. Demand for factors of production is a derived demand.

Select the code from following:

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

**Q.17) Solution (c)**

In economics, derived demand is demand for a factor of production or intermediate good that occurs as a result of the demand for another intermediate or final good. In essence, the demand for, say, a factor of production by a firm is dependent on the demand by consumers for the product produced by the firm.

This is similar to the concept of joint demand or complementary goods, the quantity consumed of one of them depending positively on the quantity of the other consumed.

**Q.18) Which of the following is not a part of National Income calculation by Income method?**

- a) Wages paid to the employees working in a firm
- b) Compensation provided for usage of fixed capital
- c) Land rent paid to the landowner
- d) Cost incurred for purchasing the raw material

**Q.18) Solution (d)**

Income method of measuring National income could be seen in the following formula

$$\text{National Income} = \text{Total wage} + \text{Total rent} + \text{Total interest} + \text{Total profit}$$

Cost incurred for purchasing the raw material not does not form a part of the income but it is a part of expenditure.

**Q.19) Which one of the following in not a part of service sector in India?**

- a) Transport
- b) Construction
- c) Hotels and restaurants
- d) Insurance

**Q.19) Solution (b)**

Secondary activities add value to natural resources by transforming raw materials into valuable products. Secondary activities, therefore, are concerned with manufacturing, processing and construction (infrastructure) industries.

People engaged in secondary activities are called blue collar workers.

**Q.20) 'Opportunity Cost Theory' is related to**

- a) Fiscal Deficit
- b) Retail Market for domestic goods
- c) Location of Industries
- d) International Trade

**Q.20) Solution (d)**

The opportunity cost theory analyses pre-trade and post-trade situation under constant, increasing and decreasing opportunity costs whereas the comparative cost theory is based on the constant costs of production within a country and comparative advantage and disadvantage between the two countries.

**Q.21) With respect to inequality measurement, consider the following statements:**



1. Lorenz Curve: It calculates degree of income inequality
2. Gini Coefficient: It measure distribution of income in an 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.21) Solution (d)**

A Lorenz curve is a graphical representation of income inequality or wealth inequality developed by American economist Max Lorenz in 1905. It shows the proportion of income earned by any given percentage of the population.

The Gini Coefficient measures the degree of income equality in a population. It was developed by the Italian statistician and sociologist Corrado Gini.

The distribution of income in an economy is represented by the Lorenz Curve and the degree of income inequality is measured through the Gini Coefficient.

**Q.22) Consider the following statements with reference to Gini Coefficient:**

1. A value of 1 indicates perfect equality and 0 indicates perfect inequality.
2. Gini Index is defined based on the Lorenz Curve.
3. IMF publishes report on Gini index.

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

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

**Q.22) Solution (b)**

**Gini Coefficient:** A value of 0 indicates perfect equality and 1 indicates perfect inequality. Gini Index is defined based on the Lorenz Curve.

Statement 3 is incorrect because **World Bank** publishes Gini index to report country wise inequality.

**Q.23) Consider the following statements about poverty:**

1. Poverty can be termed as 'cognitive tax' on the poor
2. Poverty brings in wide ranging behavioural changes in a person
3. Poverty keeps the vicious cycle perpetuating forever

**Choose the correct statements using the codes given below**

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

**Q.23) Solution (a)**

**Explanation**

Chronic poverty causes health issues, educational failures, mental health challenges, impoverished aspirations etc. Hence poverty lays burden on the young creative minds, thereby reducing their overall efficiency. Poverty causes cognitive depletion, hence it is termed as cognitive tax.

Poverty is one of the key causes for increased crime rates, errant behaviour due to alcoholism etc. Hence Poverty drives changes in one's behaviour both in a positive and in a negative way

Poverty creates a vicious cycle where poor person's son/daughter would be inherently remain poor due to lack of adequate developmental opportunities. However, 'forever' is extreme word and hence appropriate answer is option (a).

**Q.24) Consider the following statements**

1. Headcount ratio is the percentage of population that lives below the poverty line. It gives the exact picture of poverty in India.
2. Poverty Gap is the difference between average income of BPL population and the BPL. It does not provide the exact picture of poverty in India.

**Which of the above statement/s is/are true?**

- a) 1 only
- b) 2 only

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

**Q.24) Solution (d)**

**Explanation**

The population whose level of income (or expenditure) is below this aggregate value is Below Poverty Line (BPL). In this measure of poverty, we expressed the number of poor as a proportion of the total population. This measure also is known as the headcount ratio.

The poverty gap is the ratio by which the mean income of the poor falls below the poverty line. The poverty line is defined as half the median household income of the total population. The poverty gap helps refine the poverty rate by providing an indication of the poverty level in a country.

**Q.25) Consider the statements about MDGs and SDGs**

1. MDGs started the campaign to end global poverty and hunger, while SDGs aim to realise it comprehensively.
2. Both MDGs and SDGs emphasised on the 'Data Revolution' i.e., track the performance using Big Data.
3. Peace building as an integral part of ending poverty and hunger was recognised by only SDGs.

**Choose the correct statements 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.25) Solution (c)**

**Explanation**

It was the MDGs that started the campaign to end global poverty and hunger, while SDGs aim to realise it comprehensively by way of setting goals.

It is the SDGs that emphasise the importance of data. Big Data analytics has been extensively used in the SDGs goal setting as well as goal tracking process. It was not seen in the case of MDGs.

Peace building as an integral part of ending poverty and hunger was recognised by only SDGs.

**Q.26) Which of the following are the disadvantages of the Universal Basic Income?**

1. Freedom of choice
2. Poverty reduction
3. Wasteful expenditure
4. Moral Hazard

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

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

**Q.26) Solution (c)**

### **Explanation**

#### **Advantages of UBI**

- Workers could afford to wait for a better job or better wages.
- People would have the freedom to return to school or stay home to care for a relative.
- The "poverty trap" would be removed from traditional welfare programs.
- Citizens could have simple, straightforward financial assistance that minimizes bureaucracy.
- The government would spend less to administer the program than with traditional welfare.
- Payments would help young couples start families in countries with low birth rates.
- The payments could help stabilize the economy during recessionary periods.

#### **Disadvantages of UBI**

- Inflation could be triggered because of the increase in demand for goods and services.
- There won't be an increased standard of living in the long run because of inflated prices.
- A reduced program with smaller payments won't make a real difference to poverty-stricken families.
- Free income may disincentivize people to get jobs, and make work seem optional.
- Free income could perpetuate the falling labor force participation rate.
- It would be difficult especially in the US to get legislation passed because of stiff

opposition to handouts for the unemployed.

**Q.27) The Socio-Economic Caste Census could be efficiently used to improve**

1. Reservation policy of India
2. Selecting scholarship beneficiaries
3. National Food Security Scheme
4. Promoting private sector investment

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

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

**Q.27) Solution (b)**

**Explanation**

- Statement 4 is incorrect because SECC is in no way related to private sector investment.
- All other statements use SECC in order to improve their efficiency

The Ministry of Rural Development Government of India, commenced the Socio Economic and Caste Census (SECC) 2011, in June 2011 through a comprehensive door to door enumeration across the country. This is the first time such a comprehensive exercise has been carried out for both rural and urban India. It is also expected to generate information on a large number of social and economic indicators relating to households across the country.

**The SECC, 2011 has the following three objectives:**

- To enable households to be ranked based on their Socio- Economic status. State Governments can then prepare a list of families living below the poverty line
- To make available authentic information that will enable caste-wise population enumeration of the country
- To make available authentic information regarding the socio economic condition, and education status of various castes and sections of the population
- The rural development ministry has taken a decision to use the SECC data in all its programmes such as MGNREGA, National Food Security Act, and the Deen Dayal Upadhyaya Grameen Kaushalya Yojana.

**Q.28) Select the correct statement about the term 'unemployment trap'**

- a) A situation in the economy when the rate of employment growth is less than the rate of increase in the unemployed population
- b) A situation when unemployed population of an economy does not feel encouraged to become employed
- c) A situation of frictional unemployment when there is a heavy rush of labour force from the primary to the secondary activities
- d) A situation when existing job loss is higher than the new jobs created

**Q.28) Solution (b)**

**Explanation**

Unemployment trap is a situation when unemployment benefits discourage the unemployed to go to work. People find the opportunity cost of going to work too high when one can simply enjoy the benefits by doing nothing.

While the purpose of social security and welfare systems is to provide relief to the unemployed, they end up providing them with an incentive not to return to work. An unemployment trap arises when opportunity cost of going to work is higher than the income received, discouraging people from returning to work and being productive.

**Q.29) Consider the following parameters:**

- 1. GDP per capita
- 2. Employment
- 3. Productivity
- 4. Life expectancy

**'Inclusive development Index' (IDI) takes into account which of the above?**

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

**Q.29) Solution (d)**

**Basic Information:**

IDI is an annual economic index introduced by the World Economic Forum. India was ranked 62nd among 74 emerging economies. (as per latest report which was released in 2018)

IDI takes into account growth, as measured using –

- GDP per capita
- employment,
- Productivity, and
- Life expectancy

IDI has three pillars –

**1. Growth and development**

- GDP per capita
- employment,
- Productivity, and
- Life expectancy

**2. Inclusion**

- Median household income
- Income inequality
- Wealth inequality
- Poverty rate

**3. Intergenerational equity and sustainability**

- Savings
- Public debt
- Carbon intensity
- Dependency ratio



**Q.30) Which of the following best describe the term 'Learning Poverty'?**

- a) Unwillingness of come out of poverty.
- b) Unwillingness to engage in more productive work.
- c) The state of being unable to read and understand a simple text by age 10.
- d) Transfer of poverty from generation to generation.

**Q.30) Solution (c)**

**Basic Information:**

Learning poverty is defined as being unable to read and understand a simple text by age 10.

The new data show that 53% of all children in low- and middle-income countries suffer from learning poverty.

This high rate of learning poverty and slow progress is an early warning sign that all of the targets outlined in SDG4 are at risk – including the target to increase the number of youth and adults who have relevant skills for employment, decent jobs, and entrepreneurship.

**Do you know?**

- The **World Bank has adopted a Learning Poverty Target** that aims to cut the global rate of learning poverty by at least 50% by 2030.

**Q.31) Which of the following correctly explains the inadequate nature of calorie-based norm to identify the poor?**

1. It groups all the poor together and does not differentiate between the very poor and the other poor.
2. It takes into account expenditure on food and a few select items as proxy for income which proves difficult to identify who among the poor need help the most.

**Choose the correct code**

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

**Q.31) Solution (c)**

There are many ways of measuring poverty. One way is to determine it **by the monetary value of the minimum calorie intake** that was estimated value (per capita expenditure) of the minimum calorie intake that was estimated **at 2,400 calories for a rural person and 2,100 for a person in the urban area.**

Based on this, in 2011-12, the poverty line was defined for rural areas as consumption worth **Rs 816 per person a month and for urban areas it was Rs 1,000.** Though the government uses



**Monthly Per Capita Expenditure (MPCE) as proxy for income of households** to identify the poor, Economists state that a major problem with this mechanism is that it groups all the poor together and **does not differentiate between the very poor and the other poor**. Also this mechanism takes into account expenditure on food and a few select items as proxy for income, economists question its basis.

This mechanism is helpful in identifying the poor as a group to be taken care of by the government, but it would be **difficult to identify who among the poor need help the most**.

**Do you know?**

The aim of poverty alleviation schemes should be to improve human lives by expanding the range of things that a person could be and could do, such as to be healthy and well-nourished, to be knowledgeable and participate in the life of a community.

From this point of view, development is about removing the obstacles to the things that a person can do in life, such as illiteracy, ill health, lack of access to resources, or lack of civil and political freedoms.

**Q.32) Consider the following statements with reference to different type of Economic curve and their definitions:**

1. Engel curve: It displays how household expenditure on a particular good or service varies with change in household income.
2. Beveridge curve: It shows relationship between unemployment and job vacancy rate.
3. Phillips curve: It shows relation between inflation and unemployment has a stable and inverse relationship.

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

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

**Q.32) Solution (d)**

**Engel curve** describes how household expenditure on a particular good or service varies with household income.

**A Beveridge curve**, or UV curve, is a graphical representation of the relationship between unemployment and the job vacancy rate, the number of unfilled jobs expressed as a proportion of the labour force

The **Phillips curve** is an economic concept developed by A. W. Phillips stating that inflation and unemployment have a stable and inverse relationship.

**Q.33) Consider the following statements with reference to Voluntary Unemployment:**

1. It refers to the situation when the worker deliberately chooses not to work because of a low wage scale
2. Most frictional unemployment is considered voluntary unemployment.

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

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

**Q.33) Solution (c)**

The number of persons in an economy without jobs because they choose to be unemployed. An example of a voluntarily unemployed person is one who rejects a position while looking for one with better pay or benefits. Most frictional unemployment (unemployment when one is between jobs) is considered voluntary because one is looking for work rather than taking any job one finds.

**Q.34) Which of the following statements is NOT correct?**

- a) The major reason for cyclical unemployment is lack of demand in the economy and slowdown of economic activity.
- b) Structural unemployment usually occurs due to the mismatch of skills.
- c) Disguised unemployment is when too many people are employed than what is required to produce efficiently.

- d) The minimum amount of unemployment that prevails in an economy due to workers quitting their previous jobs and are searching for the new jobs is called Involuntary Unemployment.

**Q.34) Solution (d)**

**Statement Analysis:**

Statement 1	Statement 2	Statement 3	Statement 4
Correct	Correct	Correct	Incorrect
Cyclical unemployment is due to deficiency or fall in effective demand from consumers which leads to fall in production and low demand for labour.	Structural unemployment refers to a situation which arises due to change in the structure of the economy. Example: An economy transforms itself from a Labour intensive economy to a Capital intensive economy.	Disguised unemployment is when too many people are employed than what is required to produce efficiently.	<b>Involuntary unemployment</b> refers to a situation where workers are seeking work and are willing to work but are unable to get work.

**Basic Information:**

- The minimum amount of unemployment that prevails in an economy due to workers quitting their previous jobs and are searching for the new jobs is called **Frictional Unemployment**.
- **Voluntary unemployment** refers to a situation where workers are either not seeking for work or are in transition from one job to another (quitting one job in search of another better job).
- **Seasonal unemployment** occurs during certain seasons of the year. In some industries and occupations like agriculture, holiday resorts etc., production activities take place only in some seasons.

**Q.35) Which of the following factors can be attributed to growth of unemployment in India?**

1. Slow growth in agricultural and industrial productivity.
2. Slow expansion of manufacturing sector.

3. Concentration of investment in capital goods industry.

**Select the correct answer from below:**

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

**Q.35) Solution (d)**

All the three statements are easy to comprehend. You should not get confused with the third statement. Investment in capital goods industry will not create employment opportunity because of more mechanization.

**Basic Information:**

Unemployment in India is caused by a range of factors:

- 1. Slow growth in agricultural and industrial productivity.
- 2. Slow expansion of manufacturing sector
- 3. Concentration of investment in capital goods industry.

One of the most important objectives of economic planning in India was to create employment opportunities for the rising labour force. To meet this goal several initiatives were undertaken - expansion of heavy industries, cottage and small industries, agriculture and related activities etc.

**Capital Goods** refer to products that are used in the production of other products but are not incorporated into the new product. These include machine tools, industrial machinery, process plant equipment, construction & mining equipment, electrical equipment, textile machinery, printing & packaging machinery etc.

**Q.36) Which among the following correctly defines the term 'Dependency Ratio'?**

- a) It is the ratio of population dependent on the agricultural sector.
- b) It is the ratio of children below the age of 15 and older persons above 65 years to the working age population.
- c) It is the ratio of the population below the poverty line.
- d) It is the number of persons unemployed per thousand persons.

**Q.36) Solution (b)**

**Basic Information:**

In economics, geography, demography and sociology, the dependency ratio is an age population ratio of those typically not in the labor force (the dependent part ages 0 to 14 and 65+) and those typically in the labor force (the productive part ages 15 to 64). It is used to measure the pressure on the productive population.

Consideration of the dependency ratio is essential for governments, economists, bankers, business, industry, universities and all other major economic segments which can benefit from understanding the impacts of changes in population structure. A low dependency ratio means that there sufficient people working who can support the dependent population. A lower ratio could allow for better pensions and better health care for citizens. A higher ratio indicates more financial stress on working people. While the strategies of increasing fertility and of allowing immigration especially of younger working age people have been formulas for lowering dependency ratios, future job reductions through automation may impact the effectiveness of those strategies.

**Q.37) Which of the following 'Sustainable Development Goals' (SDGs) is correct?**

- a) Goal 4 is End poverty in all its forms everywhere.
- b) Goal 2 is Ensure healthy lives and promote wellbeing for all ages.
- c) Goal 5 is Ensure availability and sustainable management of water and sanitation for all.
- d) Goal 11 is Make cities and human settlements inclusive, safe, resilient and sustainable.

**Q.37) Solution (d)**

**Basic Information:**





**Q.38) There is a paradoxical effect where increase in human capital may not lead to economic growth. Which of the following best explains this nebulous phenomenon?**

- Education measured in terms of years of schooling, teacher-pupil ratio and enrolment rates may not reflect the quality of education.
- Health services measured in monetary terms, life expectancy and mortality rates may not reflect the true health status of the people in a country.
- Both a and b
- None of the above

**Q.38) Solution (c)**

**Explanation:**

Both **education and health, along with many other factors like on-the-job training, job market information and migration**, increase an individual's income generating capacity. This enhanced productivity of human beings or human capital contributes substantially not only towards increasing labour productivity but also stimulates innovations and creates ability to absorb new technologies.

Education provides knowledge to understand changes in society and scientific advancements, thus, facilitate inventions and innovations. Similarly, the availability of educated labour force facilitates adaptation to new technologies.

Empirical evidence to prove that **increase in human capital causes economic growth is rather nebulous**. This may be because of measurement problems.

For example, **education measured in terms of years of schooling, teacher-pupil ratio and enrolment rates may not reflect the quality of education**.

Health services measured in monetary terms, life expectancy and mortality rates **may not reflect the true health status of the people in a country**.

**Do you know?**

Using the indicators mentioned above, an analysis of improvement in education and health sectors and growth in real per capita income in both developing and developed countries shows that **there is convergence in the measures of human capital but no sign of convergence of per capita real income**.

In other words, the human capital growth in developing countries has been faster but the growth of per capita real income has not been that fast.

There are reasons to believe that the causality between human capital and economic growth flows in either directions. That is, **higher income causes building of high level of human capital and vice versa**, that is, high level of human capital causes growth of income.

**Q.39) Consider the following statements with reference to Pradhan Mantri Kaushal Vikas Yojana (PMKVY) 3.0:**

1. PMKVY 3.0 envisages training of eight lakh candidates over the scheme period of 2020-2021.
2. With the advent of PMKVY 3.0, the focus is on bridging the demand-supply gap by promoting skill development in areas of new-age and Industry 4.0 job roles.

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

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

**Q.39) Solution (c)**

PMKVY 3.0 envisages training of eight lakh candidates over the scheme period of 2020-2021. PMKVY 3.0 phase three will focus on new-age and COVID-related skills. With the advent of

PMKVY 3.0, the focus is on **bridging the demand-supply gap** by promoting skill development in areas of new-age and Industry 4.0 job roles.

**Q.40) With reference to Deendayal Antyodaya Yojana-National Rural Livelihood Mission (DAY-NRLM), consider the following statements:**

1. It is a centrally sector programme, launched by the Ministry of Rural Development in 2011.
2. To aim to eliminate rural poverty through the promotion of multiple livelihoods and improved access to financial services for the rural poor households across the country

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

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

**Q.40) Solution (b)**

**Deendayal Antyodaya Yojana-National Rural Livelihood Mission (DAY-NRLM)**

- It is a **centrally sponsored** programme, launched by the Ministry of Rural Development in June 2011.
- To eliminate rural poverty through the promotion of multiple livelihoods and improved access to financial services for the rural poor households across the country.
- To reach out to all rural poor households and impact their livelihoods.

**Q.41) What best describes the policy of "Pump Priming"?**

- a) Policy of increasing tax and increasing government expenditure
- b) Policy of lowering tax and increasing government expenditure
- c) Policy of increasing tax and lowering government expenditure
- d) Policy of lowering tax and lowering government expenditure

**Q.41) Solution (b)**

**Explanation:**

When economy is in recession or slows down, government to increase expenditure by



consumer, increase money supply in economy. So government take route of Expansionary fiscal policy, where **government lower tax rate and increase government spending**. This policy of pumping money in economy is known as **Pump Priming**.

**Q.42) Consider the following medium of money supply:**

1. Currency with public
2. Demand deposits with Commercial banks
3. Time deposits with Commercial banks
4. Demand deposits with Post Office Saving Bank
5. Time deposits with Post Office Saving Bank

**Which of the given medium is included in M3 indicator, usually known as Aggregate Money Supply?**

- a) 1 and 2 only
- b) 1, 2 and 3 only
- c) 1, 2 and 4 only
- d) 1, 2, 3, 4 and 5

**Q.42) Solution (b)**

M3 is the most commonly used for measuring money supply, aka "Aggregate Monetary Resources / Aggregate Money Supply".

Measure		Coin & Currency with Public	Commercial Banks		Post Office	
			Demand Deposits (CASA)	🕒 Time Deposits (FDRD)	Demand Deposits (SA)	🕒 Time Deposits
Narrow Money	M1	✓	✓	X	X	X
	M2	✓	✓	X	✓	X
Broad Money	M3	✓	✓	✓	X	X
	M4	✓	✓	✓	✓	✓

So option (a) represents M1; Option b) → M3; Option c) → M2; and Option d) → M4

Liquidity of money → M1 > M2 > M3 > M4 (Increasing Order)

**Q.43) Which of the following is likely to happen, when RBI will increase Statutory Liquidity Ratio by 50 basis point?**

- a) It may drastically increase the liquidity to the banking system.
- b) India's GDP growth rate falls drastically.
- c) Foreign Institutional Investor may take more capital out from country.
- d) Scheduled Commercial Banks may increase their Lending rates.

**Q.43) Solution (d)**

Statutory Liquidity Ratio is reserve ratio to total assets that Banks must keep that deposits in liquid assets such as cash, gold, G-Sec, T-Bills, State Development Loan Bonds and other securities notified by RBI.

So if RBI increases such ratio, banks total deposit kept in form of SLR will increase and it will also reduce the lending capacity. To maintain revenue and banking operation, **Bank may increase lending rates.**

Statement a	With increased interest rate (due to increase in SLR), liquidity in the economy will be at reduced level.
Statement b	Increased interest rate might affect investment, but as other factor such as business expectation, marginal efficiency of capital affects it, interest rate alone will not lower GDP growth drastically.
Statement c	Increased SLR ratio does not always lead to increased interest rate due to poor monetary transmission in developing countries like India. Even if interest rate increases, it will increase profitability of foreign investment and there are higher chances that FII will increase.

**Q.44) 'Financial Stability Report', which outlines the risks to financial stability as well as the resilience of the financial system in the contemporary context, is released by –**

- a) Ministry of Finance
- b) Ministry of Commerce
- c) Reserve Bank of India

d) None of the above

**Q.44) Solution (c)**

**Financial Stability Report:**

Recently, Reserve Bank of India (RBI) released the 22nd issue of its biannual Financial Stability Report outlining the risks to financial stability as well as the resilience of the financial system in the contemporary context.

**Significance of Financial Stability report**

- The FSR is a hugely useful publication as it receives contributions from all the financial sector regulators in the country.
- As such, it provides a rather comprehensive picture of the so-called macro-financial risks facing the economy.
- The FSR released by the RBI is the biannual alert of such risks in the Indian economy.

**Q.45) Consider the following pairs:**

*(Committee) : : (Associated with)*

1. Arvind Mayaram Committee : : FDI liberalizations
2. Tarapore committee : : Capital account convertibility
3. N K Singh committee : : Fiscal Responsibility and Budget Management (FRBM) review

**Which of the pairs given above is/are correct?**

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

**Q.45) Solution (d)**

Arvind Mayaram committee is related to FDI liberalizations. Constituted in 2013, it recommended increasing the FDI limits in 12 sectors.

Tarapore committee – Capital account convertibility

Urijit Patel committee – Inflation Targeting

N K Singh committee – Fiscal Responsibility and Budget Management (FRBM) review

**Q.46) Consider the following statements**

1. Monetary policy deals with supply of money in the market and it is handled by Finance ministry at the centre.
2. Fiscal policy deals with financing the needs of the nation, it is carried out by central Bank i.e., RBI.

**Choose the correct statement/s using the codes given below:**

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

**Q.46) Solution (d)**

Monetary policy is the macroeconomic policy laid down by the central bank. It involves management of money supply and interest rate and is the demand side economic policy used by the government of a country to achieve macroeconomic objectives like inflation, consumption, growth and liquidity.

Fiscal policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. It is the sister strategy to monetary policy through which a central bank influences a nation's money supply. These two policies are used in various combinations to direct a country's economic goals. Here's a look at how fiscal policy works, how it must be monitored, and how its implementation may affect different people in an economy.

**Q.47) In which of the following situation would a contractionary fiscal policy be adopted?**

1. Hyper-inflation
2. Galloping inflation
3. Recession
4. Economic boom

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

- a) 2 and 4 only
- b) 1 and 3 only

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

**Q.47) Solution (c)**

**Explanation**

Contractionary policy is a monetary measure referring either to a reduction in government spending—particularly deficit spending—or a reduction in the rate of monetary expansion by a central bank.

It is a type of macroeconomic tool designed to combat rising inflation or other economic distortions created by central banks or government interventions. Contractionary policy is the polar opposite of expansionary policy.

**Q.48) Match the following statements with the related terms given below:**

Description	Monetary Policy tool
1. It is rate at which scheduled banks can borrow funds overnight from RBI against government securities.	A. Reverse Repo Rate
2. It is the amount that banks have to maintain a stipulated proportion of their net demand and time liabilities (NDTL) in form of liquid assets.	B. Repo Rate
3. It is amount of funds that banks have to keep with RBI.	C. Marginal Standing Facility (MSF) Rate
4. It is rate at which banks lend funds to RBI.	D. Cash Reserve Ratio (CRR)
	E. Statutory Liquidity Ratio (SLR)

Select the correct answer using the following codes:

- a) 1-E; 2-C; 3-B; 4-A
- b) 1-E; 2-C; 3-A; 4-B
- c) 1-C; 2-E; 3-D; 4-A
- d) 1-C; 2-E; 3-D; 4-B

**Q.48) Solution (c)**

**Marginal Standing Facility (MSF) Rate:** It is rate at which scheduled banks can borrow funds overnight from RBI against government securities. It is very short-term borrowing scheme for scheduled banks.

**Bank Rate:** It is rate charged by central bank for lending funds to commercial banks. It influences lending rates of commercial banks. Higher bank rate will translate to higher lending rates by banks.

**Cash Reserve Ratio (CRR):** It is amount of funds that banks have to keep with RBI. The RBI uses CRR to drain out excessive money from system.

**Statutory Liquidity Ratio (SLR):** It is amount that banks have to maintain a stipulated proportion of their net demand and time liabilities (NDTL) in form of liquid assets like cash, gold and unencumbered securities, treasury bills, dated securities etc.

**Repo rate:** It is rate at which RBI lends to its clients generally against government securities.  
**Reverse Repo Rate:** It is rate at which banks lend funds to RBI.

**Q.49) Which of the following measures would result in an increase in the money supply in the economy?**

1. Purchase of government securities by the Central Bank
2. Deposit of currency in the commercial bank
3. Increasing reverse repo rate by the central bank
4. Sale of government securities to the public by the Central Bank

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

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

**Q.49) Solution (a)**

Any money that flows out of RBI leads to increase in the money supply. When the RBI purchases government securities from Public, the money flows out of RBI, this will increase the money supply. So statement 1 is correct.

When currency is deposited by public in commercial banks, its mere transfer of money from public to commercial banks. The net effect on the money supply is nil. So, statement 2 is incorrect.

Increasing reverse repo rate by the central bank: Money flow with the bank will come down.

Sale of government securities to the public by the Central Bank: Here Government is taking money from the Bank so money supply will come down.

**Q.50) Consider the following statements with respect to Core Inflation:**

1. Core inflation excludes food and fuel components while calculating inflation.
2. Food and energy prices are exempt from this calculation because their prices can be too volatile or fluctuate wildly.

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

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

**Q.50) Solution (c)**

Core inflation is the change in the costs of goods and services but does not include those from the food and energy sectors. Food and energy prices are exempt from this calculation because their prices can be too volatile or fluctuate wildly.

**Q.51) Consider the following statements with reference to their definition:**

1. Deflation: is a situation in which the rate of inflation falls over a period of time.
2. Disinflation: is when the overall price level in the economy falls for a period of time.
3. Headline inflation: it demonstrates overall inflation in the economy

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

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

**Q.51) Solution (d)**

**Deflation:** Deflation is when the overall price level in the economy falls for a period of time.

**Disinflation:** Disinflation is a situation in which the rate of inflation falls over a period of time.

**Headline inflation** measure demonstrates overall inflation in the economy.

**Q.52) Consider the following statements about Open Market Operations of Reserve Bank of India:**

1. RBI buying Government Security means money supply will decrease in the market.
2. RBI selling Government Security means money supply will increase in the market.

**Choose the correct answer from given options below:**

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

**Q.52) Solution (d)**

Explanation – Both the statements are incorrect, as it is opposite to their effect.

Open Market Operations à RBI buys and sells Union & State Government's securities to control money supply.

When RBI buys Govt's securities from Public, it pays in liquidity/cash, which increases the total cash flow in the economy. It is usually done when economy is recession. As with increased money supply, people will opt for buying goods.

When RBI sells Govt's securities to public, it is paid in form of liquidity/cash, which reduce the overall supply of money in economy. It is usually done in case of demand pull inflation. With decreased money supply, condition of "too many money chasing too less goods" ends and demand of product slows down.

**Q.53) Consider the following statements regarding the Long-Term Repo Operation (LTRO):**

1. LTRO offers lower interest rate as compared to Bank rate.
2. Only government securities are accepted as collateral.
3. Corporate bond market will get boost from LTRO operations.

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



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

**Q.53) Solution (d)**

Statement 1	Statement 2	Statement 3
Correct	Correct	Correct
Long Term Repo Operation (LTRO) is carried out at repo rate. Generally, the repo rate is lower than the bank rate. Current repo rate is 4.40% while the Bank rate is 4.65%.	The LTRO is a tool under which the central bank provides one-year to three-year money to banks at the prevailing repo rate, accepting government securities with matching or higher tenure as the collateral.	LTRO is expected to bring down short-term rates and boost investment in corporate bonds.

**Q.54) When inflation or 'inflation expectation' in the economy is high, RBI tries to keep the policy rate at a higher level to:**

1. Lower the money circulation in the economy.
2. Lower the economic activity in economy.
3. Lower the purchasing power parity.
4. Lower the purchasing power of money.

**Select the correct option:**

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

**Q.54) Solution (d)**

Option 1	Option 2	Option 3	Option 4
Correct	Incorrect	Incorrect	Incorrect
When inflation or	RBI does not intend to	Purchasing Power	Purchasing power of

<p>'inflation expectation' in the economy is high RBI tries to keep the policy rate at a higher level to lower the money circulation in the economy. This decrease demand and ease the inflationary pressure.</p>	<p>lower the economic activity, but just the demand.</p>	<p>Parity (PPP) is a measurement of prices in different countries that uses the prices of specific goods to compare the absolute purchasing power of the countries' currencies. Repo rate is not directly related to or aimed at PPP.</p>	<p>money is lowered by inflation. Reducing repo rate will reduce inflation. So, it is aimed at increasing purchasing power of money.</p>
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**Q.55) Which of the following is/are the implication of inflation?**

1. Money loses value
2. Consumer's purchasing power gets eroded
3. Exports price more and imports cost less

**Select the correct option:**

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

**Q.55) Solution (d)**

Option 1	Option 2	Option 3
Correct	Correct	Correct
<p>When a country faces inflation, we require more money to purchase a given quantity of goods and services and the money loses value.</p>	<p>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</p>	<p>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.</p>

	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.	
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**Q.56) Consider the following statements about Price Index:**

1. Consumer Price Index (All India) is released by National Statistical Office.
2. Weight of Household goods & Services is less than weight of food and beverages.
3. Core CPI is Headline CPI minus inflation in food & energy.

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

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

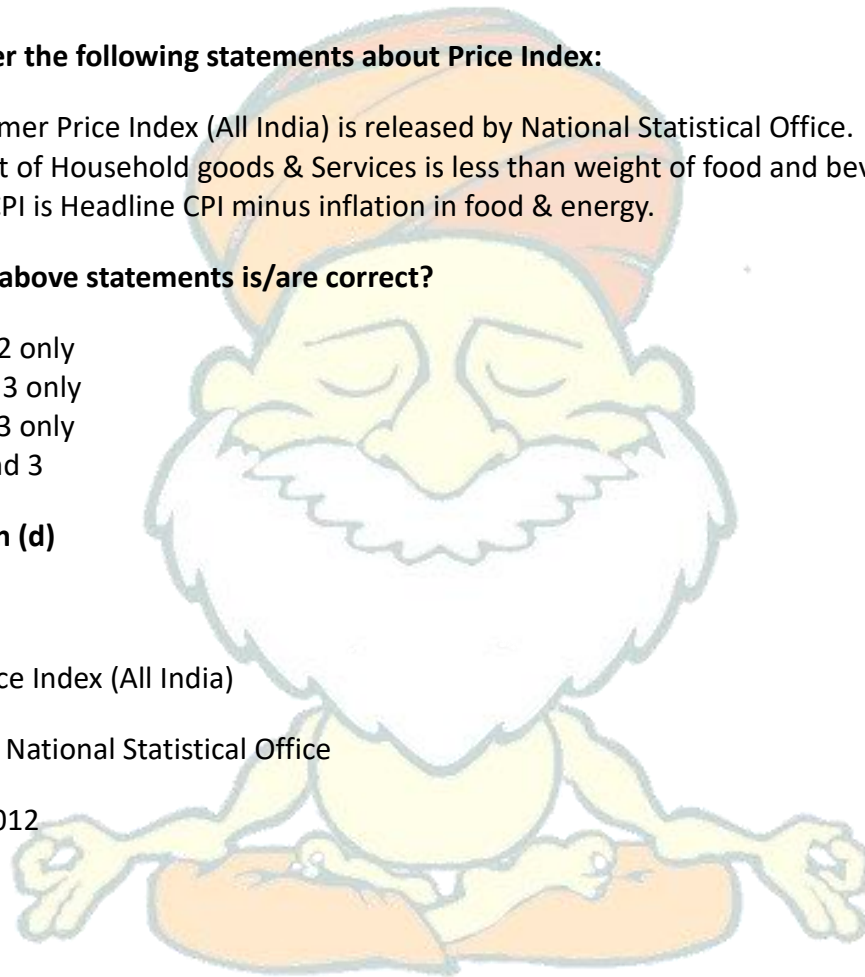
**Q.56) Solution (d)**

**Basics –**

Consumer Price Index (All India)

Released by – National Statistical Office

Base Year – 2012



Monthly CPI	Wt.
Food & Beverages	45.86
Services: (Transport & communication > Health > Education > Recreation)	20.62
Housing	10.07
Fuel & Light	6.84
Clothing / footwear	6.53
Misc. Personal care (soap etc)	3.89
Household goods & Services	3.80
Pan Masala, Tobacco, Intoxicants	2.38
Total Weight	100

For Individual CPI for Urban and Rural areas, these weights are assigned differently. E.g. CPI rural has zero weight to housing & 54.18 weight to food and beverages

**Headline CPI** → The inflation figure arrived based on all of the above components of CPI (All India).

**Core CPI** → Headline CPI minus inflation in food & energy (Hence, statement 3 is correct)

Also as weight of Food & Beverages is 45.86% which is more than 3.80% weight of Household goods & Services. (So, Statement 2 is correct)

**Q.57) Which of the following will cause cost push inflation?**

1. Increase in the price of oil
2. Lockdown during COVID-19 and shutting of factories.
3. Locust attack and large-scale damage to the crops.
4. Implementation of 7th pay commission.

**Select the correct option:**

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

**Q.57) Solution (b)**

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.

- 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.

**Q.58) Consider the following statements:**

1. Lending institutions raise the interest rate during inflation.
2. Inflation is advantageous to borrowers and loss to lenders.

**Choose the correct answer using the codes given below:**

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

**Q.58) Solution (c)**

During Inflation, the lending institutions being Creditors lose money and to cover that they charge interest.

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 inflation is advantageous to borrowers and loss to lenders.

**Q.59) Which of the following are fiscal measures to combat inflation?**

1. Credit control
2. Increase in Taxes
3. Public debt
4. Demonetization of currency

**Choose the correct answer using the codes given below:**

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

**Q.59) Solution (b)**

**Fiscal Measures to Combat Inflation**

- Increase in Taxes
- Reduction in unnecessary expenditure
- Increase in savings
- Surplus Budget
- Public debt

**Monetary Measures to Combat Inflation**

- Credit control
- Demonetization of currency
- Issue of new Currency.

**Other measures**

- Increase production
- Rational wage policy
- Price control
- Rationing.

**Q.60) Consider the following statements:**

1. The GDP deflator measures the prices of all goods and services produced, unlike the CPI which measures the prices of only the goods and services bought by consumers.

2. The GDP deflator includes only domestically produced goods.

**Choose the correct answer using the codes given below:**

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

**Q.60) Solution (c)**

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.61) When the Reserve Bank of India increases the Cash reserve ratio by 50 basis points, which of the following is likely to happen?**

- a) India's GDP growth rate increases drastically
- b) Foreign institutional investors may bring more capital into the economy
- c) It may help in bringing down high inflation prevalent in the economy
- d) It may drastically increase the liquidity in the banking system

**Q.61) Solution (c)**

**Cash Reserve Ratio (CRR)** is the share of a bank's total deposit that is mandated by the Reserve Bank of India (RBI) to be maintained with the latter in the form liquid cash.

In order to determine the base rate, the Cash Reserve Ratio acts as one of the reference rates. Base rate means the minimum lending rate which is determined by the Reserve Bank of India

(RBI) and no bank is allowed to lend funds below this rate. This rate is fixed to ensure transparency with respect to borrowing and lending in the credit market.

Cash Reserve Ratio (CRR) is one of the components of the monetary policy of the RBI which is used to regulate the money supply, level of inflation and liquidity in the country. The higher the CRR, the lower is the liquidity with the banks and vice-versa.

During high levels of inflation, attempts are made to reduce the money supply in the economy. For this, RBI increases the CRR, sucking the loanable funds available with the banks. This, in turn, slows down investment and reduces the supply of money in the economy. As a result, the growth of the economy is negatively impacted. However, this also helps bring down inflation.

On the other hand, when the RBI needs to pump funds into the system, it lowers CRR which increases the loanable funds with the banks. The banks thus extend a large number of loans to the businesses and industry for different investment purposes. It also increases the overall supply of money in the economy. This ultimately boosts the growth rate of the economy.

**Q.62) Which of the following are considered as Non-Banking Financial Company (NBFC) in India as per RBI?**

1. Asset Finance Company (AFC)
2. Infrastructure Finance Company (IFC)
3. Peer to Peer (P2P) lenders
4. Account Aggregators

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

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

**Q.62) Solution (d)**

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services



and sale/purchase/construction of immovable property.

A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).

**Different types of NBFCs are as follows:**

- Asset Finance Company (AFC)
- Investment Company (IC)
- Loan Company (LC)
- Infrastructure Finance Company (IFC)
- Infrastructure Debt Fund: Non- Banking Financial Company (IDF-NBFC)

Non-Banking Financial Companies (NBFCs) bring in diversity and efficiency to the financial sector and make it more responsive to the needs of the customers. Peer to Peer (P2P) and Account Aggregators are the new categories of NBFC that have been introduced recently.

**Q.63) 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 of 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.63) Solution (c)**

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.64) In the context of Repurchase agreement between bank and RBI, consider the following statements:**

1. It is the rate at which the central bank of a country (Reserve Bank of India in case of India) lends money to commercial banks.
2. In India it is the primary tool in the RBI's Monetary and Credit Policy.
3. In this RBI lends it for long term money to banks

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

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

**Q.64) Solution (d)**

**Repo Rate, or repurchase rate**, is the key monetary policy rate of interest at which Reserve Bank of India (RBI) lends short term money to banks, essentially to control credit availability, inflation, and the economic growth. Repo Rate in India is the primary tool in the RBI's Monetary and Credit Policy.

**Q.65) 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.65) 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.66) The term Securitization is sometimes seen in the news. It refers to which of the following:**

- a) Issuance of Government security to finance the fiscal deficit.
- b) The pooling of financial assets into a consolidated financial instrument.
- c) Unwillingness to hold government security due to expectation of default.
- d) Conversion of unsecured debt into secured debt to reduce Non-Performing Asset issue.

**Q.66) Solution (b)**

**Securitization**

- Securitization is a process by which a company clubs its different financial assets/debts to form a consolidated financial instrument which is issued to investors.
- This enables the firm to raise capital and thus enhances liquidity in the market.
- Securitization involves repackaging of less liquid assets into saleable securities.

**Q.67) Consider the following statements related to FDI guidelines in India related to E-Commerce –**

1. 100% FDI in Marketplace Model of e-commerce under automatic route is allowed.
2. FDI is prohibited in Inventory based model of e-commerce.

**Select the correct answer using the code given below:**

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

**Q.67) Solution (c)**

**Statement Analysis:**

Statement 1	Statement 2
<b>Correct</b>	<b>Correct</b>
As per the guidelines on FDI in e-commerce, 100% FDI under automatic route is permitted in marketplace model of e-commerce.	FDI is not permitted in inventory-based model of e-commerce.

**Q.68) What do you understand by the term 'transfer payment'?**

- a) Payment given to the importers by a domestic firm for the goods supplied.
- b) It is a part of profit which is not distributed among the factors of production.
- c) It is a one-way payment to a person who has given or exchanged no money, good, or service for it.
- d) Payment made by the parent company to subsidiary companies for use of goods or services.

**Q.68) Solution (c)**

**Basic Information:**

A transfer payment is a one-way payment to a person who has given or exchanged no money, good, or service for it. It is a process used by governments as a way to redistribute money through programs such as old age or disability pensions, student grants, scholarships, prizes, unemployment compensation, etc.

**Q.69) Financial Inclusion has been the priority of the policy makers for quite some time. Which of the following are the benefits of financial inclusion:**

- 1. Inculcates the habit of saving.
- 2. Provides formal credit avenues.
- 3. Helps in plugging leakages in welfare schemes.
- 4. Decreases credit capacity of banks.

**Select the correct code from the following:**

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

**Q.69) Solution (b)**

The policy makers have been focusing on financial inclusion of Indian rural and semi-rural areas primarily for three most important pressing needs:

**Creating a platform for inculcating the habit to save money** – The lower income category has been living under the constant shadow of financial duress mainly because of the absence of savings. The absence of savings makes them a vulnerable lot. Presence of banking services and products aims to provide a critical tool to inculcate the habit to save. Capital formation in the country is also expected to be boosted once financial inclusion measures materialize, as people move away from traditional modes of parking their savings in land, buildings, bullion, etc.

**Providing formal credit avenues** – So far the unbanked population has been vulnerably dependent of informal channels of credit like family, friends and moneylenders. Availability of adequate and transparent credit from formal banking channels shall allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside. A classic example of what easy and affordable availability of credit can do for the poor is the micro-finance sector.

**Plug gaps and leaks in public subsidies and welfare programmes** – A considerable sum of money that is meant for the poorest of poor does not actually reach them. While this money meanders through large system of government bureaucracy much of it is widely believed to leak and is unable to reach the intended parties. Government is therefore, pushing for direct cash transfers to beneficiaries through their bank accounts rather than subsidizing products and making cash payments. This laudable effort is expected to reduce government's subsidy bill (as it shall save that part of the subsidy that is leaked) and provide relief only to the real beneficiaries. All these efforts require an efficient and affordable banking system that can reach out to all. Therefore, there has been a push for financial inclusion.

**Q.70) Which of the following statements are correct about National Band for Agriculture and Rural Development?**

1. It was formed by an executive decision on the recommendation of a committee of RBI.
2. The agricultural credit functions of RBI and refinance functions of the then Agricultural Refinance and Development Corporation (ARDC) were transferred to NABARD.

3. The aim of NABARD is to Promote sustainable and equitable agriculture and rural prosperity through effective credit support, related services, institution development and other innovative initiatives.

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

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

**Q.70) Solution (b)**

At the instance of Government of India Reserve Bank of India (RBI), constituted a committee to review the arrangements for institutional credit for agriculture and rural development (CRAFICARD) on 30 March 1979, under the Chairmanship of Shri B.Sivaraman, former member of Planning Commission, Government of India to review the arrangements for institutional credit for agriculture and rural development. The Committee, in its interim report, submitted on 28 November 1979, felt the need for a new organisational device for providing undivided attention, forceful direction and pointed focus to the credit problems arising out of integrated rural development and recommended the formation of National Bank for Agriculture and Rural Development(NABARD). The Parliament, through Act,61 of 1981, approved the setting up of NABARD. The bank came into existence on 12 July 1982 by transferring the agricultural credit functions of RBI and refinance functions of the then Agricultural Refinance and Development Corporation (ARDC). NABARD was dedicated to the service of the nation by the late Prime Minister Smt. Indira Gandhi on 05 November 1982.

NABARD was set up with an initial capital of ₹100 crore. Consequent to the revision in the composition of share capital between Government of India and RBI, the paid up capital as on 31 March 2015, stood at ₹5000 crore with Government of India holding ₹4,980 crore (99.60%) and Reserve Bank of India 20.00 crore (0.40%).

**Mission**

Promote sustainable and equitable agriculture and rural prosperity through effective credit support, related services, institution development and other innovative initiatives.

**Q.71) Consider the following statements:**

1. Liquidity Adjustment Facility (LAF) is used by RBI to control money supply in the economy.
2. CRR and SLR are part of LAF of RBI.

**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.71) Solution (a)**

Liquidity Adjustment Facility (LAF) is a tool used by RBI to control the short term money supply in the economy. It is done through Repo and Reverse Repo.

CRR and SLR are used to control money supply in the long run and not the part of LAF.

Liquidity Adjustment Facility (LAF) is the primary instrument of Reserve Bank of India for modulating liquidity and transmitting interest rate signals to the market. It refers to the difference between the two key rates viz. repo rate and reverse repo rate. Informally, Liquidity Adjustment Facility is also known as Liquidity Corridor.

As mentioned above, the two components of LAF are repo rate and reverse repo rate. Under Repo, the banks borrow money from RBI to meet short term needs by putting government securities (G-secs) as collateral. Under Reverse Repo, RBI borrows money from banks by lending securities. While repo injects liquidity into the system, the Reverse repo absorbs the liquidity from the system. RBI only announces Repo Rate. The Reverse Repo Rate is linked to Repo Rate and is 100 basis points (1%) below repo rate. RBI makes decision regarding Repo Rate on the basis of prevalent market conditions and relevant factors.

**Q.72) Which of the following is not an asset held by the commercial bank?**

- a) Bills of exchange
- b) Current Account deposits
- c) Money lent
- d) Credit balances with the reserve bank

**Q.72) Solution (b)**

**Note:** Current account deposits are liabilities not assets for the banks.

Bank assets are the physical and financial "property" of a bank, what a bank owns. While a bank commonly owns physical property (buildings, land, furniture, equipment), the bulk of a bank's assets are financial—legal claims on the property or the wealth of others. The two most notable asset categories are loans (which generate interest revenue) and reserves (which keep deposits safe).

**There are four main categories of Assets:**

1. **Physical Assets:** This includes the buildings, land, furniture, and equipment owned by the bank. While this is what most people probably think of as assets, it is relatively minor for most banks.
2. **Loans:** The second asset category, the most important one for all banks, is loans. Loans are the primary source of interest revenue. While a loan is a liability for the borrower, it is an asset for the bank, for the lender. This asset includes loans to consumers (home loans, personal loans, automobile loans, credit card loans) and businesses (real estate development loans, capital investment loans).
3. **Reserves:** The third asset category is reserves. While this is small in amount, it is extremely important. Reserves are what banks use for daily transactions, such as processing checks or satisfying cash withdrawals. Banks use reserves to ensure the security of deposits. Two varieties of reserves worth noting are vault cash (the actual paper currency and coins that is kept in the bank, that is, in the vault) and Federal Reserve deposits (deposits that banks keep with the Federal Reserve System to clear checks and assist in other banking activities).
4. **Investment Securities:** The fourth asset category is investment securities. These act as a buffer between loans and reserves. They are safer than loans, but not as safe as reserves. They pay more interest than reserves, but not as much as loans. If a bank has a few extra reserves, but is not ready to lock in loans for the long term, then investment securities are the answer. Two important items in this category are U.S. Treasury securities (the securities that the federal government issues to borrow the funds used to finance the federal deficit) and Federal funds (loans made to other banks).

**Q.73) Decline in interest rates:**

- a) Will lead to large outflow of foreign portfolio investment



- b) Will lead to large inflow of foreign portfolio investment
- c) Will not affect foreign portfolio investment
- d) May affect or not affect portfolio investment

**Q.73) Solution (a)**

Macroeconomic factors play a pivotal role in attracting foreign investment in the country.

Capital flow, which has reached the important level at the present day, is very important for underdeveloped and developing countries to attain the development level by using them in their investments. Portfolio flows to developing countries are extremely sensitive to interest differentials. Money tends to flow to countries with high interest rates.

According to the theory of portfolio investment by Hymer (1976), foreign portfolio investors are attracted by the high interest rate because it reduces the borrowing cost; foreign portfolio investor will invest until the interest rate gets equal all over the world therefore it might be said that foreign portfolio investment is affected by domestic interest.

In other words, when interest rate goes down, we have more people with increased purchasing power in their pockets. The same people then invest in equity markets which in turn helps markets to grow in volume. Thus, companies have more capital to spend which in turn create jobs and generates a growth in the economy.

When interest rate goes down, the foreign investors, on the other hand, do not get the required interest on their investments and thus try to exit from the markets. This is the sole reason that they mostly target developing markets with higher interest rates.

**Q.74) Which of the following services is not offered by National Payments Corporation of India (NPCI)?**

- a) Unified Payment Interface (UPI)
- b) Cheque Truncation System (CTS)
- c) Aadhar Payment Bridge System (APBS)
- d) National Electronic Fund Transfer (NEFT)

**Q.74) Solution (d)**

National Electronic Funds Transfer (NEFT) is an electronic funds transfer system maintained by the Reserve Bank of India (RBI). Started in November 2005, the setup was established and maintained by Institute for Development and Research in Banking Technology (IDRBT). It is not a service offered by NPCI.

National Payments Corporation of India (NPCI) is an umbrella organization for all retail payments system in India.

It was set up in December, 2008 with the guidance and support of the Reserve Bank of India (RBI) and Indian Banks' Association (IBA).

Product and Services of NPCI include –

- Rupay and Rupay Contactless
- National Financial Switch (NFS)
- Immediate Payment Service (IMPS)
- Unified Payment Interface (UPI) and BHIM
- National Automated Clearing House (NACH)
- Cheque truncation system (CTS)
- Aadhaar Enabled Payment System (AEPS)
- BharatQR

**Q.75) Which of the following correctly explains 'On – Us' transaction?**

- a) If payment is made through a credit card and actually money is not paid by the customer.
- b) A transaction carried out at an ATM of the card issuing bank.
- c) If transaction is made by a customer in cash.
- d) A transaction carried out with merchant through a UPI.

**Q.75) Solution (b)**

A transaction carried out at an ATM of the card issuing bank is called as On-Us transaction. A transaction carried at an ATM of the bank which is different from the card issuing bank or a transaction at a WLA is called an Off-Us transaction. For instance, if a card issued by bank A is used at an ATM of bank A then it is an On-Us transaction; if the card issued by bank A is used at a WLA or at an ATM of bank B, it is an Off-Us transaction.

**Q.76) Which of the following best describes the term letter of credit?**

- a) It is a bank guarantee under which a bank allows its customer to raise money from another Indian bank's foreign branch in the form of short-term credit
- b) It is a letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount
- c) It is a state guarantee under which it allows its citizens to raise money from foreign share markets in the form of short term credit
- d) It is a letter from a RBI guaranteeing that a debtor's outstanding loan to creditor will be recovered on time

**Q.76) Solution (b)**

A letter of credit is a letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. In the event that the buyer is unable to make payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase. Due to the nature of international dealings, including factors such as distance, differing laws in each country, and difficulty in knowing each party personally, the use of letters of credit has become a very important aspect of international trade.

Letter of Undertaking (LoU) is a bank guarantee under which a bank allows its customer to raise money from another Indian bank's foreign branch in the form of short-term credit.

The loan is used to make payment to the customer's offshore suppliers in foreign currency.

The overseas bank usually lends to the importer based on the LoU issued by the importer's bank.

The messages are sent through SWIFT — an inter-bank messaging network for securely transmitting instructions for financial transactions.

The LoU is akin to a letter of credit or a guarantee.

An LoU involves four parties — an issuing bank, a receiving bank, an importer and a beneficiary entity overseas.

**Q.77) Which of the following processes would help in fiscal consolidation?**

- 1. Improving tax-to-GDP ratio
- 2. Ways and Means Advances
- 3. Diminishing non-capital expenditures

4. Performance budgeting

Choose the correct answer using the codes given below

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

**Q.77) Solution (d)**

**Explanation**

Fiscal consolidation is a process where government's fiscal health is getting improved and is indicated by reduced fiscal deficit. Improved tax revenue realization and better aligned expenditure are the components of fiscal consolidation as the fiscal deficit reaches at a manageable level.

According to Financial time's lexicon, "Fiscal consolidation is a reduction in the underlying fiscal deficit. It is not aimed at eliminating fiscal debt."

Following measures from the expenditure side and revenue side are envisaged by the government to achieve fiscal consolidation.

**Improved tax revenue realization:** For this, increasing efficiency of tax administration by reducing tax avoidance, eliminating tax evasion, enhancing tax compliance etc. are to be made.

Enhancing tax GDP ratio by widening the tax base and minimizing tax concessions and exemptions also improves tax revenues.

Better targeting of government subsidies and extending Direct Benefit Transfer scheme for more subsidies.

**Q.78) Recently White Label ATMs (WLAs) is in news, in this context, consider the following:**

- 1. WLA are setup by Non-bank entities.
- 2. WLA provide the banking services to the customers of banks in India, based on the cards (debit/credit/prepaid) issued by banks

Which of the above statement is/are correct?

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

**Q.78) Solution (c)**

Automated Teller Machines (ATMs) set up, owned and operated by non-bank entities are called WLAs. They provide the banking services to the customers of banks in India, based on the cards (debit/credit/prepaid) issued by banks.

**Q.79) Consider the following statements with reference to NBFCs:**

1. They are registered under the Companies Act, 1956
2. NBFC cannot accept demand deposits.
3. NBFCs form part of the payment and settlement system

Which of the statements is/are *incorrect*?

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

**Q.79) Solution (c)**

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956.

- NBFC cannot accept demand deposits.
- NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself.
- Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs.

**Q.80) With reference to Regional Rural Banks (RRBs), consider the following pairs:**

1. Regional Rural Banks were set up on the basis of the recommendations of the Narasimham Working Group (1975).
2. The equity of a regional rural bank is held by the Central Government, concerned State Government and the Sponsor Bank in the proportion of 50:15:35.
3. The RRBs are required to provide 65% of their total credit as priority sector lending.

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

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

**Q.80) Solution (a)**

Regional Rural Banks were set up on the basis of the recommendations of the Narasimham Working Group (1975), and after the legislation of the Regional Rural Banks Act, 1976. The equity of a regional rural bank is held by the Central Government, concerned State Government and the Sponsor Bank in the proportion of 50:15:35.

The RRBs combine the characteristics of a cooperative in terms of the familiarity of the rural problems and a commercial bank in terms of its professionalism and ability to mobilise financial resources. The RRBs are required to provide 75% of their total credit as priority sector lending.

**Q.81) Recently 15<sup>th</sup> Finance Commission submitted its interim report for 2020-2021, consider the following statements:**

1. It has recommended maintaining the vertical devolution at 41%.
2. For horizontal devolution, it has suggested 2.5% weightage to forest and ecology.
3. In vertical devolution, it has allocated 1% allocation for all UTs.

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

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

**Q.81) Solution (a)**

**Vertical Devolution:**

- Recommended maintaining the vertical devolution at **41%** - the same as in its interim report for 2020-21.
- Allocated **1%** to the changed status of the erstwhile State of Jammu and Kashmir into the new Union Territories of Ladakh and Jammu and Kashmir.

**Horizontal Devolution**

- For horizontal devolution, it has suggested **12.5% weightage** to demographic performance, **45%** to income, 15% each to population and area, **10% to forest and ecology** and 2.5% to tax and fiscal efforts.

**Q.82) Which among the following is correct with respect to central theme of Union Budget 2020-21 of India?**

- a) Ease of living for all citizens
- b) Gaon, Garib and Kisan
- c) Faster, More Inclusive and Sustainable Growth
- d) Towards faster and more inclusive growth

**Q.82) Solution (a)**

The Union Budget 2020-21 in the Parliament is based on the central theme of the Budget- "**Ease of living for all citizens**" was based on three prominent themes: Aspirational India, Economic Development for all, Caring Society.

**Q.83) Which of the component is NOT the part of Capital Budget?**

- a) The money earned by selling assets (or disinvestment)
- b) The money received in the form of borrowings or repayment of loans by states
- c) The money earned by the government through tax
- d) The long-term investments by the government on creating assets

**Q.83) Solution (c)**

**Capital Budget:** consist of two parts Capital Receipts and Capital Expenditure.

- Capital Receipts indicate the receipts which lead to a decrease in assets or an increase in liabilities of the government. It consists of: (i) the money earned by selling assets (or disinvestment) such as shares of public enterprises, and (ii) the money received in the form of borrowings or repayment of loans by states.
- Capital expenditure is used to create assets or to reduce liabilities. It consists of: (i) the long-term investments by the government on creating assets such as roads and hospitals, and (ii) the money given by the government in the form of loans to states or repayment of its borrowings.

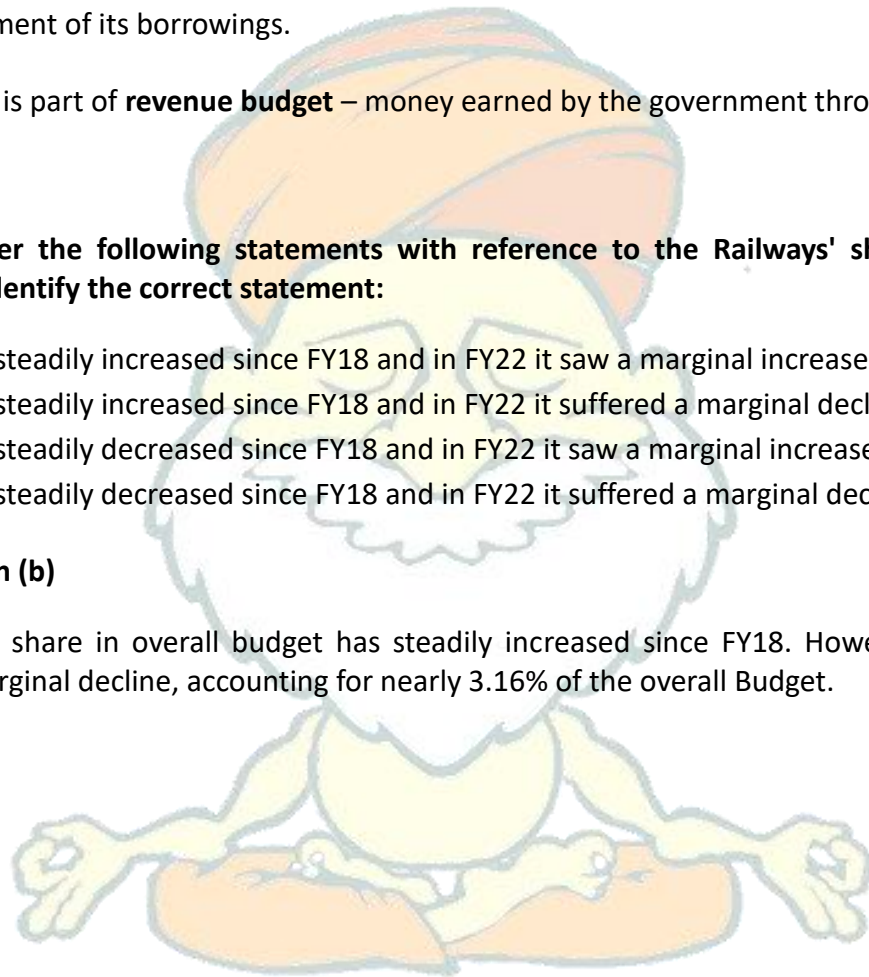
Statement (c) is part of **revenue budget** – money earned by the government through tax.

**Q.84) Consider the following statements with reference to the Railways' share in overall budget and identify the correct statement:**

- a) It has steadily increased since FY18 and in FY22 it saw a marginal increase.
- b) It has steadily increased since FY18 and in FY22 it suffered a marginal decline.
- c) It has steadily decreased since FY18 and in FY22 it saw a marginal increase.
- d) It has steadily decreased since FY18 and in FY22 it suffered a marginal decline.

**Q.84) Solution (b)**

The Railways' share in overall budget has steadily increased since FY18. However, in FY22 it suffered a marginal decline, accounting for nearly 3.16% of the overall Budget.





THE HINDU

## OUTSIDE SUPPORT

The internal revenue generated by the Railways has consistently fallen in the recent years, increasing its dependence on extra-budgetary resources

**₹96.15**

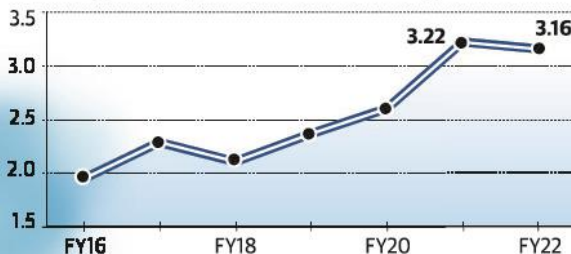
the amount the Railways is estimated to spend to earn ₹100 in FY22



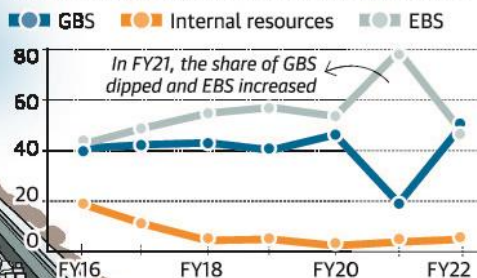
**300 km** new lines to be constructed in FY22

### HOLDING STEADY

The Railways' share in overall budget has steadily increased since FY18. However, in FY22 it suffered a marginal decline, accounting for nearly 3.16% of the overall Budget



**SEEKING ASSISTANCE** | Having consistently failed to meet the expected internal revenue, the Railways' reliance on extra-budgetary resources (EBS) such as LIC funds and market borrowings significantly increased in the last five years. The outlay from Gross Budgetary Support (GBS) is estimated to increase in FY22 to match that of EBS



The graph shows the % of the Railways' capital expenditure by source

SOURCE: BUDGET DOCUMENTS

DATA: VIGNESH RADHAKRISHNAN, SUMANT SEN, NARESH SINGARAVELU  
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Q.85) In order to improve agricultural infrastructure in the country, Finance Minister recently announced an Agriculture Infrastructure and Development Cess (AIDC) on which of the following items?

1. Petrol
2. Diesel
3. Apples
4. Alcohol

**Choose correct answer:**

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

**Q.85) Solution (d)**

Union Finance Minister proposed the imposition of Agriculture Infrastructure and Development Cess (AIDC) during her Union Budget 2021 Presentation in the Parliament on February 1, 2021.

The Finance Minister announced Agriculture Infrastructure & Development Cess of Rs 2.5 per litre on petrol and Rs 4 per litre on diesel. The cess is not uniform and will vary from product to product.

The AIDC cess will be levied on other items including alcoholic beverages, Gold & silver Dore bars, Crude palm oil, crude soyabean oil, peas, kabuli chana, apples and Bengal gram etc.

All these items are mostly those that would not have a major impact on a huge part of the population.

**Q.86) With reference to Pigovian tax, consider the following statements:**

1. A Pigovian tax is intended to tax the producer of goods or services that create adverse side effects for society.
2. A carbon emissions tax is example of Pigovian taxes.

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

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

**Q.86) Solution (c)**

A Pigovian tax is intended to tax the producer of goods or services that create adverse side effects for society.

The purpose of the Pigovian tax is to redistribute the cost back to the producer or user of the

negative externality. A **carbon emissions** tax or a tax on **plastic bags** are examples of Pigovian taxes.

**Q.87) Consider the following statements with reference to Corporate Tax in India:**

1. Corporate tax is an expense of a business levied by the government.
2. Recently in India the corporate tax rate reduced from 30% to 22% for all companies.
3. It is a direct tax.

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

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

**Q.87) Solution (d)**

Corporate tax is an expense of a business levied by the government. It is a **direct tax**.

Recently, the government has reduced the corporate tax rate from **30% to 22%** for existing companies, and from **25% to 15%** for new manufacturing companies for the Financial Year 2020-21.

**Q.88) Consider the following statements about Property Tax and identify the correct statement:**

- a) Property tax is assessed by central government and collected by state government.
- b) The tax amount is fixed in the state and does not depend on the area of the property.
- c) Property tax comprises taxes like lighting tax, water tax, and drainage tax.
- d) Even the vacant plots of land without an adjoining construction are liable to be taxed.

**Q.88) Solution (c)**

**Property tax in India**

Property tax is the annual amount paid by a land owner to the local government or the municipal corporation of his area. The property includes all tangible real estate property, his house, office building and the property he has rented to others.

In India, the municipal corporation of a particular area assesses and imposes the property tax annually or semi-annually. The tax amount is based on the area, construction, property size, building etc. so tax amount can differ within states or within municipal corporations too.

The collected amount is mainly used for public services like repairing roads, construction schools; buildings, sanitation.

Central government properties and vacant property are generally exempt. Property tax comprises taxes like lighting tax, water tax and drainage tax.

Usually, vacant plots of land without an adjoining construction are not liable to be taxed.

**Q.89) Recently the term 'Escape clause' of Fiscal Responsibility and Budget Management (FRBM) Act in was in news. Consider the following statements with regard to it:**

1. Escape clause refers to the situation under which the central government can flexibly follow fiscal deficit target during special circumstances
2. The clause allows the government to relax the fiscal deficit target for up to 100 basis points

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

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

**Q.89) Solution (a)**

Escape clause refers to the situation under which the central government can **flexibly** follow fiscal deficit target during special circumstances. This terminology was innovated by the N.K.Singh Committee on FRBM Act. The clause allows the government to relax the fiscal deficit target for up to **50 basis points**.

**Q.90) With reference to Financial Stability and Development Council, consider the following statements:**

1. It is a non-statutory apex council under the Ministry of Finance
2. It aim to enhancing inter-regulatory coordination in India

3. It is chaired by Governor of Reserve Bank of India

**Which of the following statements is/are incorrect?**

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

**Q.90) Solution (b)**

The Financial Stability and Development Council (FSDC) is a non-statutory apex council under the Ministry of Finance constituted by the Executive Order in 2010.

It is **chaired by the Finance Minister not RBI governor.**

The objective of FSDC is to strengthen and institutionalize the mechanism for maintaining financial stability, enhancing inter-regulatory coordination and promoting financial sector development.

**Q.91) Which of the following can be the key adverse effects on the economy due to persistent trade deficit?**

- 1. It forces a country to constantly look to foreign investors to make up the gap between its export earnings and its import payouts.
- 2. It leads to a steadily weakening home currency.
- 3. It weakens domestic industries and decreases job opportunities.

**Choose correct answer:**

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

**Q.91) Solution (d)**

**Basic information:**

A trade deficit is an economic condition that occurs when a country is importing more goods

than it is exporting.

The trade deficit is calculated by taking the value of goods being imported and subtracting it by the value of goods being exported.

**Explanation:**

Running a persistent trade deficit can have **adverse effects** on the economy -

1. The country's demand for dollars (foreign exchange) is usually greater than the supply. This leads to a steadily weakening home currency.
2. A high trade deficit also forces a country to constantly look to foreign investors to make up the gap between its export earnings and its import payouts.
3. In a slow-growing world, a rising trade deficit could be an indication that domestically produced goods are unable to compete against imports. If local factories shut down, that leads to job losses.

**Q.92) In the context of economic recession, which of the following actions can be considered a part of the "fiscal stimulus" package?**

1. Lowering interest rates
2. Cutting tax rates
3. Increasing Govt. spending
4. Abolishing the subsidies

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

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

**Q.92) Solution (b)**

Economic stimulus consists of attempts by governments or government agencies to financially stimulate an economy. An economic stimulus is the use of monetary or fiscal policy changes to kick start growth during a recession. Governments can accomplish this by using tactics such as lowering interest rates, increasing government spending and quantitative easing, to name a few.

**Do you know?**

Over the course of a normal business cycle, governments may try to influence the pace and composition of economic growth using various tools at their disposal. Central government may utilize fiscal and monetary policy tools to stimulate growth. Similarly, state and local governments can also engage in stimulus spending by initiating projects or enacting policies that encourage private sector investment.

**Q.93) Which of the following statements is/are correct regarding fiscal deficit?**

1. It leads to crowding-out of private investment.
2. It leads to inflation in economy.
3. It leads to increase in primary deficit.

**Select the correct answer using the code given below:**

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

**Q.93) Solution (d)**

Fiscal deficit means Government need to borrow from the market which leads to crowding-out of funding for private players.

Fiscal deficit is inflationary and not deflationary as it leads to borrowing of money without any asset created for that.

Fiscal deficit adds to borrowings of the government and hence leads to increase in interest liabilities and thus adds to primary deficit.

**Q.94) Consider the following statements about Equalization levy or Google tax:**

1. It was introduced in India with the intention of taxing the digital transactions i.e. the income accruing to foreign e-commerce companies from India.
2. It is aimed at taxing (B2B) business to business transactions.

**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.94) Solution (c)**

**About Equalization levy or Google tax:**

- It was introduced in India with the intention of taxing the digital transactions i.e. the income accruing to foreign e-commerce companies from India.
- It is aimed at taxing (B2B) business to business transactions.
- It is levied at 6% on payments made to offshore platforms hosting online advertisements, it will be taxed only at 2% on e-commerce transactions.

**Equalisation Levy 2.0:** The Equalisation Levy introduced by the Finance Act 2016, was charged at 6% on certain online advertising and related services.

**Q.95) Consider the following statements about taxes levied on imported goods**

1. Countervailing duty is levied on goods that are sold below the prices in exporting country.
2. Anti-dumping duty is levied to counterbalance the subsidies provided by the government of exporting country.

**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.95) Solution (d)**

Countervailing duty is levied on the imported goods to counterbalance (Countervail) the subsidies provided by the exporting country's Government. Many of the governments provide subsidies either during production or during exports to create price advantage for their products, this can be harmful to the products of the importing country, so Countervailing duties are levied to equalize the advantage.

Anti-dumping Duties are levied on the goods that are either sold either, below the cost of production or below the prices in the home country. This is considered predatory as it tries to drive-out the products of importing country and create a monopoly. To prevent this from



happening, anti-dumping duty is levied.

**Q.96) Which of the following can be possible effect when the RBI slashes policy interest rates aggressively?**

- a) It may bring changes in liquidity in the market
- b) Central Bank is following a tight money policy
- c) Less liquidity in the market
- d) Market will be flooded with an unprecedented amount of liquidity

**Q.96) Solution (d)**

Reduction in any type of rate (CRR, SLR, Bank Rate etc.) by the RBI will lead to the increase in liquidity in the market. Here change in the liquidity is not a correct option because change can be negative/ positive both. So option (d) is more appropriate.

**Q.97) Which of the following are treated as Revenue expenditure of the Centre?**

- 1. Making interest payments on debt
- 2. Subsidies
- 3. Grants in aid
- 4. All grants given to the State Governments/UTs

**Choose correct answer:**

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

**Q.97) Solution (d)**

Revenue expenditure includes expenses incurred in the normal running of Government departments and for rendering of various services, making interest payments on debt, subsidies, grants in aid, etc. All grants given to the State Governments/UTs and others are also treated as revenue expenditure.

**Q.98) Which of the following statements best denote the term “primary deficit”?**

- a) It is obtained by knowing the difference between revenue receipts and revenue expenditure.
- b) It is calculated by excluding the grants given by the Centre to States and Union Territories for creation of capital assets.
- c) It is obtained by deducting the interest payments on previous borrowings from the fiscal deficit.
- d) It denotes the extent to which the Centre will have to borrow in the fiscal year to meet the revenue shortfall.

**Q.98) Solution (c)**

The Budget mentions four types of deficits. The fiscal deficit, revenue deficit, effective revenue deficit and primary deficit.

**Fiscal deficit** – It is the difference between total receipts (excluding borrowing) and total expenditure. This number captures the essence of the Centre’s finances; the extent to which the required expenses are being met by the available income.

The fiscal deficit also denotes the extent to which the Centre will have to borrow in the fiscal year to meet the revenue shortfall.

**Revenue deficit** – It is the difference between revenue receipts and revenue expenditure and shows if the government is being run within the means available.

**Effective revenue deficit** – It is calculated by excluding the grants given by the Centre to States and Union Territories for creation of capital assets.

**Primary deficit** – It is obtained by deducting the interest payments on previous borrowings from the fiscal deficit.

**Q.99) Recent Budget has finally proposed the setting up of a bad bank. Which of the following statements best denote the term “bad bank”?**

- a) It is a bank that buys the bad loans of other lenders and financial institutions to help clear their balance sheets.
- b) They are banks with poor balance sheet and the Centre has finally laid down a roadmap for privatisation of such banks.

- c) It is a term for the collection of non-bank financial intermediaries that provide services similar to traditional commercial banks but outside normal banking regulations.
- d) It is a bank that is blacklisted by the Public Sector Asset Rehabilitation Agency (PARA) due to its rising bad loans or NPAs.

**Q.99) Solution (a)**

A 'bad bank' simply put is a bank that purchases the bad loans of other lenders and financial institutions at market price. Next, the bad bank resolves these bad assets over a period of time. The banks in the process though would be forced to go for write-downs and will be free from the fetters of NPA and can draw a fresh approach toward fresh lending.

**Q.100) Which of the following are considered as the strategic sectors under the recently unveiled Strategic Disinvestment Policy?**

1. Transport and Telecommunications
2. Atomic energy, Space and Defence
3. Banking, Insurance and financial services
4. Petroleum, Coal and other minerals

**Choose correct option:**

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

**Q.100) Solution (d)**

Finance Minister recently unveiled the Disinvestment/Strategic Disinvestment Policy and said four sectors — Atomic energy, Space and Defence; Transport and Telecommunications; Power, Petroleum, Coal and other minerals; and Banking, Insurance and financial services — would be strategic sectors.

In strategic sectors, there will be bare minimum presence of the public sector enterprises.

The remaining CPSEs in the strategic sectors will be privatised or merged or subsidiarised with other CPSEs or closed. In non-strategic sectors, CPSEs will be privatised, otherwise shall be closed.



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