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Q.1) Consider the following statements regarding Net Domestic Product (NDP):

1. It is always greater than Gross Domestic Product of a Country.
2. The NDP shows the achievements of the economy in the area of research and development.
3. It is used by IMF/WB to rank the economies of the world.

Which of the above statements is/are correct?

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

Q.1) Solution (b)

The net domestic product is defined as the net value of all the goods and services produced within a country's geographic borders. It is considered a key indicator of economic growth of a country.

The net domestic product (NDP) is calculated by subtracting the value of depreciation of capital assets of the nation such as machinery, housing, and vehicles from the gross domestic product (GDP).

The formula for NDP can be expressed as follows:

NDP = GDP – Depreciation

Thus, NDP is always less than GDP.

NDP is used to show the achievements of the economy in the area of research and development which have tried cutting the levels of depreciation in a historical time period.

NDP is not used in comparison of the economies of the world. This is due to different rates of depreciation which is set by the different economies of the world.

Q.2) Which of the following is the basis on which IMF ranks the nations of the world at Purchasing Power Parity?

a) Net Domestic Product
b) Net National Product
c) Gross Domestic Product
d) Gross National Product

Q.2) Solution (d)

Gross National Product (GNP): It represents the total value of goods and services produced by the residents of a country during a financial year.

It takes the income earned by the citizens of the country present within or outside the country into consideration. It excludes the income generated by the foreign nationals who are residing in the country. It can be calculated as:

GNP = GDP + NR – NP

Where,

GDP = Gross domestic product

NR = Net income receipts

NP = Net outflow to foreign assets

This is the national income according to which the IMF ranks the nations of the world in terms of volume- at Purchasing Power Parity. It is more exhaustive concept of national income as it indicates about quantitative as well as qualitative aspect of the economy i.e. internal as well as external strength of the economy.

Q.3) Which of the following curve explains the relationship between economic growth and inequality?

a) Kuznets Curve
b) Laffer Curve
c) Phillips Curve
d) Gini Coefficient

Q.3) Solution (a)

Kuznets Curve is used to demonstrate the hypothesis that economic growth initially leads to greater inequality, followed later by the reduction of inequality. The idea was first proposed by American economist Simon Kuznets.

As economic growth comes from the creation of better products, it usually boosts the income of workers and investors who participate in the first wave of innovation. The industrialisation of an agrarian economy is a common example. This inequality, however, tends to be temporary as workers and investors who were initially left behind soon catch up by helping offer either the same or better products. This improves their incomes.

Q.4) Philips Curve represents:

a) Relationship between Government spending and GDP growth rate of an economy.
b) Relationship between economic progress and environmental degradation.
c) Relationship between inflation and unemployment.
d) Relationship between household expenditure on a particular good or service and change in household income.

Q.4) Solution (c)

The Phillips curve is an economic concept developed by A. W. Phillips. It states that inflation and unemployment have a stable and inverse relationship. The theory claims that with economic growth comes inflation, which in turn should lead to more jobs and less unemployment. However, the original concept has been somewhat disproven empirically due to the occurrence of stagflation in the 1970s, when there were high levels of both inflation and unemployment.

Understanding the Phillips curve in light of consumer and worker expectations, shows that the relationship between inflation and unemployment may not hold in the long run, or even potentially in the short run.

Q.5) Consider the following statements regarding Inverted Duty Structure, seen recently in news:

1. It is a situation where the rate of tax on finished goods is higher than the rate of tax on inputs used.
2. Inverted Duty Structure is prevalent in the case of customs duty.
3. It leads to revenue loss for the government.

Which of the above statements is/are correct?

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

Q.5) Solution (b)

Inverted duty structure (IDS) is a situation where the rate of tax on inputs used is higher than the rate of tax on the finished goods.

Take an imaginary situation of the tyre industry; the tax rate on natural rubber (input) purchased is 10% whereas the tax rate on rubber tyre is 5%. Here since the tax rate on input is higher than that on the finished good, there is an inverted tax structure.

The normal situation is that tax on inputs used is lower than the tax rate of the finished goods. Inverted duty structure is usually prevalent in the case of customs duty (import duty).

The inverted duty structure is causing several administrative problems in our GST system:

- Taxpayers will have accumulated credits in the form of refund claims with the tax Department.
- The inverted duty structure is a revenue loss for the government as it has to refund the tax already paid (in inputs).

- Under GST, the inverted duty structure is identified for goods and not for services. Or in other words, there is recognition for 'input good' and not for 'input services'.

Q.6) Consider the following statements regarding Gig economy:

1. It is a market system in which organizations contract with independent workers for short-term engagements.
2. More than 50% of new employment in India is being generated by the gig economy companies.

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.6) Solution (c)

A gig economy is a free market system in which temporary positions are common and organizations contract with independent workers for short-term engagements.

An estimated 56% of new employment in India is being generated by the gig economy companies across both the blue-collar and white-collar workforce. Few reasons for this exponential growth are:

- In the digital age, the worker need not sit at a fixed location—the job can be done from anywhere, so employers can select the best talent available for a project without being bound by geography.
- The millennial generation seems to have quite a different attitude to careers. They seek to do work that they want to do rather than have careers that may not satisfy their inner urges.
- This suits businesses as well. In a gig economy, they save resources in terms of benefits like provident fund, paid leave and office space.

Q.7) Consider the following statements regarding Net National Product (NNP):

1. It is the Gross Domestic Product after deducting the loss due to depreciation.
2. NNP divided by the population of a nation gives the per capita income.

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.7) solution (b)

Net national product or NNP is the market value of all the finished goods and services that are produced by citizens of a nation, living domestically and internationally during a year.

Net national product is also referred to as the value that is obtained by subtracting depreciation from the gross national product (GNP).

NNP is one of the important metrics for determining the actual growth of a nation. It measures how much the country is able to consume in a given period of time.

The net national product can be calculated by the following formula

NNP = GNP – Depreciation

When we divide NNP by the total population of a nation we get the per capita income of that nation i.e. income per head per year.

Q.8) Consider the following statements regarding difference between economic growth and economic development:

1. Economic development is a quantitative concept while Economic growth is a qualitative concept.
2. Physical Quality of Life Index is a method to measure economic growth.

Choose the correct answer from the codes given below:

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

Q.8) Solution (d)

Economic growth refers to an increase over time in a country`s real output of goods and services (GNP) or real output per capita income while Economic development implies an upward movement of the entire social system in terms of income, savings and investment along with progressive changes in socioeconomic structure of country.

Economic Growth relates to a gradual increase in one of the components of Gross Domestic Product: consumption, government spending, investment, net exports while Development relates to the growth of human capital indexes, a decrease in inequality figures, and structural changes that improve the general population's quality of life.

Economic growth is a Quantitative concept while Economic development is a Qualitative concept. It includes HDI (Human Development Index), gender- related index (GDI), Human poverty index (HPI), infant mortality, literacy rate etc.

Q.9) Which of the following can be the examples of Nudge theory of behavioral economics applied to Indian scenario?

1. National Social Assistance Programme
2. Beti Bachao Beti Padhao
3. Swachchh Bharat Mission

Choose the correct answer from the codes given below:

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

Q.9) Solution (b)

According to Nudge theory: People need reminders and positive reinforcement to sustain socially desirable behavior.

Behavioural economics is a method of economic analysis that applies psychological insights into human behaviour to explain economic decision-making In reality, decisions made by people often deviate from the various theories of classical economics. Drawing on the psychology of human behaviour, behavioural economics provides insights to 'nudge' people towards desirable behaviour.

Many Indian schemes that employ insights from behavioural economics have met with success. For example:

- The Swachchh Bharat Mission (SBM) and the Beti Bachao, Beti Padhao (BBBP) scheme, Give it up (LPG subsidy).
- The Swachh Bharat Mission (SBM) has emphasised behaviour change in addition to the construction of toilets. It has provided information, made the use of toilets more attractive, appealed to people's emotions, emphasised new social norms, publicly celebrated Swachhata champions, and prominently connected the reform project to some of Gandhi's teachings about cleanliness.
- The Beti Bachao, Beti Padhao initiative, designed to address the decline in the child sex ratio and promote the empowerment of girls and women. A central goal has been to promote a social norm in favour of celebrating girls, rather than viewing them as burden.

Note: The National Social Assistance scheme aimed at providing financial assistance to the elderly, widows, and people with disabilities in the form of social pensions. It does not apply behavioral economics.

Q.10) Consider the following statements:

1. The Surcharge goes to the Contingency Fund of India and can be used for a specific purpose.
2. The Cess goes to the consolidated fund of India and can be spent for any purposes.

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.10) Solution (d)

A cess imposed by the central government is a tax on tax, levied by the government for a specific purpose. Generally, cess is expected to be levied till the time the government gets enough money for that purpose. Cess goes to Consolidated Fund of India but can be spend only for the specific purposes.

Surcharge is a charge on any tax, charged on the tax already paid. As the name suggests, surcharge is an additional charge or tax. The main surcharges are that on personal income tax (on high income slabs and on super rich) and on corporate income tax. The Surcharge goes to the consolidated fund of India and can be spent for any purposes.

Q.11) Consider the following statements regarding Poverty Head Count Ratio:

1. It measures the proportion of population whose per capita income is below the official Poverty line.
2. It indicates the depth and severity of poverty.

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.11) Solution (a)

The Poverty Head Count ratio measures the proportion of population whose per capita income/ consumption expenditure is below the official Poverty line or in simple terms is measures the total number of people living below the poverty line.

Head Count Ratio is a simpler measure. It is widely used and represents the cut-off point below which people are considered as poor. It does not reflect the severity of poverty.

Poverty Gap Ratio (PGR) indicates the depth of poverty; the more the PGR, the worse is the condition of the poor. While the number of poor people indicates spread of poverty, PGR indicates the depth.

Q.12) Which of the following are used as an indicator in calculating the Multidimensional Poverty Index (MPI)?

1. Nutrition
2. Occupation
3. Cooking fuel
4. Maternal Mortality

Choose the correct answer from the codes given below:

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

Q.12) Solution (b)

Multidimensional Poverty Index (MPI) is an international measure of acute multidimensional poverty covering over 100 developing countries. It complements traditional monetary poverty measures by capturing the acute deprivations in health, education, and living standards that a person faces simultaneously.

MPI is computed by scoring each surveyed household on 10 parameters based on – nutrition, child mortality, years of schooling, school attendance, cooking fuel, sanitation, drinking water, electricity, housing and household assets.

NITI Aayog is the Nodal agency for the MPI in India.

Q.13) Inclusive growth is economic growth that is distributed fairly across society and creates opportunities for all. In this context which of the following will promote inclusive growth?

1. Skill building programmes
2. Creation of Self Help Groups
3. Disinvestment
4. Good governance

Choose the correct answer from the codes gives below:

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

Q.13) Solution (d)

Inclusive growth means economic growth that creates employment opportunities and helps in reducing poverty. It means having access to essential services in health and education by the poor. It includes providing equality of opportunity, empowering people through education and skill development.

Skill building programmes, Creation of Self Help Groups, Good Governance will all lead to inclusive growth in the economy.

Q.14) Which of the following committees were formed for poverty line estimation in India?

1. Rangarajan Committee
2. Hashim Committee
3. Abhijit Sen Committee

Choose the correct answers from the codes given below:

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

Q.14) Solution (b)

Rangarajan Committee: The committee was set up in the backdrop of national outrage over the Planning Commission's suggested poverty line of ₹22 a day for rural areas.

Objectives:

- To review international poverty estimation methods and indicate whether based on these; a particular method for empirical poverty estimation can be developed in India.
- To recommend how these estimates of poverty can be linked to eligibility and entitlements under the various schemes of the Government of India.

Hashim Committee: The Planning Commission constituted an Expert Group under the Chairmanship of Professor S.R.Hashim to recommend the detailed methodology for identification of families living Below Poverty Line in urban areas. In its report, the Hashim Committee recommended three stage identification process to identify the families living Below Poverty Line in urban areas which include automatic exclusion, automatic inclusion and scoring index of the remaining urban families in this order. The methodology recommended mainly emphasizes on capturing residential, social and occupational vulnerabilities.

Abhijit Sen Committee: It was constituted to study the relationship between futures trading and agricultural commodities inflation.

Q.15) Which of the following indexes are published by UNDP:

1. Gender Inequality Index
2. Multidimensional Poverty Index
3. Global Gender Gap Index
4. Inequality-Adjusted Human Development Index

Choose the correct answer from the codes below:

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

Q.15) Solution (b)

United Nations Development Programme (UNDP) releases five composite indices each year: the Human Development Index (HDI), the Inequality-Adjusted Human Development Index (IHDI), the Gender Development Index (GDI), the Gender Inequality Index (GII), and the Multidimensional Poverty Index (MPI).

Global Gender Gap Index is a socioeconomic index usually designed to measure the relative access to education of males and females. This index is released by WEF.

Q.16) Consider the following:

1. Social and economic inequality
2. Underutilized resources
3. Financial Inclusion
4. Population explosion

Which among the above can be considered as the causes of poverty in India?

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

Q.16) Solution (a)

Rapidly Rising Population: India's population has steadily increased through the years. During the past 45 years, it has risen at a rate of 2.2% per year, which means, on average; about 17 million people are added to the country's population each year. This also increases the demand for consumption goods tremendously.

Underutilized Resources: There is underemployment and disguised unemployment in the country, particularly in the farming sector. This has resulted in low agricultural output and also led to a dip in the standard of living.

Unemployment: Unemployment is another factor causing poverty in India. The ever-increasing population has led to a higher number of job-seekers. However, there is not enough expansion in opportunities to match this demand for employment.

Social Factors: Apart from economic and commercial, there are also social factors hindering the eradication of poverty in India. Some of the hindrances in this regard are the laws of inheritance, caste system, certain traditions, etc. Read about vulnerability due to caste on the linked page.

Financial inclusion strengthens the availability of economic resources and builds the concept of savings among the poor. Financial inclusion is a major step towards inclusive growth. It helps in the overall economic development of the underprivileged population.

Q.17) Consider the following statements regarding Lorenz Curve:

1. It represents the distribution of income in an economy.
2. The line at 60^0 angle shows perfectly equal income distribution.

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.17) Solution (a)

The distribution of Income in an economy is represented by the Lorenz Curve.

The Lorenz Curve (the actual distribution of income curve), a graphical distribution of wealth developed by Max Lorenzin 1906, shows the proportion of income earned by any given percentage of the population. The line at the 45º angle shows perfectly equal income distribution, while the other line shows the actual distribution of income. The further away from the diagonal, the more unequal the size of the distribution of income.

Q.18) Gini coefficient is derived from which of the following economic curves?

a) Laffer Curve
b) Kuznets Curve
c) Phillips Curve
d) Lorenz Curve

Q.18) Solution (d)

The Gini Coefficient is derived from the Lorenz Curve, can be used as an indicator of economic development in a country.

The Gini Coefficient measures the degree of income equality in a population.

The Gini Coefficient can vary from 0 (perfect equality) to 1 (perfect inequality).

A Gini Coefficient of zero means that everyone has the same income, while a Coefficient of 1 represents a single individual receiving all the income.

Q.19) A situation under which people with a higher level of skills are employed in less productive jobs is known as:

a) Under Employment
b) Involuntary Unemployment
c) Frictional Unemployment
d) Disguised Unemployment

Q.19) Solution (a)

Underemployment is a situation under which People with a higher level of skills are employed in less productive jobs. It simply means that the Labour force of the economy is not fully utilised as per their skills and experience.

Example: an individual with an engineering or management degree working as a clerk or accountant in a firm or a social science graduate working as a pizza delivery boy.

Q.20) Consider the following statements regarding methods of estimating unemployment by the National Sample Survey Office (NSSO):

1. Usual Status Approach estimates only those persons as unemployed who had no gainful work even for 1 hour in a day.
2. Weekly Status Approach records only those persons as unemployed who did not have gainful work even for an hour on any day of the week preceding the date of survey.

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.20) Solution (b)

National Sample Survey Office (NSSO), an organization under Ministry of Statistics and Programme Implementation (MoSPI) measures unemployment in India on following approaches:

- **Usual Status Approach**: This approach estimates only those persons as unemployed who had no gainful work for a major time during the 365 days preceding the date of survey.
- **Weekly Status Approach**: This approach records only those persons as unemployed who did not have gainful work even for an hour on any day of the week preceding the date of survey.
- **Daily Status Approach**: Under this approach, unemployment status of a person is measured for each day in a reference week. A person having no gainful work even for 1 hour in a day is described as unemployed for that day.

Q.21) Consider the following statements regarding Open Market Operations:

1. It is a quantitative monetary policy tool of RBI to adjust the rupee liquidity conditions in the market.
2. When there is excess liquidity in the market then RBI buys government securities through open market operations.

Which of the above statements is/are correct?

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

Q.21) Solution (a)

Open market operations, or OMOs, are the purchase and sale of G-Secs by the Reserve Bank of India (RBI) on the Centre's behalf to streamline money supply and interest rates.

OMOs aim to control the supply of money or existing liquidity in the economy. In case of an inflationary situation, RBI adopts a contractionary monetary policy i.e., it sells government securities and absorbs the excess money from the financial flow.

Amid a recessionary trend, RBI is keen to boost money supply in the market and ensure adequate credit availability for investment and production. So, it buys securities, increasing the money supply.

Q.22) What is G-SAP, sometimes seen in news?

a) It is a program by the RBI to infuse more liquidity in the market by selling government securities.
b) It is a program by the RBI to reduce the money supply in the market by selling government securities.
c) It is a program by the RBI to reduce the money supply in the market by purchasing government securities.
d) It is a program by the RBI to infuse more liquidity in the market by purchasing government securities.

Q.22) Solution (d)

G-SAP means Government Security Acquisition Programme. It is a program by the RBI to infuse more liquidity in the market by purchasing government securities. It is part of RBIs Open Market Operations.

The RBI periodically purchases Government bonds from the market through Open Market Operations (OMOs). The G-SAP is in a way an OMO but there is an upfront commitment by the central bank to the markets that it will purchase bonds worth a specific amount. The idea is to give a comfort to the bond markets. In other words, G-SAP is an OMO with a 'distinct character'.

Q.23) With reference to Ways and Means Advances of the Government of India, consider the following statements:

1. It is a facility through which Central Government and State Governments can borrow money from RBI.
2. It is a temporary liquidity arrangement by the Central Bank.
3. Under this facility Central and States can borrow money up to 120 days from the RBI.

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.23) Solution (a)

Ways and Means Advance (WMA) is a facility for both the Centre and states to borrow from the RBI. These borrowings are meant purely to help them to tide over temporary mismatches in cash flows of their receipts and expenditures.

The central bank lends money to the Centre and state governments subject to their being repayable "not later than three months from the date of the making of the advance". Thus

Centre and States can borrow money up to 90 days from RBI to tide over their liquidity mismatch.

The interest rate on WMA is the RBI's repo rate, which is basically the rate at which it lends short-term money to banks.

Q.24) When the limit of Ways and Means Advance through which Centre and States can borrow money from the RBI is crossed, the governments take recourse of overdraft facility of RBI. What interest rate is charged on this overdraft facility?

a) 4 percent more than the repo rate
b) 2 percent more than the repo rate
c) 1 percent more than the bank rate
d) 2 percent more than the bank rate

Q.24) Solution (b)

When the limits of Ways and Means Advance is crossed the Central and the States Governments take recourse to the overdraft facility of the RBI. The interest rate on overdraft facility is 2 percent more than the repo rate.

According to recent guidelines issued by the RBI, it has eased the terms governing availment of the overdraft facility extended to State Governments/UTs, to enable them to better manage their fiscal situation in terms of their cash-flows and market borrowings. Accordingly, the maximum number of days in a quarter on which State Governments/UTs can avail overdraft is being increased from 36 days to 50 days. Further, the number of consecutive days on which a State Government/UT can avail overdraft is being increased from 14 days to 21 days. This facility will be available up to September 30, 2021.

Q.25) Consider the following statements regarding Monetary Policy Committee (MPC):

1. It is constituted by the Reserve Bank of India.
2. The Governor of RBI is its ex-officio chairman.
3. The RBI Governor enjoys the veto power to overrule the other panel members.

Which of the above statements is/are correct?

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

Q.25) Solution (b)

The Monetary Policy Committee (MPC), constituted by the Central Government under Section 45ZB of the RBI Act, determines the monetary policy rates like repo rate, reverse repo rate, bank rate, cash reserve ratio required to achieve the inflation target.

The committee comprises six members - three officials of the Reserve Bank of India and three external members nominated by the Government of India. The RBI Governor is its ex-officio chairman.

The setting up of a committee to decide on Monetary Policy was first proposed by the Urjit Patel Committee.

The RBI Governor chairs the committee but it does not enjoy veto power to overrule the other panel members, but has a casting vote in case of a tie.

Q.26) With reference to Cash Reserve Ratio, consider the following statements:

1. It is the percentage of cash required to be kept by banks in reserves with respect to bank's total deposits.
2. This cash reserve is either stored in the bank's vault or can be sent to the RBI.
3. Banks get any interest of 1% on the money that is with the RBI under the CRR requirements
4. RBI decreases the CRR at the time of inflation

Which of the above statements is/are correct?

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

Q.26) Solution (a)

The Reserve Bank of India (RBI) mandates that banks store a proportion of their deposits in the form of cash so that the same can be given to the bank's customers if the need arises. The percentage of cash required to be kept in reserves, vis-a-vis a bank's total deposits, is called the Cash Reserve Ratio.

The cash reserve is either stored in the bank's vault or is sent to the RBI. Banks do not get any interest on the money that is with the RBI under the CRR requirements.

Unlike Statutory Liquidity Ratio or SLR, which can be maintained in either gold or cash, CRR needs to be maintained only in cash.

There are two primary purposes of the Cash Reserve Ratio:

- Since a part of the bank's deposits is with the Reserve Bank of India, it ensures the security of the amount. It makes it readily available when customers want their deposits back.

- Also, CRR helps in keeping inflation under control. At the time of high inflation in the economy, RBI increases the CRR, so that banks need to keep more money in reserves so that they have less money to lend further.

At the time of high inflation, the government needs to ensure that excess money is not available in the economy. To that extent, RBI increases the Cash Reserve Ratio, and the amount of money that is available with the banks reduces. This curbs excess flow of money in the economy.

Q.27) With reference to Marginal Standing Facility (MSF), consider the following statements:

1. It is a window which enables commercial banks to borrow money from the RBI in case of an emergency.
2. MSF is generally higher than the repo rate.

Which of the above statements is are correct?

a) 1 only
b) 2 only
c) Both1 and 2
d) Neither 1 nor 2

Q.27) Solution (b)

The MSF or Marginal Standing Facility (MSF) Rate is the rate at which RBI lends funds overnight to scheduled banks, against government securities. RBI has introduced this borrowing scheme to regulate short-term asset liability mismatch in a more effective manner.

Banks borrow from the RBI by pledging government securities at a rate higher than the repo rate under Liquidity Adjustment Facility (LAF).

MSF basically provides a greater liquidity cushion. Higher the MSF rate, more expensive is borrowing for banks, as well as corporate borrowers and individuals. It is used by RBI to control the money supply in the country's financial system.

Q.28) Consider the following:

1. Money deposited in savings account
2. Money deposited in Current account
3. Gold deposits in Banks
4. Money in Fixed deposits

Which of the above are time liabilities of a bank?

a) 1 and 2 only

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

Q.28) Solution (c)

The deposits of a bank are its liabilities that can be in the form of demand liability, time liability and other demand and time liabilities.

Demand Liabilities: The demand liabilities include all those liabilities of a bank which are payable on demand. Such as Money deposited in savings account, Money deposited in Current account, cash certificates and cumulative/recurring deposits, outstanding telegraphic transfers, Demand drafts, margins against the letter of credit/guarantees, credit balance in cash credit account, etc., all are paid on demand.

Time Liabilities: Time liabilities are those liabilities of a bank which are payable otherwise on demand. These include money in fixed deposits, staff security deposits, time liabilities portion of saving deposits account, margin held against the letter of credit (if not payable on demand), gold deposits, etc.

Other Demand and Time Liabilities: These include all those miscellaneous liabilities which are not covered in above two types of liabilities. Such as interest accrued on deposits, unpaid dividend, suspense account balances showing the amount due to other banks or public, participation certificates issued to other banks, cash collaterals, etc.

Q.29) With reference to Bank Rate, consider the following statements:

1. It is a short term monetary policy measure of RBI for controlling the amount of money in the market.
2. Bank Rate is usually lower than the repo rate.
3. Increase in Bank Rate directly affects the lending rates offered to the customer, restricting people to avail loans

Which of the above statements is/are correct?

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

Q.29) Solution (c)

Bank Rate is the rate of interest charged by the central bank on the loans they have extended to commercial banks and other financial institutions is called "Bank Rate". In this case, there is no repurchasing agreement signed, no securities sold or collateral involved.

Bank Rate is a long term measure and is governed by the long-term monetary policies of the RBI.

Banks borrow funds from the central bank at Bank Rate and lend the money to their customers at a higher interest rate, thus, making profits. Bank Rate is usually higher than Repo Rate as it is an important tool to control liquidity.

Increase in Bank Rate directly affects the lending rates offered to the customer, restricting people to avail loans and damages the overall economic growth.

Q.30) Consider the following:

1. Margin requirements
2. Moral suasion
3. Selective credit control

Which of the above is/are the qualitative tools of monetary policy of RBI?

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

Q.30) Solution (d)

Qualitative instruments are also known as selective instruments of the RBI's monetary policy. These instruments are used for discriminating between various uses of credit; for example, they can be used for favouring export over import or essential over non-essential credit supply. This method has an influence on both borrowers and lenders.

- Change in Marginal Requirement: Margin is referred to the certain proportion of the loan amount that is not offered or financed by the bank. Change in marginal can lead to change in the loan size. This instrument is used to encourage the credit supply for the necessary sectors and avoid it for the unnecessary sectors. That can be done by increasing the marginal of unnecessary sectors and reducing the marginal of other needy sectors.
- Moral Suasion: Moral suasion refers to the suggestions to commercial banks from the RBI that helps in restraining credits in the inflationary period. RBI implies pressure on the Indian banking system without taking any strict action for compliance with rules.
- Regulation of Consumer Credit: In this instrument, consumers' credit supply is regulated through the instalment of sale and hire purchase of consumer goods. Here, features like instalment amount, down payment, loan duration, etc., are all fixed in advance, which helps to check the credit and inflation in the country.

Q.31) Consider the following:

1. Increase in government spending

2. Increase in wages
3. Higher taxes
4. Increase in exports

Which of the above factors are responsible for demand pull Inflation in the economy?

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

Q.31) Solution (d)

Inflation means a sustained increase in the general price level. The main two types of inflation are:

- Demand-pull inflation
- Cost-push inflation

Demand-pull inflation is a period of inflation which arises from rapid growth in aggregate demand. It occurs when economic growth is too fast.

Demand-pull inflation means:

- Excess demand and 'too much money chasing too few goods.'
- The economy is at (or very close to) full employment/full capacity.
- The economy will be growing at a rate faster than the long-run trend rate.
- A falling unemployment rate.

The causes of Demand pull inflation are:

- There is a quick increase in consumption and investment along with extremely confident firms.
- There is a sudden increase in exports due to huge under-valuation of the currency.
- There is a lot of government spending.
- The expectation that inflation will rise often leads to a rise in inflation. Workers and firms will increase their prices to 'catch up' to inflation.
- There is excessive monetary growth, when there is too much money in the system chasing too few goods. The 'price' of a good will thus increases.
- There is a rise in population.

Q.32) The condition in the economy characterised by slow growth and relatively high unemployment which is at the same time accompanied by rising prices is known as:

a) Skewflation
b) Stagflation
c) Hyperflation

d) Running inflation

Q.32) Solution (b)

Stagflation is characterized by slow economic growth and relatively high unemployment—or economic stagnation—which is at the same time accompanied by rising prices (i.e. inflation). Stagflation can also be alternatively defined as a period of inflation combined with a decline in gross domestic product (GDP).

Causes of stagflation are:

- Oil price rise Stagflation is often caused by a supply-side shock. For example, rising commodity prices, such as oil prices, will cause a rise in business costs (transport more expensive) and short-run aggregate supply will shift to the left. This causes a higher inflation rate and lower GDP.
- Falling productivity. If an economy experiences falling productivity – workers becoming more inefficient; costs will rise and output fall.
- Rise in structural unemployment. If there is a decline in traditional industries, we may get more structural unemployment and lower output. Thus we can get higher unemployment – even if inflation is also increasing.

Q.33) With reference to inflation targeting consider the following statements:

1. Inflation targeting is a strategy to specify an inflation rate as a goal and adjust monetary policy to achieve that rate.
2. In India, inflation target is set by the government in consultation with the RBI, once every five years.
3. Currently the inflation target of India is 5% with a tolerance band of +/-2%.

Which of the above statements is/are correct?

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

Q.33) Solution (a)

Inflation targeting is a strategy of the central bank of specifying an inflation rate as a goal and adjusting monetary policy to achieve that rate.

Inflation targeting primarily focuses on maintaining price stability, but is also believed to support economic growth and stability.

The RBI and the government agreed in 2015 on a policy framework that stipulated a primary objective of ensuring price stability while keeping in mind the objective of growth.

In May 2016, the Reserve Bank of India (RBI) Act, 1934 was amended to provide a Constitutional basis for the implementation of the flexible inflation targeting (FIT) framework. The Act allows the Centre to set the inflation target in consultation with the RBI once every five years.

The inflation target for the period April 1, 2021, to March 31, 2026, under the Reserve Bank of India Act, 1924, has been kept at the same level as it was for the previous five years which is 4% with a tolerance band of +/- 2%.

Q.34) With reference to the effects of inflation on the economy, consider the following statements:

1. Lenders suffer while borrowers benefit out of inflation.
2. In short run investment in the economy is boosted by inflation.
3. With increasing inflation the value of money increases.
4. With inflation, exportable items of an economy gain competitive prices in the world market.

Which of the above statements is/are correct?

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

Q.34) Solution (c)

There are multi dimensional effects of inflation on an economy both at the micro and macro levels. It redistributes income, distorts relative prices, destablises employment, tax, saving and investment policies and it may bring in recession and depression in an economy. Effects of inflation can be seen as:

1. On creditors and debtors: Inflation redistributes wealth from creditors to debtors, i.e. Lenders suffer while borrowers benefit out of inflation. The opposite effect takes place when inflation falls.

2. On investment: Investment in the economy is boosted by the inflation in the short run because:

- Higher inflation indicates higher demand and suggests entrepreneurs to expand their production level.
- Higher the inflation, lower the cost of loan.

3. On savings: Holding money does not remain an intelligent economic decision because money looses value with every increase in inflation, that is why people visit banks more often and try to hold least money with them and put maximum with banks in their saving accounts.

4. On export: with inflation, exportable items of an economy gain competitive prices in the world market. Due to this, the volume of export increases (though value of exports decreases) and thus export income increases in the economy.

Q.35) Consider the following statements regarding difference between Consumer Price Index (CPI) and Wholesale Price Index (WPI):

1. In CPI, the inflation is measured by tracking the price paid at the first stage of the transaction while the price paid at the last stage of the transaction is used to measure inflation in WPI.
2. CPI basket covers the only price of goods, whereas services like housing education, recreation are also covered in WPI basket along with the goods.

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.35) Solution (d)

Consumer Price Index (CPI): A comprehensive measure used for estimation of price changes in a basket of goods and services representative of consumption expenditure in an economy is called consumer price index.

Wholesale Price Index (WPI): It can be defined as the commonly used price index which measures the price changes of the goods for voluminous sale, i.e. at the initial stage of the transaction, when the goods are bought by one corporation from another for reselling it.

The differences between consumer price index and wholesale price index are discussed in the points below:

- Wholesale Price Index (WPI) estimates inflation by ascertaining the price paid on the purchase of goods by the wholesalers from manufacturers and comparing it with the base year prices. As against Consumer Price Index (CPI) is used to measure the changes in prices, by making a comparison, through time, the overall price of the fixed basket of commodities.
- In India, Wholesale Price Index is published by Office of Economic Advisor which comes under Ministry of Commerce and Industry. On the contrary, Consumer Price Index is declared by Central Statistics Office, which works under Ministry of Statistics and Programme Implementation.
- In wholesale Price Index, the inflation is measured by tracking the price paid at the first stage of the transaction. Conversely, the price paid at the last stage of the transaction is used to measure inflation in consumer price index.

- WPI basket covers the only price of goods, whereas services like housing education, recreation and so forth are also covered in CPI basket along with the goods.
- WPI is concerned with the prices paid on the trade of goods between two business houses for the purpose of resale. In contrast, CPI stresses on the prices of goods bought by the consumers for the purpose of consumption.

Q.36) A decline of real gross domestic product (GDP) of an economy for two consecutive quarters is known as:

a) Slowdown
b) Depression
c) Recession
d) Stagnation

Q.36) Solution (c)

An economic recession is often defined as a decline of real gross domestic product (GDP) for two consecutive quarters.

Recession leads to:

- Decline in real GDP
- Decline in real income
- Rise in unemployment
- Slowed industrial production and retail sales
- Lack of consumer spending

To tackle the recession, economies generally react by loosening their monetary policies by infusing more money into the system, i.e., by increasing the money supply.

This is done by reducing the interest rates. Increased spending by the government and decreased taxation.

Q.37) With reference to economic recovery, the situation when an economy passes through a recession into recovery and then immediately turns down into another recession is known as:

a) V-shaped recovery
b) K-shaped recovery
c) W-shaped recovery
d) Z-shaped recovery

Q.37) Solution (c)

A W-shaped recovery is when an economic growth falls and rises, but falls again before recovering.

A W-shaped recovery generally characterizes a period of extreme volatility compared to other types of recoveries.

A W-shaped recession begins like a V-shaped recession, but then turns back down again after showing false signs of recovery.

W-shaped recessions are also called "double-dip recessions" because the economy drops twice before the full recovery is achieved.

Q.38) Which of the following statements regarding Non Banking Financing Companies is/are correct?

1. An NBFC cannot accept demand deposits.
2. NBFCs not accepting public deposit are exempted from the statutory requirement of registration with RBI.
3. NBFCs cannot issue cheque to its customers.

Choose the correct answer from the codes given below:

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

Q.38) Solution (b)

The Reserve Bank of India Act, 1934 defines ''non-banking financial company'' as–

i. A financial institution which is a company;
ii. A non-banking institution which is a company and which has as its principal business the receiving of deposits, under any scheme or arrangement or in any other manner, or lending in any manner;
iii. Such other non-banking institution or class of such institutions, as the Bank may, with the previous approval of the Central Government and by notification in the Official Gazette, specify

An NBFC cannot accept demand deposits like the savings and current accounts.

All the NBFCs are required to seek Registration with RBI irrespective of whether they accept public deposits or not. However, certain types of financial companies viz., insurance companies, housing finance companies, stock broking companies, chit fund companies, companies notified as `nidhis' under section 620A of the Companies Act and the companies engaged in merchant banking activities (subject to certain conditions), have been exempted from the requirement of Registration under the Reserve Bank of India Act.

NBFCs are not a part of the payment and settlement system and as such cannot issue cheque to its customers.

Q.39) Consider the following statements regarding Capital Adequacy Ratio (CAR):

1. It is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities.
2. As per RBI norms, Indian scheduled commercial banks are required to maintain a CAR of 12%
3. The Basel III norms stipulate a capital to risk weighted assets of 8%.

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.39) Solution (c)

Capital Adequacy Ratio (CAR) is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities. It is decided by central banks and bank regulators to prevent commercial banks from taking excess leverage and becoming insolvent in the process.

It is measured as:

Capital Adequacy Ratio = (Tier I + Tier II + Tier III (Capital funds)) /Risk weighted assets

The risk weighted assets take into account credit risk, market risk and operational risk.

The Basel III norms stipulated a capital to risk weighted assets of 8%.

However, as per RBI norms, Indian scheduled commercial banks are required to maintain a CAR of 9% while Indian public sector banks are emphasized to maintain a CAR of 12%.

Q.40) Monetary aggregates comprising Currency in circulation+ Banker's Deposits with RBI+ Other deposits with RBI is known as:

a) Reserve Money
b) Narrow Money
c) Broad Money
d) Near Money

Q.40) Solution (a)

Monetary aggregates are broad categories of money that measure the money supply such as cash and demand deposits or bank credits which have an impact on the aggregate economic activity. Appraising monetary aggregates can generate a lot of information about the financial stability and overall health of a country.

In India, the Reserve Bank of India follows M0, M1, M2, M3 and M4 monetary aggregates which are respectively known as 'Reserve Money', 'Narrow Money', 'Near Money',' Broad Money' and 'Broader Money'.

1. Reserve money (M0): The Components of Reserve Money (M0) are- Currency in Circulation + Bankers' Deposits with RBI + `Other' Deposits with RBI.
2. Narrow money (M1): The components of narrow money are- Currency in Circulation + Demand Deposits with the banking system + `Other' Deposits with RBI.
3. Near money (M2): The components of 'Near money' are- Currency with the Public + Demand Deposits with Banks + `Other' Deposits with Reserve Bank + Savings deposit in Post office.
4. Broad money (M3): The components of broad money (M3) are- Currency with the Public + Demand Deposits with Banks + Time Deposits with Banks + `Other' Deposits with Reserve Bank.
5. Broadest money (M4): The components of broadest money (M4) are- Currency with the Public + Demand Deposits with Banks + Time Deposits with Banks + `Other' Deposits with Reserve Bank + money market instruments.

Q.41) Consider the following statements regarding Fiscal Policy:

1. It is the microeconomic tool used to manage or stimulate the economy.
2. It addresses interest rates and the supply of money in circulation.
3. It is generally determined by government legislation.

Which of the above statements is/are correct?

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

Q.41) Solution (c)

Monetary policy and fiscal policy refer to the two most widely recognized tools used to influence a nation's economic activity. Monetary policy is primarily concerned with the management of interest rates and the total supply of money in circulation and is generally carried out by central banks. In India, the Monetary Policy is under the Reserve Bank of India or RBI. Monetary policy majorly deals with money, currency, and interest rates. On the other hand, under the fiscal policy, the government deals with taxation and spending by the Centre.

Through the fiscal policy, the government of a country controls the flow of tax revenues and public expenditure to navigate the economy. If the government receives more revenue than it spends, it runs a surplus, while if it spends more than the tax and non-tax receipts, it runs a deficit. To meet additional expenditures, the government needs to borrow domestically or from overseas. Alternatively, the government may also choose to draw upon its foreign exchange reserves or print additional money.

Both monetary and fiscal policy are macroeconomic tools used to manage or stimulate the economy.

Monetary policy addresses interest rates and the supply of money in circulation, and it is generally managed by a central bank.

Fiscal policy addresses taxation and government spending, and it is generally determined by government legislation.

Q.42) Consider the following:

1. Welfare programmes
2. Open Market Operations
3. Subsidies
4. Taxation

Which of the above are the tools of Fiscal Policy?

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

Q.42) Solution (b)

A government has two tools at its disposal under the fiscal policy – taxation and public spending.

Taxation includes taxes on income, property, sales, and investments. On the one hand, more taxes means more income for the government, but it also results in less income in the hand of the people.

Public spending includes subsidies, transfer payments, like salaries to a govt. employee, welfare programs, and public works projects. Those who get the funds have more money to spend.

Open Market Operations are when central banks buy or sell securities. These are bought from or sold to the country's private banks. When the central bank buys securities, it adds cash to the banks' reserves. That gives them more money to lend. When the central bank sells the securities, it places them on the banks' balance sheets and reduces its cash holdings. Thus it is a tool of Monetary Policy.

Q.43) With reference to Fiscal Deficit, consider the following statements:

1. It occurs when the total expenditure of the government exceeds its total revenue and non-revenue receipts in a financial year.
2. It is calculated as a percentage of Gross National Product.

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.43) Solution (a)

Fiscal Deficit definition:

Fiscal Deficit is the difference between the total income of the government (total taxes and non-debt capital receipts) and its total expenditure. A fiscal deficit situation occurs when the government's expenditure exceeds its income. This difference is calculated both in absolute terms and also as a percentage of the Gross Domestic Product (GDP) of the country. A recurring high fiscal deficit means that the government has been spending beyond its means.

The government describes fiscal deficit of India as "the excess of total disbursements from the Consolidated Fund of India, excluding repayment of the debt, over total receipts into the Fund (excluding the debt receipts) during a financial year".

Fiscal Deficit formula: How is Fiscal Deficit calculated?

Fiscal Deficit = Total expenditure of the government (capital and revenue expenditure) – Total income of the government (Revenue receipts + recovery of loans + other receipts)

If the total expenditure of the government exceeds its total revenue and non-revenue receipts in a financial year, then that gap is the fiscal deficit for the financial year. The fiscal deficit is usually mentioned as a percentage of GDP. For example, if the gap between the Centre's expenditure and total income is Rs 5 lakh crore and the country's GDP is Rs 200 lakh crore, the fiscal deficit is 2.5% of the GDP.

What causes Fiscal Deficit?

Sometimes, the governments spend on handouts and other assistance to the weak and vulnerable sections of the society such as the farmers and the poor. A high fiscal deficit can also be good for the economy if the money spent goes into the creation of productive assets like highways, roads, ports and airports that boost economic growth and result in job creation.

How is Fiscal Deficit met?

The government meets fiscal deficit by borrowing money. In a way, the total borrowing requirements of the government in a financial year is equal to the fiscal deficit in that year.

Q.44) Consider the following:

1. Transfer Payments
2. Dividends and Profits
3. Interest Receipts
4. GST

Which of the above are part of Non-tax revenue of the Government?

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

Q.44) Solution (b)

The receipts that do not create any liabilities and do not lead to a claim on the government are called revenue receipts. These revenue receipts are non-redeemable and can be classified into two categories namely: tax revenue and non-tax revenue. Tax revenues are the vital components of revenue receipts that have been bifurcated for the long term into direct taxes, enterprises, and indirect taxes such as customs duties, excise taxes, and service tax. Non-tax revenues, on the other hand, are the recurring income that is earned from the sources other than taxes by the government.

1. Revenue receipts of the government

- Corporation Tax
- Income Tax
- Custom Duties
- Union Excise Duties
- GST and taxes of Union territories.

*GST or Goods and Services Tax which is collected by the Centre includes CGST (Central Goods and Services Tax), IGST (Integrated Goods and Services Tax) & GST Compensation Cess.

2. Non-tax revenues

- Interest Receipts
- Dividends and Profits
- External Grants
- Other non-tax revenues
- Receipts of union territories

Expenditures of the government:

- Revenue Expenditure

- Capital Expenditure
- Interest Payments
- Transfer Payments- allowances, pensions
- Grants-in-aid for creation of capital assets

Q.45) With reference to Financial Stability and Development Council (FSDC), consider the following statements:

1. It is a statutory body.
2. It is headed by the Prime Minister.
3. FSDC sub-committee is headed by the Governor of RBI.
4. It intends to monitor macro-prudential supervision of the economy.

Which of the above statements is/are correct?

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

Q.45) Solution (d)

Financial Stability and Development Council (FSDC) is an apex-level body constituted by the government of India.

The idea to create such a super regulatory body was first mooted by the Raghuram Rajan Committee in 2008. Finally in 2010, the then Finance Minister of India, Pranab Mukherjee, decided to set up such an autonomous body dealing with macro prudential and financial regularities in the entire financial sector of India.

An apex-level FSDC is not a statutory body.

The global economic meltdown has put pressure on governments and institutions across the globe to regulate their economic assets. This council is seen as India's initiative to be better conditioned to prevent such incidents in future.

It envisages to strengthen and institutionalise the mechanism of maintaining financial stability, financial sector development, inter-regulatory coordination along with monitoring macro-prudential regulation' of economy. No funds are separately allocated to the council for undertaking its activities.

It is chaired by the Finance Minister and its members include the heads of all Financial Sector Regulators (RBI, SEBI, PFRDA & IRDA), Finance Secretary, Secretary of Department of Economic Affairs (DEA), Secretary of Department of Financial Services (DFS), and Chief Economic Adviser.

FSDC sub-committee is headed by the Governor of RBI. The Council can invite experts to its meeting if required.

Q.46) Consider the following statements:

1. Insurance is the subject listed in Union List of the seventh Schedule of the Constitution.
2. Foreign Direct Investment limit in insurance sector in India is 49 percent.
3. Insurance Regulatory and Development Authority is the apex statutory body to promote and regulate insurance sector in India.

Which of the above statements is/are correct?

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

Q.46) Solution (d)

Insurance in India refers to the market for insurance in India which covers both the public and private sector organisations. It is listed in the Constitution of India in the Seventh Schedule as a Union List subject, meaning it can only be legislated by the Central Government only.

Foreign investment limit in the insurance sector is increased from the current 49% to 74% in the budget session of 2021.

Increase in FDI limits from 49% to 74 % for the insurance sector will help insurance companies to raise funds to ensure their solvency is maintained in line with growing business needs. This may also help increase merger & acquisition in the sector while paving the way for private equity funds to enter the space.

Private equity is composed of funds and investors that directly invest in private companies, or that engage in buyouts of public companies, resulting in the delisting of public equity.

The Insurance Regulatory and Development Authority of India (IRDAI) is a regulatory body under the jurisdiction of Ministry of Finance, Government of India and is tasked with regulating and promoting the insurance and re-insurance industries in India. It was constituted by the Insurance Regulatory and Development Authority Act, 1999, hence it is a statutory body.

Q.47) With reference to strategic disinvestment consider the following statements:

1. It is the transfer of the ownership and control of a public sector entity to some other entity.

2. DIPAM is the nodal agency for the strategic disinvestment in the Public Sector Undertakings.
3. DIPAM comes under the Ministry of Commerce and Industry.

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.47) Solution (a)

When the government decides to transfer the ownership and control of a public sector entity to some other entity, either private or public, the process is called strategic disinvestment.

The Department of Investment and Public Asset Management (DIPAM) which comes under the Finance Ministry defines Strategic disinvestment as follows: "Strategic disinvestment would imply the sale of a substantial portion of the Government shareholding of a central public sector enterprises (CPSE) of up to 50%, or such higher percentage as the competent authority may determine, along with transfer of management control."

Selling minority shares of Public Enterprises, to another entity be it public or private is disinvestment. In this the government retains ownership of the enterprise. On the other hand, when the government sells majority shares in an enterprise, which is strategic disinvestment/sale. Here, the government gives up the ownership of the entity as well. Government carefully chooses enterprises to be put up for sale.

Department of Investment and Public Asset Management is one of the departments under the Ministry of Finance.

Department of Investment and Public Asset Management (DIPAM) deals with all matters relating to management of Central Government investments in equity including disinvestment of equity in Central Public Sector Undertakings.

Q.48) Consider the following:

1. Curbing leakages in subsidies
2. Improving performance of PSUs
3. Increasing subsidies
4. Recovering Blackmoney

Which of the above initiatives can lead to fiscal consolidation?

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

c) 1, 2 and 4 only
d) 3 and 4 only

Q.48) Solution (c)

In India, fiscal consolidation or the fiscal roadmap for the centre is expressed in terms of the budgetary targets (fiscal deficit and revenue deficit) to be realized in successive budgets.

Following measures can lead to fiscal consolidation in an economy:

- Cut down subsidies.
- Stop leakages in subsidies.
- Reform the tax structure (implement GST).
- Improve the performance of PSUs.
- Recover blackmoney
- Policy reforms such as FDI

Higher economic growth rate will help government to get higher tax revenues as well. Augmentation of tax revenue is necessary to bring fiscal consolidation as there are limitations for reducing government expenditure in India.

Q.49) With reference to off budget borrowings, consider the following statements:

1. These are loans taken by the Centre through other public institutions.
2. They form a major part of India's fiscal deficit.

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.49) Solution (a)

Off-budget borrowings are loans that are taken not by the Centre directly, but by another public institution which borrows on the directions of the central government. Such borrowings are used to fulfil the government's expenditure needs.

But since the liability of the loan is not formally on the Centre, the loan is not included in the national fiscal deficit. This helps keep the country's fiscal deficit within acceptable limits.

How are off-budget borrowings raised?

The government can ask an implementing agency to raise the required funds from the market through loans or by issuing bonds.

For example, food subsidy is one of the major expenditures of the Centre. In the Budget presentation for 2020-21, the government paid only half the amount budgeted for the food subsidy bill to the Food Corporation of India. The shortfall was met through a loan from the National Small Savings Fund. This allowed the Centre to halve its food subsidy bill from Rs 1,51,000 crore to Rs 77,892 crore in 2020-21.

Other public sector undertakings have also borrowed for the government. For instance, public sector oil marketing companies were asked to pay for subsidised gas cylinders for Pradhan Mantri Ujjwala Yojana beneficiaries in the past.

Public sector banks are also used to fund off-budget expenses. For example, loans from PSU banks were used to make up for the shortfall in the release of fertiliser subsidy.

Given the various sources of off-budget borrowing, the true debt is difficult to calculate. For instance, it was widely reported that in July 2019, just three days after the presentation of the Budget, the CAG pegged the actual fiscal deficit for 2017-18 at 5.85% of GDP instead of the government version of 3.46%.

Q.50) Which of the following is/are the effects of deficit financing on an economy?

1. Reduces inflation
2. Increases investment

Choose the correct answer from the codes given below:

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

Q.50) Solution (d)

Deficit financing means generating funds to finance the deficit which results from excess of expenditure over revenue. The gap being covered by borrowing from the public by the sale of bonds or by printing new money.

For developing countries like India, higher economic growth is a priority. A higher economic growth requires finances. With the private sector being shy of making huge expenditure, the responsibility of drawing financial resources rests on the government.

Often both the tax and non-tax revenues fail to mobilize enough resources just through taxes. The deficit is often funded through borrowings or printing new currency notes.

Effect of deficit financing:

- Printing new currency notes increases the flow of money in the economy. This leads to increase in inflationary pressures which lead to rise of prices of goods and services in the country. Deficit financing is inherently inflationary. Since deficit financing raises aggregate expenditure and, hence, increases aggregate demand, the danger of inflation looms large.

- Deficit financing effects investment adversely. When there is inflation in the economy employees demand higher wages to survive. If their demands are accepted it increases the cost of production which de-motivates the investors.

Q.51) With reference to Primary Deficit, consider the following statements:

1. Primary Deficit is the difference between the current year's fiscal deficit and the interest paid on the borrowings of the previous year.
2. Primary deficit is measured to know the amount of borrowing that the government can utilize, including the interest payments.
3. A decrease in primary deficit shows progress towards fiscal health.

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.51) Solution (c)

Primary Deficit is the difference between the current year's fiscal deficit and the interest paid on the borrowings of the previous year.

Primary Deficit indicates the borrowing requirements of the government, excluding interest. It is the amount by which the total expenditure of a government exceeds the total income. Note that primary deficit does not include the interest payments made. Also, primary deficit shows the borrowing requirements needed for meeting the expenditure of the government.

Normally, when the government raises a loan, it includes the interest amount. When that amount is deducted from the principal loan amount, that is the primary deficit.

Primary Deficit Formula:

Primary Deficit = Fiscal Deficit (Total expenditure – Total income of the government) – Interest payments (of previous borrowings).

Difference between Primary Deficit and Fiscal Deficit:

- Primary Deficit is the difference between fiscal deficit and interest payments.
- Fiscal deficit is the difference between the total expenditure of the government and its total income.

Primary deficit can be calculated using the formula: Fiscal deficit – Interest payments made.

What does Primary Deficit indicate?

- Primary deficit is measured to know the amount of borrowing that the government can utilize, excluding the interest payments.

- When the primary deficit is zero, the fiscal deficit becomes equal to the interest payment. This means that the government has resorted to borrowings just to pay off the interest payments. Further, nothing is added to the existing loan.

Q.52) Which of the following form the part of Capital Receipts of the government?

1. Recovery of loans
2. Custom duty
3. Profits and dividend
4. Disinvestment

Choose the correct answer from the codes given below:

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

Q.52) Solution (d)

Capital receipts are loans taken by the government from the public, borrowings from foreign countries and institutes, and borrowings from the RBI. Recovery of loans given by the Centre to states and others is also included in capital receipts. In the balance sheet, capital receipts are mentioned in the liabilities section. The capital receipt has a nature of non-recurrence.

All capital receipts are tax-free, unless there is a proviso to tax it. Capital receipts can be both non-debt and debt receipts.

Non-debt receipts are those which do not incur any future repayment burden for the government. Almost 75 per cent of the total budget receipts are non-debt receipts.

Examples of non-debt capital receipts: Recovery of loans and advances, disinvestment, issue of bonus shares, etc.

Debt Receipts have to be repaid by the government. Around 25 per cent of government expenditure is financed through borrowing. A reduction in debt receipt (or borrowing) can be a big leap for the economy's financial health. Most of the capital receipts of the government are debt receipts.

Examples of debt capital receipts: Market loans, issuance of special securities to public-sector banks, issue of securities, short-term borrowings, treasury bills, securities against small savings, state provident funds, relief bonds, saving bonds, gold bonds, external debt, etc, are all example of debt capital receipts.

Q.53) With reference to deficit budgeting, consider the following statements:

1. This type of budget is best suited for developing economies.
2. It helps to generate additional demand and boost the rate of economic growth.
3. This type of budget can be implemented at times of inflation.

Choose the correct answer from the codes given below:

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

Q.53) Solution (a)

A government budget is said to be a deficit budget if the estimated government expenditure exceeds the expected government revenue in a particular financial year.

This type of budget is best suited for developing economies, such as India.

Especially helpful at times of recession, deficit budgets helps generate additional demand and boost the rate of economic growth.

Here, the government incurs the excessive expenditure to improve the employment rate. This results in an increase in demand for goods and services which helps in reviving the economy.

The government covers this amount through public borrowings (by issuing government bonds) or by withdrawing from its accumulated reserve surplus.

Merits of a deficit Budget:

- Helps in addressing public concerns such as unemployment at times of economic recession.
- Enables the government to spend on public welfare.

Demerits of a deficit budget

- Can encourage imprudent expenditures by the government.
- Increases burden on the government by accumulating debts.

Q.54) With reference to Vote on account, consider the following statements:

1. It enables the government to fund its expenses for a short period of time or until a full-budget is passed
2. It deals with both expenditure and revenue side of the government's budget.
3. It cannot alter direct taxes

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.54) Solution (c)

A vote on account, as defined by Article 116 of the Indian Constitution, is a grant in advance for the central government to meet short-term expenditure needs from the Consolidated Fund of India, generally lasting for a few months till the new financial year kicks in.

Article 266 of the Indian Constitution defines the Consolidated Fund of India, which is where all the revenue of the central government be it from taxes, funds raised by loans and interest on loans, and a portion of taxes from states, is parked.

It states that no money from the Consolidated Fund may be withdrawn except under an appropriation undertaken by law, for which the Centre passes an appropriation bill during the Union Budget.

However, appropriation bills tend to require time to pass in the Parliament and become law, and to alleviate any problems rising from such a situation as the Centre requires permission to withdraw any sum of money from the CFI from the beginning of a new financial year, a vote on account is passed.

Typically, a vote on account is treated as a formality and passed with no discussion on the matter. It is also used during the final year of the elected government to pass a short-term expense bill to keep things running till the new government can ratify a full Budget. It is usually laid out for two months and foregoes allocation of funds for major projects, being allocated for salaries, interest on loans, subsidies and so forth instead.

Full Budget deals with both expenditure and revenue side but Vote-on-account deals only with the expenditure side of the government's budget.

A vote-on-account cannot alter direct taxes since they need to be passed through a finance bill.

During an election year, the ruling government generally opts for a vote-on-account or interim budget instead of a full budget. While technically, it is not mandatory for the government to present a vote-on-account, but it would be inappropriate to impose policies that may or may not be acceptable to the incoming government taking over in the same year.

Q.55) Consider the following statements regarding Pigovian Tax:

1. It is a tax on any activity that creates adverse side effect for society.
2. Taxes on Alcohol and Tobacco are examples of Pigovian Tax.

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.55) Solution (c)

A Pigovian (Pigouvian) tax is a tax assessed against private individuals or businesses for engaging in activities that create adverse side effects for society.

These include environmental pollution, strains on public healthcare from the sale of tobacco products, and any other side effects that have an external, negative impact.

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 tax on plastic bags, tobacco, alcohol are examples of Pigovian taxes.

Pigovian taxes are meant to equal the cost of the negative externality but can be difficult to determine and if overestimated can harm society.

Q.56) With reference to fertilizer subsidies consider the following statements:

1. Fertiliser subsidy goes to the farmers account through Direct Benefit Transfer.
2. The MRP of all the fertilizers are controlled by the Central Government.

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.56) Solution (d)

Subsidy as a concept originated during the Green Revolution of the 1970s-80s.

Fertiliser subsidy is purchasing by the farmer at a price below MRP (Maximum Retail Price), that is, below the usual demand-and-supply-rate, or regular production and import cost.

Fertiliser subsidy ultimately goes to the fertiliser company, even though it is the farmer that benefits.

Before 2018, companies were reimbursed after the material was dispatched and received by the district railhead or designated godown.

2018 saw the beginning of DBT (Direct Benefit Transfer), which would transfer money directly to the retailer's account.

While, the MRP for urea is controlled/fixed by the government, it is decontrolled for other fertilizers including DAP (Diammonium phosphate), MOP (muriate of potash) etc.

In fertilizers other than Urea, the government only gives a fixed per-tonne subsidy. This means the subsidy is fixed, while the MRPs are variable.

Q.57) Consider the following statements:

1. A cess can be spent like regular tax revenue while surcharge can only be spent for particular purposes.
2. Proceeds of Cess and Surcharge go to the Consolidated Fund of India.

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.57) Solution (b)

A cess is distinct from other taxes such as excise duty and personal income tax in that it is levied in addition to the current tax (tax on tax). For example, a 3% education cess on a 30 percent personal income tax is levied as a tax on the existing 30 percent. As a result, the overall tax rate rises to 30.9 percent (30 percent basic rate + 3% (cess) of the 30 percent tax rate).

The cess is imposed on all taxpayers in India who pay taxes. If any tax is generated on income, regardless of the amount, he must pay a tax on that tax as well. Cess is paid to the Consolidated Fund of India, but it can only be used for particular purposes.

Name of some of the main cess used in India are: Education Cess, Road cess or (fuel Cess), Infrastructure Cess, Clean Energy Cess, Krishi Kalyan Cess, Swachh Bharat Cess.

The surcharge is a fee added to any tax that has already been paid. The surcharge is a term that refers to an extra fee or levy. Personal income tax (on high-income slabs and the ultra-wealthy) and corporate income tax are the two largest surcharges.

Surcharge revenue also goes to the Consolidated Fund of India (CFI), where it can be used for any reason, just like regular tax revenue. A surcharge is a tax on tax that is not levied for any particular reason, and the proceeds of surcharges are used by the Union government for whatever purpose it sees fit.

The key difference between the surcharge and the cess is that, although each can be shared with state governments, the surcharge can be kept with the CFI and spent like every other levy, while the cess should be kept as a separate fund after being allocated to the CFI and can only be spent for a particular reason.

Q.58) Consider the following statements:

1. Tax elasticity is the rate of the percentage change in tax revenues to the percentage change in GDP.
2. Tax buoyancy refers to changes in tax revenue in response to changes in tax rate.

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.58) Solution (d)

Tax buoyancy explains this relationship between the changes in government's tax revenue growth and the changes in GDP. It refers to the responsiveness of tax revenue growth to changes in GDP. When a tax is buoyant, its revenue increases without increasing the tax rate. It indicates the high sensitiveness of tax revenue realisation to GDP growth.

Tax buoyancy will be highest for direct taxes. As the economy grows fast, the additional income generated may go to the rich group. A part of that they have to pay to the government in the form of taxes. So if the GDP growth rate registers high say, nine percent, direct income tax collection will accelerate. Generally, direct taxes are more sensitive to GDP growth rate.

Tax elasticity refers to changes in tax revenue in response to changes in tax rate. For example, how tax revenue changes if the government reduces corporate income tax from 30 per cent to 25 per cent indicate tax elasticity.

Q.59) With reference to crowding-out effect, consider the following statements:

1. It is a situation when increased interest rates lead to a reduction in private investment spending.
2. It occurs when government adopts contractionary fiscal policy stance.

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.59) Solution (a)

Crowding-out effect is a situation when increased interest rates lead to a reduction in private investment spending such that it dampens the initial increase of total investment spending is called crowding out effect.

Sometimes, government adopts an expansionary fiscal policy stance and increases its spending to boost the economic activity.

This leads to an increase in interest rates. Increased interest rates affect private investment decisions. A high magnitude of the crowding out effect may even lead to lesser income in the economy.

With higher interest rates, the cost for funds to be invested increases and affects their accessibility to debt financing mechanisms. This leads to lesser investment ultimately and crowds out the impact of the initial rise in the total investment spending.

Usually the initial increase in government spending is funded using higher taxes or borrowing on part of the government.

Q.60) With reference to Public Debt, consider the following statements:

1. It includes the total liabilities of the Union government that have to be paid from the Contingency Fund of India.
2. Dated government securities and Treasury Bills are the sources of public debt in India.

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.60) Solution (b)

Public debt is the total amount borrowed by the government of a country. In the Indian context, public debt includes the total liabilities of the Union government that have to be paid from the Consolidated Fund of India.

The Union government broadly classifies its liabilities into two broad categories. The debt contracted against the Consolidated Fund of India is defined as public debt and includes all other funds received outside Consolidated Fund of India under Article 266 (2) of the Constitution, where the government merely acts as a banker or custodian. The second type of liabilities is called public account.

Sources of Public Debt are listed as:

- Dated government securities or G-secs.
- Treasury Bills or T-bills
- External Assistance
- Short term borrowings
- Public Debt definition by Union Government

The Union government describes those of its liabilities as public debt, which are contracted against the Consolidated Fund of India. This is as per Article 292 of the Constitution.

Q.61) Which of the following statements are correct regarding money market?

1. It is a segment of financial market where long term securities are issued and traded.
2. Money markets have a low risk as compared to capital market.
3. Money market increases the liquidity of funds in the economy.

Choose the correct answer from the codes given below:

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

Q.61) Solution (b)

Money market is a segment of the financial market where lending and borrowing of short term securities are done. Borrowers tap it for the cash they need to operate from day to day. Lenders use it to put spare cash to work.

Capital market is a section of financial market where long term securities are issued and traded.

Although the return of investment in money market securities is low compared to Capital Market securities, they are comparatively less risky than Capital Market securities.

The money market contributes to the economic stability and development of a country by providing short-term liquidity to governments, commercial banks, and other large organizations. Investors with excess money that they do not need can invest it in the money market and earn interest.

Q.62) Which of the following are capital market instruments?

1. Bonds
2. Shares
3. Commercial Papers
4. Certificate of deposit

Choose the correct answer from the codes given below:

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

Q.62) Solution (a)

Capital market refers to facilities and institutional arrangements through which Medium and long-term funds (for a period of minimum 365 days and above), both debt and equity are raised and invested.

The main instruments traded in the capital market are – equity shares, debentures, bonds, preference shares etc. while the main instruments traded in the money market are short term debt instruments such as T-bills, trade bills reports, commercial paper and certificates of deposit.

Capital markets help channelise surplus funds from savers to institutions which then invest them into productive use. Generally, this market trades mostly in long-term securities.

Capital market consists of primary markets and secondary markets. Primary markets deal with trade of new issues of stocks and other securities, whereas secondary market deals with the exchange of existing or previously-issued securities. Another important division in the capital market is made on the basis of the nature of security traded, i.e. stock market and bond market.

Q.63) With reference to real effective exchange rate (REER), consider the following statements:

1. It compares a nation's currency value against the weighted average of the currencies of its major trading partners.
2. It is an indicator of the international competitiveness of a nation in comparison with its trade partners.
3. A decreasing REER indicates that a country is losing its competitive edge.

Which of the above statements is/are correct?

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

Q.63) Solution (b)

The real effective exchange rate (REER) is the weighted average of a country's currency in relation to an index or basket of other major currencies. The weights are determined by comparing the relative trade balance of a country's currency against that of each country in the index.

An increase in a nation's REER is an indication that its exports are becoming more expensive and its imports are becoming cheaper. It is losing its trade competitiveness.

REER is determined by taking the average of the bilateral exchange rates between one nation and its trading partners and then weighting it to take into account the trade allocation of each partner.

REER can be used to measure the equilibrium value of a country's currency, identify the underlying factors of a country's trade flow, and analyze the impact that other factors, such as competition and technological changes, have on a country and ultimately on the trade-weighted index.

A nation's nominal effective exchange rate (NEER), adjusted for inflation in the home country, equals its real effective exchange rate (REER).

Q.64) Consider the following statements:

1. Depreciation of currency occurs when a country makes a conscious decision to lower its exchange rate in a fixed exchange rate.
2. Devaluation of currency is when there is a fall in the value of a currency in a floating exchange rate.
3. Currency depreciation makes domestic goods cheaper in foreign country.

Which of the above statements is/are correct?

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

Q.64) Solution (c)

Depreciation of currency occurs when there is a fall in the value of a currency in a floating exchange rate. Economic fundamentals, interest rate differentials, political instability, or risk aversion can cause currency depreciation.

Currency depreciation makes domestic goods cheaper in foreign country as more of such goods can now be purchased with the same amount of foreign currency. So, it leads to increase in exports.

Currency devaluation is when a country makes a conscious decision to lower its exchange rate in a fixed or semi-fixed exchange rate. Therefore, technically devaluation is only possible if a country is a member of some fixed exchange rate policy. Devaluing a currency reduces the cost of a country's exports and can help shrink trade deficits.

Q.65) Consider the following statements regarding Foreign Direct Investment (FDI):

1. FDI allows for funds to be invested into the financial market of the host country.
2. FDI helps in the transfer of skilled resources, new and improved technologies, Research and Development, Capital, strategies and management.
3. FDI does not help in the economic growth or increment in the GDP of the host country, it just adds into the capital in the economy.

Choose the correct answer from the codes given below:

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

Q.65) Solution (b)

FDI or Foreign Direct Investment refers to the investment done by a company, institution or individual in a company outside of their own country. Generally, developing countries, which are in need of more funds and utilization of resources, try to seek the FDI way of investment from foreign companies or individuals.

Through FDI, the investors have a good amount of management control on the operations of the business in the host country.

Foreign Institutional Investment (FII) on the other hand refers to the investment made by the investors by infusing capital into the financial assets of any foreign country.

Foreign Direct Investment (FDI) Vs. Foreign Institutional Investment (FII):

Both being the types of foreign investments, there is however, a stark difference in the way they are operated, whom they target, and the returns that can be derived from both.

1. Control of management

FDI being a direct form of investment into a foreign company, the investors are more interested and even get to enjoy a higher control on the management of the company, even if it is in the foreign country.

On the contrary, FII just allows for funds to be invested into the financial market of the host country and therefore, doesn't have much hold onto the managerial decisions, or rather are referred to as just passive investors.

2. Regulations on Entry and Exit criteria:

Usually, there are more barriers on the entry and exit criteria of the FDI as opposed to the FII which is pretty lenient in that case. For example, the nuclear energy sector does not allow for FDI.

3. Allows transfer of:

FDI helps in the transfer of a lot of skilled resources, new and improved technologies, Research and Development, Capital, strategies and management, etc. whereas, FII helps in the transfer of Funds or capital only into the host country's financial assets or institutions.

4. What they result in?

FDI for sure results in a long-term capital inflow, as it really takes time to settle from the planning and strategy stage to the implementation and execution phase of a company.

On the other hand, for FII, their investment horizon entirely depends upon the current situation in the host country's economy, which when stable leads to long-term investments, and when turbulent, results in capital pull back by the investors.

5. Economic development of the host country:

FDI results in the overall economic growth that is long-term by bringing in not only the capital into the host country, but also takes it further on the route to development through new technology and infrastructure investment, increasing new employment opportunities, increased skilled workforce by proper training, etc.

On the other hand, FII just brings in funds, which certainly does not help in the economic growth or increment in the GDP of the host country as such. But it just adds into the capital in the economy.

Q.66) Consider the following statements:

1. Debentures are backed by the asset of the issuer whereas bonds are not secured by any of the physical assets or collateral.
2. At the time of liquidation, the debenture holders are always given preference over bondholders.

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.66) Solution (d)

Both bonds and debentures are debt instrument issued by the government or companies. Both of these are fundraising tools for the issuer.

Bonds are generally issued by the government, the agencies of government or by large corporations whereas debentures are issued by public companies to raise money from the market.

Bonds are backed by the asset of the issuer whereas debentures are not secured by any of the physical assets or collateral. Debentures are issued and purchased only on the creditworthiness and reputation of the issuing party.

The interest rate of bonds is generally lower than debentures. The lower interest rate depicts the low-risk factor. On the other hand, debentures give a high-interest rate but they are unsecured in nature hence the risk factor is more here.

At the time of liquidation, the bondholders are always given preference over debenture holders.

Q.67) Consider the following statements:

1. Vertical FDI is observed when the business undertakes the same activities but in a foreign country.
2. Horizontal FDI occurs when business undertakes different activities overseas but these activities are related to the main business.
3. Platform FDI means a business expands into another country but the output from the business is then exported to a third country.

Which of the above statements is/are correct?

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

Q.67) Solution (c)

Types of Foreign Direct Investment

Following are different types of Foreign Direct Investment:

1. Horizontal FDI: under this type of FDI, a business expands its inland operations to another country. The business undertakes the same activities but in a foreign country.
2. Vertical FDI: in this case, a business expands into another country by moving to a different level of the supply chain. Thus business undertakes different activities overseas but these activities are related to the main business.
3. Conglomerate FDI: under the type of FDI, a business undertakes unrelated business activities in a foreign country. This type is uncommon as in involves the difficulty of penetrating a new country and an entirely new market.
4. Platform FDI: here, a business expands into another country but the output from the business is then exported to a third country.

Q.68) With reference to Participatory notes, consider the following statements:

1. Participatory notes are offshore derivative instruments used for making investments in the Indian stock markets.
2. Any entity investing through participatory notes is required to get registered with SEBI.

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.68) Solution (a)

Participatory notes also called P-Notes are offshore derivative instruments with Indian shares as underlying assets. These instruments are used for making investments in the stock markets. They are used outside India for making investments in shares listed in the Indian stock market. That is why they are also called offshore derivative instruments.

Participatory notes are issued by brokers and FIIs registered with SEBI. The investment is made on behalf of these foreign investors by the already registered brokers in India.

Advantages of participatory notes

- Anonymity: Any entity investing in participatory notes is not required to register with SEBI, whereas all FIIs have to compulsorily get registered. It enables large hedge funds to carry out their operations without disclosing their identity.
- Ease of trading: Trading through participatory notes is easy because they are like contract notes transferable by endorsement and delivery.
- Tax saving: Some of the entities route their investment through participatory notes to take advantage of the tax laws of certain preferred countries.

Disadvantages of P-notes

- Because of the anonymous nature of the instrument, the investors could be beyond the reach of Indian regulators.
- P- Notes are being used in money laundering with wealthy Indians, like the promoters of companies, using it to bring back unaccounted funds and to manipulate their stock prices.

Q.69) With reference to stock market, consider the following statements regarding the term "Beta":

1. Beta measures the responsiveness of a stock's price to changes in the overall stock market.

2. If the beta value is more than 1 it means that the stock is more volatile than the market.

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.69) Solution (c)

Beta is a numeric value that measures the fluctuations of a stock to changes in the overall stock market.

Beta measures the responsiveness of a stock's price to changes in the overall stock market. On comparison of the benchmark index for e.g. NSE Nifty to a particular stock returns, a pattern develops that shows the stock's openness to the market risk. This helps the investor to decide whether he wants to go for the riskier stock that is highly correlated with the market (beta above 1), or with a less volatile one (beta below 1).

The higher the beta, higher is the risk quotient of the stock. If the beta value is more than 1 it means that the stock is more volatile than the market. A lot of investors with knowledge of this measure use it to make their investment decisions.

Q.70) Which of the following is/are the indicators of a Bull market?

1. High Unemployment rate
2. Rise in stock prices
3. Fall in GDP of the country

Choose the correct answer from the codes given below:

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

Q.70) Solution (b)

A bull market is a period of time in financial markets when the price of an asset or security rises continuously.

The commonly accepted definition of a bull market is when stock prices rise by 20% after two declines of 20% each.

The three key indicators of a bull market are as follows:

1. Gross Domestic Product (GDP) of the Country Increases: If the GDP of a country is higher than the previous term, that means consumer spending is also high and is a common indicator of a flourishing economy.
2. Rise in Stock Prices: When the price of the stock rises, more people are confident that the market will continue to go up in the future and most major indices will also rise accordingly.
3. Employment Rate in the Country Increases: Growth in the economy means growth in businesses which in turn means growth in the workforce. More people will have employment in a bull market.

A bull market usually presents a multitude of profit making opportunities to investors, because stock prices generally rise across the board.

Q.71) With reference to Corporate Social Responsibility (CSR), consider the following statements:

1. CSR is the integration of socially beneficial programs and practices into a corporation's business model and culture.
2. The concept of CSR in India is governed by the Companies Act, 2013.
3. Companies are required to spend, in every financial year, at least 3% of their average net profits generated during the 5 immediately preceding financial years into CSR activities.

Which of the above statements is/are correct?

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

Q.71) Solution (b)

Corporate social responsibility (CSR) is a self-regulating business model that helps a company be socially accountable—to itself, its stakeholders, and the public.

By practicing corporate social responsibility, also called corporate citizenship, companies can be conscious of the kind of impact they are having on all aspects of society, including economic, social, and environmental.

In India, the concept of CSR is governed by clause 135 of the Companies Act, 2013.

India is the first country in the world to mandate CSR spending along with a framework to identify potential CSR activities.

The Act mandates that every company to which CSR criteria is applicable shall constitute a Corporate Social Responsibility of the Board.

The CSR provisions within the Act is applicable to companies with an annual turnover of:

- 1,000 crore and more, or
- net worth of Rs. 500 crore and more, or
- net profit of Rs. 5 crore and more

The Act requires companies to spend at least two per cent of the average net profits of the company made during the three immediately preceding financial years.

In case a company fails to comply with the provisions relating to CSR spending, transferring and utilising the unspent amount, the company will be punishable with a minimum fine of Rs 50,000 which may increase to Rs 25 lakh.

Further, every officer of such company who defaults in the compliance will be liable for a punishment which is imprisonment for a term which may extend to three years or with a minimum fine of Rs 50,000 which may increase to Rs 5 lakh, or with both.

Q.72) Which of the following activities qualify as Corporate social responsibility (CSR) activities as per Companies Act, 2013?

1. Planting trees in company campus
2. Jobs for people with disabilities
3. Contribution to the prime minister's national relief fund
4. Contribution to the Swach Bharat Kosh
5. Contribution to political Party

Choose the correct answer from the codes given below:

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

Q.72) Solution (c)

The indicative activities, which can be undertaken by a company under CSR, have been specified under Schedule VII of the Companies Act 2013. The activities include:

- Eradicating hunger, poverty and malnutrition, promoting health care including preventive health care and sanitation including contribution to the Swach Bharat Kosh set-up by the Central Government for the promotion of sanitation and making available safe drinking water
- Promotion of education, gender equality and empowering women,
- Combating Human Immunodeficiency Virus, Acquired Immune Deficiency Syndrome and other diseases,
- Ensuring environmental sustainability;

- Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women etc.

The CSR projects or programs or activities NOT to be considered as CSR Activities:

- Activities undertaken in normal course of business (Planting trees in company campus, jobs for people with disabilities and fuel-efficient office cars)
- Activity undertaken outside India
- CSR projects or programs or activities that benefit only the employees of the company and their families shall not be considered as CSR activities.
- Contribution of any amount directly or indirectly to any political party under section 182 of the Act, shall not be considered as CSR activity.
- Activity not covered within schedule VII of the 2013 Act.
- One-off events such as marathons/ awards/ charitable contribution/ advertisement/ sponsorships of TV programmes etc. would not be qualified as part of CSR expenditure.
- Expenses incurred by companies for the fulfillment of any Act/ Statute of regulations (such as Labour Laws, Land Acquisition Act etc.) would not count as CSR expenditure under the Companies Act

Q.73) Consider the following statements:

1. A statutory corporation is subject to more government control and regulation than a department undertaking.
2. A statutory corporation cannot borrow funds from the public where as a department undertaking can borrow funds from the public.

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.73) Solution (d)

Departmental Undertakings can be defined as the most common and established forms of public enterprises of a country. Such an enterprise is financed as well as organised and managed by the ruling Government of that country itself. Some example of departmental undertakings is Indian Railways, Post and Telegraph, All India Radio, Doordarshan etc.

Statutory corporations are public enterprises brought into existence by a Special Act of the Parliament. The Act defines its powers and functions, rules and regulations governing its employees and its relationship with government departments.

The main difference between Department Undertaking and Statutory Corporations are:

- As a departmental undertaking does not have a separate legal entity, it cannot be used. On the other hand, statutory corporation has a separate legal entity, it can be sued.
- The funds of a departmental undertaking consist of budgetary allocation made by the Government. But the funds of a statutory corporation consist of share capital wholly contributed by the government and funds borrowed by the corporation from the government or from the public.
- A departmental undertaking is subject to more government control and regulation than a statutory corporation.
- A departmental undertaking cannot borrow funds from the public. But a statutory corporation can borrow funds from the public.
- A departmental organization is not created by any act, whereas a statutory corporation is created by a special act of the parliament.

Q.74) Which of the following are the purpose of establishing Public Sector Units (PSUs) in India?

1. Development of socio-economic infrastructure
2. Achievement of balanced regional development
3. Attainment of the planned resource allocation

Choose the correct answer from the codes given below:

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

Q.74) Solution (d)

A government-owned enterprise in India is called a Public Sector Undertaking (PSU) or a Public Sector Enterprise. These companies are wholly or partly owned by the Government of India or one of the many state or territorial governments or both together in parts. The officers working for these entities and their subsidiaries are gazetted officers.

The following points highlight the crucial objectives of public sectors in India:

- Development of Socio-Economic Infra-structure: The inadequacy, if not complete absence, of socio-economic infrastructure—especially in basic and heavy industries and transport and communication facilities—is the proximate cause of economic backwardness of least developed countries. Since the development of infrastructural industries requires huge initial investment, involves long gestation period and yields very low initial return, private investors turn away from such investment projects. So it is in the rightness of things for the public sector to develop those industries in which private sector is unable and unwilling to put the resources required and undertake the risks involved.

- Achievement of Balanced Regional De-velopment: One of the declared objectives of the Government of India's industrial policy has been to achieve balanced regional development. So the Government has consistently stressed the need to reduce regional inequalities by encouraging the location of public undertakings in economically backward regions.
- Attainment of the Planned Resource Allocation: The public sector enterprises are supposed to enable the planners and policy-makers to achieve better resource allocation, con-sistent with the development strategies of the country. Public sector enterprises will seek to achieve this objective by promoting the development of small-scale and cottage industries so as to create employment opportunities, alleviate poverty by producing mass consumption goods and improve the balance of trade position through import substitution and export promotion.

Q.75) Which of the following statements is/are correct regarding disinvestment?

1. Disinvestment increases the fiscal burden on the exchequer.
2. The proceeds from disinvestment of central public sector Enterprises are channelized in to the Consolidated Fund of India.
3. Disinvestment funds can be utilised for financing large-scale infrastructure development.

Choose the correct answer from the codes given below:

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

Q.75) Solution (b)

Disinvestment means sale or liquidation of assets by the government, usually Central and state public sector enterprises, projects, or other fixed assets.

The government undertakes disinvestment to reduce the fiscal burden on the exchequer, or to raise money for meeting specific needs, such as to bridge the revenue shortfall from other regular sources. In some cases, disinvestment may be done to privatise assets.

Main objectives of Disinvestment in India:

- Reducing the fiscal burden on the exchequer
- Improving public finances
- Encouraging private ownership
- Funding growth and development programmes
- Maintaining and promoting competition in the market

There is a separate department under the Ministry of Finance which handles all disinvestment-related works for the government known as Department of Investment and Public Asset Management (DIPAM).

Government constituted the National Investment Fund (NIF) in 2005 into which the proceeds from disinvestment of Central Public Sector Enterprises are channelized.

Q.76) Consider the following statements:

1. Central Public Sector Enterprises which have made profits in the last two years continuously and have positive net worth can be granted Miniratna status.
2. Central Public Sector Enterprises having Navratna status and average annual turnover of more than Rs. 25000 crore during the last 3 years can be granted Maharatna status.

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.76) Solution (b)

The criteria laid down by the Government for grant of Maharatna, Navratna and Miniratna status to Central Public Sector Enterprises (CPSEs) is given below:

Criteria for grant of Maharatna status to CPSEs

The CPSEs meeting the following criteria are eligible to be considered for grant of Maharatna status.

- Having Navratna status
- Listed on Indian stock exchange with minimum prescribed public shareholding under SEBI regulations
- An average annual turnover of more than Rs. 25,000 crore during the last 3 years
- An average annual net worth of more than Rs. 15,000 crore during the last 3 years
- An average annual net profit after tax of more than Rs. 5,000 crore during the last 3 years
- Should have significant global presence/international operations.

Criteria for grant of Navratna status:

The Miniratna Category – I and Schedule 'A' CPSEs, which have obtained 'excellent' or 'very good' rating under the Memorandum of Understanding system in three of the last five years, and have composite score of 60 or above in the six selected performance parameters, namely,

- Net profit to net worth.
- Manpower cost to total cost of production/services.
- Profit before depreciation, interest and taxes to capital employed.
- Profit before interest and taxes to turnover.
- Earnings per share.
- Inter-sectoral performance.

Criteria for grant of Miniratna status:

The CPSEs which have made profits in the last three years continuously and have positive net worth are eligible to be considered for grant of Miniratna status.

Q.77) Which of the following is/are Maharatna Central Public Sector Enterprises (CPSE)?

1. Bharat Heavy Electricals Limited
2. Bharat Electronics Limited
3. Hindustan Aeronautics Limited
4. Indian Oil Corporation Limited

Choose the correct answer from the codes given below:

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

Q.77) Solution (d)

Maharatna CPSEs are:

1. Bharat Heavy Electricals Limited
2. Bharat Petroleum Corporation Limited
3. Coal India Limited
4. GAIL (India) Limited
5. Hindustan Petroleum Corporation Limited
6. Indian Oil Corporation Limited
7. NTPC Limited
8. Oil & Natural Gas Corporation Limited
9. Power Grid Corporation of India Limited
10. Steel Authority of India Limited

Q.78) With reference to the difference between Bombay Stock Exchange (BSE) and National Stock Exchange (NSE), consider the following statements:

1. The benchmark index for the NSE is SENSEX, while for the BSE it is Nifty.

2. The SENSEX index derives its value from 50 of the biggest and most frequently traded companies.
3. BSE is the oldest financial market in the country, which offers high speed trading to its customers.

Which of the above statements is/are correct?

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

Q.78) Solution (c)

Bombay Stock Exchange (BSE):

- It is the ancient securities exchange of the continent, formerly known by the name of 'The Native Share & Stock Brokers Association' in the year 1875.
- In 1957, BSE was recognised by the Central Government of India as the premier Stock Exchange of the country, under the Securities Contract Regulation Act, 1956.
- SENSEX is introduced, as a first equity index in 1986 to provide a base for identifying the top 30 trading companies of the exchange, in more than 10 sectors. In the year 1995, BSE Online Trading System (BOLT) was started.

National Stock Exchange (NSE):

- National Stock Exchange is the youngest stock exchange of the country which came into force in the year 1992.
- At the time of its establishment, it introduced the advanced electronic trading system for the very first time in the country which removed the paper-based settlement system.
- Nifty is the popular index, which was introduced by National Stock Exchange in 1995, to act as a basis for measuring the performance of the exchange. It lists out top 50 companies which traded on the exchange.

Q.79) Consider the following:

1. Promissory notes
2. Debentures
3. Shares

Which of the above are debt market instruments?

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

Q.79) Solution (a)

Debt Market:

- A debt instrument is a fixed income asset that allows the lender (or giver) to earn a fixed interest on it besides getting the principal back while the issuer (or taker) can use it to raise funds at a cost.
- Debt acts as a legal obligation on the issuer (or taker) part to repay the borrowed sum along with interest to the lender on a timely basis.
- A debt instrument can be in paper or electronic form.
- Bonds, debentures, leases, certificates, bills of exchange and promissory notes are examples of debt instruments.

An equity market is a market in which shares of companies are issued and traded, either through exchanges or over-the-counter markets. Also known as the stock market, it is one of the most vital areas of a market economy.

Q.80) With reference to stock market what is meant by the term "Penny Stocks"?

a) These are stocks that do not pay high dividends as the company prefers to reinvest the earnings to enable it to grow faster.
b) These are stocks with prices that exceed the intrinsic value and are considered overvalued.
c) These are stocks that trade at a very low price, have very low market capitalisation, are mostly illiquid, and are usually listed on a smaller exchange.
d) These are stocks of those companies that have lower liabilities and stable earnings and which pay regular dividends.

Q.80) Solution (c)

Penny stocks:

- Penny stocks are those that trade at a very low price, have very low market capitalisation, are mostly illiquid, and are usually listed on a smaller exchange.
- Penny stocks in the Indian stock market can have prices below Rs 10.
- These stocks are very speculative in nature and are considered highly risky because of lack of liquidity, smaller number of shareholders, large bid-ask spreads and limited disclosure of information.
- There are a lot of downsides to penny stocks, as they are prone to price manipulations, sudden delisting and regulatory scrutiny.
- One can move the stock by buying thousands of shares and create a spike without leaving any cue for the average investor to know whether the spike in price is genuine or manipulated.
- Also, penny stocks are more prone to scams, as they are often not regulated by a national-level stock exchange.

- Because of all these risks, stock exchanges put these types of stocks in a different category, called as trade-to-trade basket. In this category, no intraday share trading is allowed. Transactions have to be compulsorily settled on gross basis, which means you must deliver the shares on the same day if you have sold them or take delivery if you have bought them.

Q.81) Consider the following statements regarding:

1. Balance of Payment is a systematic record of all international visible and invisible economic transactions of a country during a given period.
2. Balance of Trade deals with export and imports of goods and services.
3. Current account deficit occurs when imports are higher than exports.

Which of the above statements is/are correct?

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

Q.81) Solution (a)

Balance of Payment (BOP) is a systematic record of all international economic transactions, visible as well as invisible of a country during a given period, usually a year. In other words, the BOP statement is a device for recording all the economic transactions within a given period between the residents of a country and the residents of other countries.

The analysis of the BOP can be done in terms of its two major sub-divisions viz., (i) Current Account, and (ii) Capital Account.

Balance of Trade (BOT): The BOT deals only with exports and imports of merchandise (or visible items). It does not deal with trade in services. The net balance in the BOT will show the monetary value of the different in exports and imports of a country.

Balance of Trade in Services (BOS): The BOS shows net receipts on account of trade in services, (or what are also called invisibles).

Balance on current account is the sum or aggregate of Balance of Trade (BOT) and BOS (Balance of Services).

Balance on current account is the net of all current foreign exchange earnings of a country during a year and its liabilities in the form of foreign exchange expenditure (ex) during the year. Its foreign exchange earnings come out of the exports of merchandise and the receipts arising out of the services rendered by it. Its foreign exchange expenditure is incurred on its imports of goods and the payments due to foreigners on account of the services rendered by them. Apparently, like BOT and BOS, current account of the balance of payments may show any of the following three results:

- Current Account Deficits: these will occur. When imports < exports.
- Current Account Surplus: these will occur. When imports. > exports.
- Current Account Balance: these will occur. When imports. = exports.

Q.82) Consider the following statements:

1. Capital Account shows the change in the ownership of the nation's assets.
2. The key component of the capital account is the net transfer income.
3. Common forms of capital account transactions include foreign direct investment.

Which of the above statements is/are correct?

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

Q.82) Solution (b)

Capital Account:

- Flows in and out of the capital account represent changes in asset value through investments, loans, banking balances, and real property value. Capital Account shows the change in the ownership of the nation's assets.
- The capital account is less immediate and more invisible than the current account.
- Foreign direct investment, portfolio investment and Loans by the government of one country to the government of another country are the key components of Capital Account.

Export and import of goods and services, the investment the income and net transfer income are the key component of current account.

Q.83) Which of the following factors affect the Current Account Balance of a country?

1. Inflation
2. National Income
3. Exchange Rates

Choose the correct answer from the codes given below:

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

Q.83) Solution (d)

The Current Account

A country's current account balance can significantly affect its economy, therefore, it is important to identify the factors that influence it. The most important factors are:

- Inflation: If a country's inflation rate increases relative to the countries with which it trades, its current account would be expected to decrease. Due to higher prices at home, consumers and corporations with in the country will most likely purchase more goods overseas (due to high local inflation), while tile country's exports to other countries will decline.
- National Income: If a country's national income rises by a higher percentage than those of other countries, its current account is expected to decrease, other things being equal. As the real income level (adjusted for inflation) rises, so does consumption of goods. A percentage of that increase in consumption will most likely reflect an increased demand for foreign goods.
- Government Restrictions: If a country's government imposes a tax on imported goods (often referred to as a tariff) the prices of foreign goods to consumers effectively increases. An increase in prices of imported goods relative to goods produced at home will discourage imports and is expected to increase the current account balance. In addition to tariffs, a government may reduce its imports by enforcing a quota, or a maximum limit on imports.
- Exchange Rates: Each country's currency is valued in terms of other currencies through the use of exchange rates, so that currencies can be exchanged to facilitate international transactions, The values of most currencies can fluctuate over time because of market and government forces, If a country's current account balance decreases, other things being equal, goods exported by the country will become more expensive to the importing countries, if its currency strengthens, as a consequence, the demand for such goods will decline.

Q.84) Consider the following statements:

1. The recording of transactions in Balance of Payment statement is done by double entry book-keeping.
2. A rise in home country's interest rates adversely affects the capital inflows from abroad.

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.84) Solution (a)

The balance of payments is constructed according to the principles of double-entry bookkeeping. Under this system a transaction is represented in the balance of payment by two entries with equal values. One of these entries is designated a credit and the other a debit.
There are some basic rules governing how entries are recorded in the balance of payments. A credit entry is recorded when the transaction gives rise to a receipt by a domestic resident from a foreign resident. The receipt itself may take the form of an increase in the resident's foreign assets or balances of foreign currencies. Whatever its form, the receipt is recorded as a debit entry. Conversely, any transaction that gives rise to a payment by a resident to a foreign resident is recorded as a debit entry. The payment that results from this transaction is recorded as a credit entry.

Higher interest rates tend to attract foreign investment, increasing the demand for and value of the home country's currency. Conversely, lower interest rates tend to adversely affect capital inflows from abroad.

Q.85) Which of the following will adversely affect the Balance of Payment (BOP)?

a) A rise in interest rate
b) A rise in taxes
c) A rise in capital inflows
d) A rise in inflation rate

Q.85) Solution (d)

A rise in inflation rate has a negative effective on the balance of payments.The balance of payments may deteriorate because domestic inflation stimulates import spending, given that imports appear relatively cheaper, and dampens export sales, as exports appear more expensive abroad.

An increase in interest rates can lead to an appreciation of the currency as demand for the currency increases. Hence, positively affecting the Balance of Payment.

A rise in capital inflows in the form of Foreign Direct Investment and Foreign Portfolio Investment has a positive effect on the Balance of Payment of a home country.

A rise in tax structure has a positive effect on BOP as If a country's government imposes a tax on imported goods the prices of foreign goods to consumers effectively increases. An increase in prices of imported goods relative to goods produced at home will discourage imports and is expected to increase the current account balance. At the same time a country's government could, for example, impose a special tax on income account by local investors who invested in foreign markets. A tax would discourage people from sending their funds for investment in the foreign markets and could therefore, increase the country's capital account.

Q.86) With reference to External Commercial Borrowings (ECB), consider the following statements:

1. It is a loan availed by an Indian entity from a non-resident lender.
2. ECBs cannot be used for investment in stock market.
3. Its framework is decided by the Export Import Bank of India.

Which of the above statements is/are correct?

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

Q.86) Solution (a)

External Commercial Borrowings is a loan availed by an Indian entity from a nonresident lender with a minimum average maturity.

They are used widely in India to facilitate access to foreign money by Indian corporations and PSUs (public sector undertakings). ECBs include commercial bank loans, buyers' credit, suppliers' credit, securitised instruments such as floating rate notes and fixed rate bonds etc., credit from official export credit agencies and commercial borrowings from the private sector window of multilateral financial Institutions such as International Finance Corporation (Washington), ADB, AFIC, CDC, etc.

ECBs cannot be used for investment in stock market or speculation in real estate.

The DEA (Department of Economic Affairs), Ministry of Finance, Government of India along with Reserve Bank of India, monitors and regulates ECB guidelines and policies.

Advantages of ECB:

- The cost of funds is usually cheaper from external sources if borrowed from economies with a lower rate of interest.
- Availability of larger market can help companies satisfy larger requirements from global players in a better manner as compared to what can be achieved domestically.
- It provides access to international markets for the borrowers and gives good exposure to opportunities globally.
- Avenues of lower cost funds can improve the profitability of the companies and can aid economic growth.

Q.87) Consider the following statements:

1. Capital account convertibility means freedom to convert domestic currency into foreign currency and vice versa to execute trade in goods and services.
2. India has become fully convertible on the current account after it conformed to the status and obligations of IMF.
3. There is partial capital account convertibility in India.

Which of the above statements is/are correct?

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

Q.87) Solution (d)

Currency convertibility means the freedom to convert domestic currency (rupee) into other international currencies (like Dollars etc.)

Current account convertibility means freedom to convert rupee into dollars etc and vice versa for export and import of goods and services. It also includes freedom to convert currencies to make/ receive unilateral transfers like gifts, donations, etc and to pay/ receive interest, dividend, etc.

In India, there is full current account convertibility since 1993. This was after India accepted the status and obligations of Article VIII with the International Monetary Fund (IMF).

Capital account convertibility is the freedom of foreign investors to purchase Indian financial assets (shares, bonds, etc.) and that of the Indian investors to purchase foreign financial assets. It involves the freedom to invest in financial assets.

There is partial capital account convertibility in India. It means there are certain restrictions on the movement of capital.

Q.88) Which of the following is/are the impacts of appreciation of a currency in the economy?

1. It increases the country's exports
2. Value of remittances coming from abroad decreases
3. It leads to increase in inflation

Choose the correct answer from the codes given below:

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

Q.88) Solution (b)

Currency appreciation refers to the increase in value of one currency relative to another in the forex markets.

The value of a currency is not measured in absolute terms. It is always measured relative to the currency being measured against it.

Countries use currency appreciation as a strategic tool to boost their economic prospects.

When a nation's currency appreciates, it can have a number of different effects on the economy:

- Appreciation of currency makes the exports less competitive in the international market. This leads to a decrease in the country's exports.
- The value of the remittances is coming from abroad decreases in the domestic currency.
- The imports become cheaper and thus there is an overall increase and the imports.
- The overall inflation can decrease because the imports would become cheaper.
- Successive appreciation of domestic currency can make the BOP adverse.

Q.89) Consider the following statements:

1. Currency devaluation occurs when there is a fall in the value of a currency in a floating exchange rate system.
2. Currency devaluation reduces the cost of a country's exports, rendering them more competitive in the global market.

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.89) Solution (b)

Currency devaluation occurs when a country makes a conscious decision to lower its exchange rate in a fixed or semi-fixed exchange rate.

Currency depreciation is when there is a fall in the value of a currency in a floating exchange rate.

A country may devalue its currency to combat a trade imbalance. Devaluation reduces the cost of a country's exports, rendering them more competitive in the global market, which, in turn, increases the cost of imports. If imports are more expensive, domestic consumers are less likely to purchase them, further strengthening domestic businesses. Because exports increase and imports decrease, there is typically a better balance of payments because the trade deficit shrinks. In short, a country that devalues its currency can reduce its deficit because there is greater demand for cheaper exports.

Q.90) Who among the following tend to lose when there is currency depreciation?

1. Firms who buy imported raw materials
2. Workers gaining jobs in export industry
3. Residents who holiday abroad

Choose the correct answer from the codes given below:

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

Q.90) Solution (c)

Effects of currency devaluation:

- A devaluation of the exchange rate will make exports more competitive and appear cheaper to foreigners. This will increase demand for exports.
- A devaluation means imports, such as petrol, food and raw materials will become more expensive. This will reduce the demand for imports.
- Devaluation could cause higher economic growth.
- With exports more competitive and imports more expensive, we should see higher exports and lower imports, which will reduce the current account deficit.

Thus following tend to lose when there is currency depreciation or devaluation:

- Consumers who buy imports
- Residents who holiday abroad
- Firms who buy imported raw materials
- Those on fixed income/wages
- Foreign exporters

Following tend to gain when there is currency appreciation:

- Exporters
- Domestic tourist industry
- Workers gaining job in export industry

Q.91) Consider the following statements:

1. Under floating exchange rate system central bank determines the official exchange rate by linking exchange rate to major currencies like US dollar.

2. Floating exchange rate system prevents both currency appreciation and depreciation.

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.91) Solution (d)

Floating Exchange Rate system:

- Under this system, the market is allowed to determine the value of exchange rate freely.
- The exchange rate is determined by the forces of demand and supply.
- If due to any reason exchange rate fluctuates, the government never intervenes and allows the market to function and determine the true value of exchange rate.
- The advantages of such a system are: the exchange rate is determined in well functioning foreign exchange markets with no government interference.
- The exchange rate reflects the true value of the domestic currency which helps in establishing the trust among foreign investor.
- A country can easily access funds/ loans from IMF and other international institutions if the exchange rate is market determined.
- The only demerit of floating exchange rate system is that exchange rate fluctuates a lot on day to day basis, thus does not prevent currency appreciation or depreciation.

Q.92) With reference to the sub-categorisation of Managed Floating Exchange rate, consider the following statements:

1. Under adjusted peg system a country keeps on adjusting its exchange rate to new demand and supply conditions.
2. Under crawling peg system a country tries to hold on to a fixed exchange rate system until the country's foreign exchange reserves got exhausted after that it goes for devaluation.
3. In dirty floating system the exchange rate is to a very large extent is determined by the market forces of demand and supply but occasionally the central bank of a country intervene in foreign exchange markets to remove excessive fluctuations from the foreign exchange markets.

Which of the above statements is/are correct?

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

d) 1 and 3 only

Q.92) Solution (c)

Managed Floating Exchange rate:

Manage Floating exchange rate lies in between of the two extremes of fixed and floating exchange rate. Under such a system, the exchange is allowed to move freely and determined by the forces of the market (Demand and Supply). But when a difficult situation arises, the central banks of the country can intervene to stabilise the exchange rate.

There are mainly three sub categories under managed floating exchange rate:

- Adjusted Peg System: In this system, a country should try to hold on to a fixed exchange rate system for as long as it can, i.e. until the country's foreign exchange reserves got exhausted. Once the country's foreign exchange reserves got exhausted, the country should undergo devaluation of currency and move to another equilibrium exchange rate.
- Crawling Peg System: In this system, a country keeps on adjusting its exchange rate to new demand and supply conditions. The system requires that instead of devaluing currency at the time of crisis, a country should follow regular checks at the exchange rate and when require must undertake small devaluations.
- Clean Floating: In the clean float system, the exchange rate is determined by market forces of demand and supply. The exchange rate appreciates or depreciates as per market forces and with no government intervention. It is identical to floating exchange rate.
- Dirty Floating: In the dirty float system, the exchange rate is to a very large extent is determined by the market forces of demand and supply (so far identical to clean floating), but occasionally the central banks of the countries intervene in foreign exchange markets to smoothen or remove excessive fluctuations from the foreign exchange markets.

Q.93) With reference to Extended Fund Facility (EFF), consider the following statements:

1. It is a lending facility of the World Bank.
2. It helps countries address medium- and longer-term balance of payments problems.

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.93) Solution (b)

Extended Fund Facility (EFF):

- The Extended Fund Facility is lending facility of the Fund of the IMF and it was established in 1974 to help countries address medium- and longer-term balance of payments problems.
- The EFF is prescribed for a country who is suffering from balance of payment problem caused by structural weaknesses and who need fundamental economic reforms.
- An EFF provides support for comprehensive programs including the policies needed to correct structural imbalances over an extended period.
- Extended arrangements are typically approved for periods of three years, but may be approved for periods as long as 4 years to implement deep and sustained structural reforms.
- Amounts drawn under an EFF are to be repaid over 4½–10 years in 12 equal semi-annual instalments.
- When a country borrows from the IMF, it commits to undertake policies to overcome economic and structural problems. Under an EFF, these commitments, including specific conditions, are expected to have a strong focus on structural reforms to address institutional or economic weaknesses, in addition to policies to maintain macroeconomic stability.

Q.94) With reference to Real Effective Exchange Rate (REER), consider the following statements:

1. It is the weighted average of a country's currency in relation to an index or basket of other major currencies.
2. An increase in a nation's REER is an indication that its imports are becoming more expensive.

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.94) Solution (a)

Real Effective Exchange Rate (REER):

- The real effective exchange rate (REER) compares a nation's currency value against the weighted average of the currencies of its major trading partners.
- It is an indicator of the international competitiveness of a nation in comparison with its trade partners.
- The formula is weighted to take into account the relative importance of each trading partner to the home country.

- An increase in a nation's REER is an indication that its exports are becoming more expensive and its imports are becoming cheaper. It is losing its trade competitiveness. An increasing REER indicates that a country is losing its competitive edge.
- REER is determined by taking the average of the bilateral exchange rates between one nation and its trading partners and then weighting it to take into account the trade allocation of each partner.
- REER can be used to measure the equilibrium value of a country's currency, identify the underlying factors of a country's trade flow, and analyze the impact that other factors, such as competition and technological changes, have on a country and ultimately on the trade-weighted index.

Q.95) With reference to Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER), consider the following statements:

1. When NEER coefficient is above 1.0 it shows that the domestic currency is worth relatively less than imported currencies.
2. In the case of rise in inflation in the country NEER of the currency becomes greater than the REER of the currency.

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)

Nominal Effective Exchange Rate (NEER):

NEER is used to measure the international competitiveness and strength of a country's currency within the foreign exchange (forex) market. NEER is not expressed as a measure in terms of currency; instead, it represents a broad value, typically in an index.

A NEER coefficient that is above 1.0 shows that the domestic currency is worth relatively more than imported currencies. If a NEER coefficient is below 1.0, it shows that the domestic currency is worth relatively less than imported currencies.

If a country's currency increases relative to a basket of other currencies with floating exchange rates, then the NEER will increase. It signals that more foreign currency can be obtained, on average, for each unit of the domestic currency.

When the weight of inflation is adjusted with the NEER, we get the Real Effective Exchange Rate (REER).

Hence, when inflation increases the REER of a currency becomes greater than the NEER of a currency.

Q.96) With reference to Purchasing Power Parity (PPP), consider the following statements:

1. PPP is used worldwide to compare the income levels in different countries.
2. PPP exchange rates are used to convert the national poverty lines from some of the poorest countries in the world to determine the Global Poverty Line.
3. India is the second largest economy in the world in terms of PPP.

Which of the above statements is/are correct?

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

Q.96) Solution (b)

Purchasing Power Parity (PPP):

- Purchasing power parity (PPP) is a popular metric used by macroeconomic analysts that compares different countries' currencies through a "basket of goods" approach.
- Purchasing power parity is used worldwide to compare the income levels in different countries. PPP thus makes it easy to understand and interpret the data of each country.
- PPP exchange rates are used to convert the national poverty lines from some of the poorest countries in the world to determine the Global Poverty Line.
- For poverty estimation in India, the Tendulkar committee computed poverty lines for 2004-05 at a level that was equivalent, in PPP terms, to Rs 33 per day.
- In terms of GDP by purchasing power parity (PPP) basis, India is ranked 3rd in the world with $8.9 trillion. China is ranked one with $24.3 trillion, while the USA is ranked 2nd with $20.9 trillion.
- Gross Domestic Product (GDP) refers to the total monetary value of the goods and services produced within one country.
- GDP by PPP basis attempts to convert GDP into a number more easily comparable between countries with different currencies.
- The purchasing power parity for two currencies is calculated using a basket of goods and services - rent, groceries, travel, entertainment, fuel, clothes etc.
- In 2020, the purchasing power parity for India was 22 local currency units (LCU) per international dollars. The official exchange rate between INR and USD is 75 rupees per international dollar.
- It means in India you just need Rs 22 to buy the same goods / services you could buy for 1 dollar in the US and not Rs 75 as the cost of living here is lower. It means you

could buy 75 divided by 22, i.e 3.4 units of the same goods / services with 1 dollar equivalent rupees in India.

Q.97) What is J-curve effect?

a) It shows the quantity of one type of product that an agent will export for each quantity of another type of product that it imports.
b) This refers to a phenomenon wherein the trade balance of a country worsens following the depreciation of its currency before it improves.
c) It means that the more a firm produces of a particular good or service, the more it gains in efficiency.
d) It represents those export-import combinations to which the given country is indifferent.

Q.97) Solution (b)

J-curve:

- A J-curve depicts a trend that starts with a sharp drop and is followed by a dramatic rise.
- The trendline ends in an improvement from the starting point.
- In economics, the J-curve shows how currency depreciation causes a severe worsening of a trade imbalance followed by a substantial improvement.
- J-curves are observed in other fields including medicine and political science. In each case, it depicts an initial loss followed by a significant gain to a level that exceeds the starting point.

In economics, it is often used to observe the effects of a weaker currency on trade balances. The pattern is as follows:

- Immediately after a nation's currency is devalued, imports get more expensive and exports get cheaper, creating a worsening trade deficit (or at least a smaller trade surplus).
- Shortly thereafter, the sales volume of the nation's exports begins to rise steadily, thanks to their relatively cheap prices.
- At the same time, consumers at home begin to buy more locally-produced goods because they are relatively affordable compared to imports.
- Over time, the trade balance between the nation and its partners bounces back and even exceeds pre-devaluation times.
- When a country's currency appreciates, economists note, a reverse J-curve may occur.

Q.98) With reference to different kinds of trade agreements, consider the following statements:

1. PTA is the first stage of economic integration between countries.
2. CEPA has a wider scope than Comprehensive Economic Cooperation Agreement CECA.
3. CECA is mainly concerned with tariff reductions and cooperation in terms of trade investments and services.

Which of the above statements is are correct?

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

Q.98) Solution (a)

A preferential trade agreement (PTA) is a trading bloc that gives preferential access to certain products from the participating countries. This is done by reducing tariffs but not by abolishing them completely. A PTA can be established through a trade pact. It is the first stage of economic integration.

Comprehensive Economic Cooperation Agreement (CECA) and Comprehensive Economic Partnership Agreement (CEPA) are forms of economic agreements between India and other countries

CECA is a stepping stone for CEPA. CEPA also has a broad scope in terms of its aspects and items.

CECA deals mostly with the elimination or reduction of tariffs while CEPA's concerns are the same with the addition of investments and services.

India has CECA with: Malaysia, Singapore

India has CEPA With: Japan, South Korea

Q.99) With reference to General Anti-Avoidance Rule (GAAR), consider the following statements:

1. It is an anti-tax avoidance law.
2. The GAAR provisions come under the Direct Tax Code 2010.
3. It allows tax officials to target participatory notes.

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.99) Solution (c)

General anti-avoidance rule (GAAR):

- It is an anti-tax avoidance law under Chapter X-A of the Income Tax Act, 1961 of India.
- It is framed by the Department of Revenue under the Ministry of Finance.
- GAAR was originally proposed in the Direct Tax Code 2009 and was targeted at arrangements or transactions made specifically to avoid taxes. GAAR provisions were also present in the Direct Tax Code 2010 and Direct Tax Code 2013. However, the Direct Tax Code did not see the light of the day and was not implemented in India.
- GAAR was finally introduced in India 2012.
- The regulation allows tax officials to deny tax benefits, if a deal is found without any commercial purpose other than tax avoidance.
- It allows tax officials to target participatory notes. Under GAAR, the investor has to prove that the participatory note was not set to avoid taxes.
- It also allows officials to deny double taxation avoidance benefits, if deals made in tax havens were found to be avoiding taxes.

Q.100) Which among the following is the largest component of Foreign Exchange Reserve of India?

a) Gold
b) Special Drawing Rights
c) Reserve position with the IMF
d) Foreign Currency Assets

Q.100) Solution (d)

Foreign exchange reserves are assets held on reserve by a central bank in foreign currencies, which can include bonds, treasury bills and other government securities.

India's Forex Reserves include:

- Foreign Currency Assets (FCA)
- Gold
- Special Drawing Rights
- Reserve position with the International Monetary Fund (IMF)

The biggest contributor to forex reserve is foreign currency assets followed by the gold, SDR, and reserve with the International Monetary Fund.

Purpose of the Foreign Exchange Reserve:

- The most significant objective behind this is to ensure that RBI has backup funds if their national currency rapidly devalues or becomes altogether insolvent.
- If the value of the Rupee decreases due to an increase in demand of the foreign currency then RBI sells the dollar in the Indian money market so that depreciation of the Indian currency can be checked.
- A country with a good stock of forex has a good image at the international level because the trading countries can be sure about their payments.
- A good forex reserve helps in attracting foreign trade and earns a good reputation in trading partners.

Q.101) With reference to the differences in the functioning of International Monetary Fund (IMF) and World Bank (WB), consider the following statements:

1. IMF aims to reduce poverty by offering assistance to middle-income and low-income countries.
2. The primary focus of IMF is economic growth while that of WB is economic stability.

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.101) Solution (d)

Both organizations, International Monetary Fund (IMF) and World Bank (WB), are based in Washington, D.C., and were established as part of the Bretton Woods Agreement in 1945.

The Bretton Woods Agreement was a monetary and exchange rate management system that attempted to encourage international financial cooperation through the introduction of a system of convertible currencies at fixed exchange rates

The main difference between the International Monetary Fund (IMF) and the World Bank lies in their respective purposes and functions. The IMF oversees the stability of the world's monetary system, while the World Bank's goal is to reduce poverty by offering assistance to middle-income and low-income countries.

To maintain its mission, the IMF monitors economic activity, offers members policymaking tools and analysis, and also provides loans to member countries.

The World Bank accomplishes its goals through technical and financial support that enables countries to implement specific projects, such as building health centers or making clean water available.

Thus primary focus of IMF is economic stability of member nations while that of WB is economic growth and development.

Q.102) Which of the following organization is not a part of World Bank group?

a) International Centre for Settlement of Investment Disputes
b) International Investment Bank
c) Multilateral Investment Guarantee Agency
d) International Finance Corporation

Q.102) Solution (b)

The World Bank is an international financial institution that provides loans and grants to the governments of low- and middle-income countries for the purpose of pursuing capital projects.

The World Bank Group is an extended family of five international organizations, and the parent organization of the World Bank, the collective name given to the first two listed organizations, the IBRD and the IDA:

- International Bank for Reconstruction and Development (IBRD)
- International Development Association (IDA)
- International Finance Corporation (IFC)
- Multilateral Investment Guarantee Agency (MIGA)
- International Centre for Settlement of Investment Disputes (ICSID)

International Investment Bank (IIB) is a multilateral development institution with headquarters in Budapest, Hungary. IIB specialises in medium- and long-term financing of projects aimed at supporting the economies of its members that would have a significant positive social, economic and environmental impact.

Member Nations of IIB are: Bulgaria, Cuba, Czech Republic, Hungary, Mongolia, Romania, Russia, Slovakia, and Vietnam.

Q.103) Consider the following statements regarding International Finance Corporation (IFC):

1. IFC is the largest global development institution which is focused exclusively on the private sector in developing countries.
2. It aims to advance economic development by investing in for-profit and commercial projects for poverty reduction.

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.103) Solution (c)

The International Finance Corporation (IFC) is an international financial institution that offers investment, advisory, and asset-management services to encourage private-sector development in less developed countries.

The IFC is a member of the World Bank Group and is headquartered in Washington, D.C. in the United States.

It was established in 1956, as the private-sector arm of the World Bank Group, to advance economic development by investing in for-profit and commercial projects for poverty reduction and promoting development.

The IFC's stated aim is to create opportunities for people to escape poverty and achieve better living standards by mobilizing financial resources for private enterprise, promoting accessible and competitive markets, supporting businesses and other private-sector entities, and creating jobs and delivering necessary services to those who are poverty stricken or otherwise vulnerable.

IFC's investments are normally made in its developing member countries. IFC's Articles of Agreement mandate that IFC shall invest in productive private enterprises. The requirement for private ownership does not disqualify enterprises that are partly owned by the public sector if such enterprises are organized under local commercial and corporate law, operate free of host government control in a market context and according to profitability criteria, and/or are in the process of being completely or partially privatized.

IFC finances projects and companies through loans, typically for seven to twelve years. IFC also makes loans to intermediary banks, leasing companies, and other financial institutions for on-lending.

Q.104) With reference to World Bank group, consider the following statements:

1. To become a member of the Bank, a country must first join the World Trade Organization.
2. India is not a member of International Centre for Settlement of Investment Disputes

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.104) Solution (b)

The organizations that make up the World Bank Group are owned by the governments of member nations, which have the ultimate decision-making power within the organizations on all matters, including policy, financial or membership issues.

Member countries govern the World Bank Group through the Boards of Governors and the Boards of Executive Directors. These bodies make all major decisions for the organizations.

To become a member of the Bank, under the International Bank for Reconstruction and Development (IBRD) Articles of Agreement, a country must first join the International Monetary Fund (IMF). Membership in International Development Association (IDA), International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) are conditional on membership in IBRD.

Brazil, India and South Africa are countries with large economies that have never been ICSID members.

While India has not stated the specific reasons for its absence from the ICSID Convention, in 2000, the Indian Council for Arbitration recommended to the Indian Ministry of Finance that India refrain from becoming a signatory to the ICSID Convention on the following grounds:

- The Convention's rules for arbitration leaned towards the developed countries and
- There is no scope for a review of the award by an Indian court even if it violates India's public policy.

Q.105) With reference to various lending instruments of IMF, consider the following statements:

1. Poverty Reduction and Growth Facility offers financing of a short-term balance of payments for not more than 36 months.
2. The Extended Fund Facility is a medium-term arrangement by which countries can borrow a certain amount of money, typically over four to 10 years.
3. Loans under the Stand-By Arrangement are administered with especially low interest rates.

Which of the above statements is/are correct?

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

Q.105) Solution (b)

The IMF offers its assistance in the form of surveillance, which it conducts on a yearly basis for individual countries, regions, and the global economy as a whole. However, a country may ask for financial assistance if it finds itself in an economic crisis, whether caused by a sudden shock to its economy or poor macroeconomic planning.

A financial crisis will result in severe devaluation of the country's currency or a major depletion of the nation's foreign reserves. In return for the IMF's help, a country is usually required to embark on an IMF-monitored economic reform program, otherwise known as Structural Adjustment Programs (SAPs).

There are three more widely implemented facilities by which the IMF can lend its money:

- A Stand-By Arrangement (SBA) offers financing of a short-term balance of payments, usually between 12 to 24 months, but no more than 36 months.
- The Extended Fund Facility (EFF) is a medium-term arrangement by which countries can borrow a certain amount of money, typically over four to 10 years. The EFF aims to address structural problems within the macroeconomy that are causing chronic balance of payment inequities. The structural problems are addressed through financial and tax sector reform and the privatization of public enterprises.
- The third main facility offered by the IMF is known as the Poverty Reduction and Growth Facility (PRGF). It aims to reduce poverty in the poorest of member countries while laying the foundations for economic development. Loans are administered with especially low interest rates.

Q.106) Which of the following reports is/are published by the International Monetary Fund (IMF)?

1. World Investment Report
2. World Economic Outlook
3. Global Financial Stability Report

Choose the correct answer from the codes given below:

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

Q.106) Solution (d)

Multilateral surveillance involves monitoring global and regional economic trends and analyzing spillovers from members' policies onto the global economy.

As part of its World Economic and Financial Surveys, the IMF publishes flagship reports on multilateral surveillance twice a year:

1. World Economic Outlook (WEO)
2. Global Financial Stability Report (GFSR)
3. Fiscal Monitor (FM)

The WEO provides detailed analysis of the state of the world economy, addressing issues of pressing interest such as the protracted global financial turmoil and ongoing economic recovery from the global financial crisis.

The GFSR provides an up-to-date assessment of global financial markets and prospects and highlights imbalances and vulnerabilities that could pose risks to financial market stability.

The FM updates medium-term fiscal projections and assesses developments in public finances. The

IMF also publishes Regional Economic Outlook (REO) reports as part of its World Economic and Financial Surveys.

The World Investment Report has been published annually since 1991 by the United Nations Conference on Trade and Development (UNCTAD). The report focuses on trends in foreign direct investment (FDI) worldwide, at the regional and country levels and emerging measures to improve its contribution.

Q.107) Which of the following reports are published by the World Bank?

1. World Development Report
2. Global Economic Prospects
3. Global Competitiveness Report

Choose the correct answer from the codes given below:

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

Q.107) Solution (a)

The World Development Report (WDR) is an annual report published since 1978 by the International Bank for Reconstruction and Development (IBRD) or World Bank. Each WDR provides in-depth analysis of a specific aspect of economic development. Past reports have considered such topics as agriculture, youth, equity, public services delivery, the role of the state, transition economies, labour, infrastructure, health, the environment, risk management, and poverty.

Global Economic Prospects is a World Bank Group flagship report that examines global economic developments and prospects, with a special focus on emerging market and developing economies. It is issued twice a year, in January and June. The January edition includes in-depth analyses of topical policy challenges while the June edition contains shorter analytical pieces.

The Global Competitiveness Report (GCR) is a yearly report published by the World Economic Forum. The report "assesses the ability of countries to provide high levels of prosperity to their citizens". This in turn depends on how productively a country uses available resources. Therefore, the Global Competitiveness Index measures the set of institutions, policies, and factors that set the sustainable current and medium-term levels of economic prosperity.

Q.108) The Special Drawing Rights (SDR) basket of currencies include:

1. Japanese Yen
2. Chinese Yuan
3. Russian Rubble

Choose the correct answer from the codes given below:

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

Q.108) Solution (b)

Special drawing rights (SDR) are an artificial currency instrument created by the International Monetary Fund (IMF), which uses them for internal accounting purposes.

The value of the SDR is calculated from a weighted basket of major currencies, including the U.S. dollar, the euro, Japanese yen, Chinese yuan, and British pound.

The SDR interest rate (SDRi) provides the basis for calculating the interest rate charged to member countries when they borrow from the IMF and paid to members for their remunerated creditor positions in the IMF.

Quota (the amount contributed to the IMF) of a country is denominated (expressed) in SDRs. India's Foreign exchange reserves also incorporate SDR.

Q.109) India is a member of which of the following regional trade agreements?

1. ASEAN
2. APEC
3. RCEP

Choose the correct answer from the codes given below:

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

d) None of the above

Q.109) Solution (d)

Association of Southeast Asian Nations (ASEAN):

- It is an economic union comprising 10 member states in Southeast Asia, which promotes intergovernmental cooperation and facilitates economic, political, security, military, educational, and socio-cultural integration between its members and other countries in Asia.
- ASEAN's primary objective was to accelerate economic growth and through that social progress and cultural development.
- Members: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

The Asia-Pacific Economic Cooperation (APEC):

- It is an inter-governmental forum for 21 member economies in the Pacific Rim that promotes free trade throughout the Asia-Pacific region.
- APEC is recognized as one of the highest-level multilateral blocs and oldest forums in the Asia-Pacific region and exerts a significant global influence.
- Members: Australia, Brunei Darussalam, Canada, Chile, Chinese Taipei, Hong Kong, China, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, People's Republic of China, Peru, Republic of Korea, The Republic of the Philippines, The Russian Federation, Singapore, Thailand, United States of America and Vietnam.

The Regional Comprehensive Economic Partnership (RCEP):

- It is a free trade agreement among the Asia-Pacific nations.
- Members: Brunei-Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam, Australia, China, Japan, South Korea, New Zealand.
- India was a member of the RCEP drafting committee from its inception in 2011, but in November 2019, it decided to opt out.
- India pulled out of the deal primarily due to concerns of dumping of manufactured goods from China and agricultural and dairy products from Australia and New Zealand, potentially affecting its own domestic industrial and farming sectors.

Q.110) With reference to the World Bank Group, consider the following statements:

1. IDA provides guarantees for investors in developing countries against non-commercial risk.
2. IBRD provides interest free loans and grants to governments of poorest countries.

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.110) Solution (d)

The International Development Association (IDA):

- It is the part of the World Bank that helps the world's poorest countries. Overseen by 173 shareholder nations, IDA aims to reduce poverty by providing zero to low-interest loans (called "credits") and grants for programs that boost economic growth, reduce inequalities, and improve people's living conditions.
- IDA is one of the largest sources of assistance for the world's 74 poorest countries and is the single largest source of donor funds for basic social services in these countries.
- IDA lends money on concessional terms. This means that IDA credits have a zero or very low interest charge and repayments are stretched over 30 to 40 years, including a 5- to 10-year grace period.
- IDA also provides grants to countries at risk of debt distress.

The International Bank for Reconstruction and Development (IBRD):

- It is a global development cooperative owned by 189 member countries.
- As the largest development bank in the world, it supports the World Bank Group's mission by providing loans, guarantees, risk management products, and advisory services to middle-income and creditworthy low-income countries, as well as by coordinating responses to regional and global challenges.

The Multilateral Investment Guarantee Agency (MIGA):

- It is an international institution that promotes investment in developing countries by offering political and economic risk insurance.
- The agency aims to support economic growth, reduce poverty, and improve people's lives through foreign direct investment into developing countries.

Q.111) The Marrakesh Agreement led to the establishment of:

a) International Monetary Fund
b) World Trade Organization
c) World Intellectual Property Organisation
d) World Economic Forum

Q.111) Solution (b)

The Marrakesh Agreement, manifested by the Marrakesh Declaration, was an agreement signed in Marrakesh, Morocco, by 123 nations on 15 April 1994, marking the culmination of the 8-year-long Uruguay Round and establishing the World Trade Organization, which officially came into being on 1 January 1995.

Q.112) WTO was formed as a replacement for GATT in 1995. In this context consider the following statements:

1. GATT lacked institutional structure.
2. The rules of GATT were only for trade in goods and services; it did not include aspects of intellectual property.

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.112) Solution (c)

The General Agreement on Tariffs and Trade (GATT) was a legal agreement between many countries, whose overall purpose was to promote international trade by reducing or eliminating trade barriers such as tariffs or quotas.

According to its preamble, its purpose was the "substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis."

The GATT was first discussed during the United Nations Conference on Trade and Employment and was the outcome of the failure of negotiating governments to create the International Trade Organization (ITO).

GATT did not have any institutional existence, but have a small secretariat while the WTO is an intergovernmental organization with its own headquarters and staff.

The scope of GATT was only limited to trade in goods while scope of WTO includes both traded goods and trade within the service sector and intellectual property rights.

GATT remained in effect until January 1st, 1995, when the World Trade Organization (WTO) was established after agreement by 123 nations in Marrakesh on April 15th, 1994, as part of the Uruguay Round Agreements.

Q.113) With reference to WTO, consider the following statements:

1. The highest authority of the WTO is the General Council, which must meet at least every two years.

2. All the major decisions in WTO are taken by a two-thirds majority of members present and voting.

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.113) Solution (d)

The topmost decision-making body of the WTO is the Ministerial Conference, which usually meets every two years. It brings together all members of the WTO, all of which are countries or customs unions. The Ministerial Conference can take decisions on all matters under any of the multilateral trade agreements.

In between each Ministerial Conference, the daily work is handled by three bodies whose membership is the same; they only differ by the terms of reference under which each body is constituted:

- The General Council
- The Dispute Settlement Body
- The Trade Policy Review Body

The WTO describes itself as a rules-based, member-driven organization—all decisions are made by the member governments, and the rules are the outcome of negotiations among members.

The WTO Agreement foresees votes where consensus cannot be reached, but the practice of consensus dominates the process of decision-making.

Q.114) With reference to Agreement on Agriculture of WTO, which of the following is/are green box subsidies?

1. Farmers training programs
2. Subsidies on fertilizers
3. Disaster relief to farmers

Choose the correct answer from the codes given below:

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

Q.114) Solution (b)

The Agreement on Agriculture (AoA) contains various agricultural policies to be adopted by the member countries. These includes reduction of tariffs (market access) on imports, elimination of export subsidies (export competition) and reduction of domestic subsidies (domestic support) and limiting it to permissible types of subsidies.

Green Box contains those types of subsidies that don't distort trade or that cause only minimum distortion. Hence they are permitted subsidies and thus are non-reducible subsidies.

The Green box subsidies are provided by governments through variety of programmes like the provision of income support to farmers during crop failure, incentives to farmers to protect environment, subsidies for research and development, food aid to the poor people etc.

These subsidies are provided through programmes; without influencing (decoupled) the current level of production and prices.

Member countries thus can give green box subsidies without limits; provided they comply with relevant criteria.

The 'green box' measures comprises of several type of support measures or subsidies.

They basically comprise of two support groups:

- The first involves public services programmes (for example, research, training, marketing, promotion, infrastructure, domestic food aid or public food security stocks).
- The second involves direct payments to producers by the government. These mainly involve income guarantee and security programmes (natural disasters, state financial contributions to crop insurance, etc.); programmes aimed at adjusting structures and environmental protection programmes, regional development programmes.

Green box measures are compatible with the WTO framework and hence are totally exempted from reduction commitments

Q.115) With reference to De-Minimis provision under WTO, consider the following statements:

1. It is applicable to Blue box subsidies under Agreement on Agriculture.
2. Under this provision trade distorting domestic support is allowed up to 10% of the value of production for developed countries, 5% for developing countries.

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.115) Solution (d)

Under De-Minimis provision developed countries are allowed to maintain trade distorting subsidies or 'Amber box' subsidies to level of 5% of total value of agricultural output. For developing countries this figure was 10%.

All the domestic support measures which are considered to distort production and trade fall into the amber box subsidies of under agreement on Agriculture. Example - Input subsidies such as subsidy on electricity, seeds, fertilizers, irrigation etc. Market support price (MSP) subsidies also fall under this box.

Q.116) Consider the following statements:

1. India has accorded most favoured nation status to all WTO member countries.
2. India is a Generalized System of Preferences (GSP) nation of United States.

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.116) Solution (d)

Article 1 of General Agreement on Tariffs and Trade (GATT), 1994, requires every World Trade Organization (WTO) member country to accord MFN status (or preferential trade terms with respect to tariffs and trade barriers) to all other member countries.

Accordingly, India accorded MFN status to all WTO member countries, including Pakistan, from the date of entry into force of the so called Marrakesh Agreement, establishing the WTO.

But, India withdrew the Most Favoured Nation (MFN) status accorded to Pakistan in 2019 n the aftermath of Pulwama terror strike.

The Generalized System of Preferences, or GSP, is a preferential tariff system which provides tariff reduction on various products.

The concept of GSP is very different from the concept of "most favored nation" (MFN).

MFN status provides equal treatment in the case of tariff being imposed by a nation but in case of GSP differential tariff could be imposed by a nation on various countries depending upon factors such as whether it is a developed country or a developing country.

Both the rules come under the purview of WTO.

US terminated its preferential tariffs being granted to India under the Generalized System of Preferences (GSP) Scheme in 2019.

India continues to enjoy tariff preference under GSP from Australia, Russia and Japan, as well as the European Union (EU), among others.

Q.117) Which of the following reports is/are published by the World Economic Forum (WEF)?

1. Global Enabling Trade Report
2. Networked Readiness Index
3. Global Gender Gap Index

Choose the correct answer from the codes given below:

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

Q.117) Solution (d)

The Global Enabling Trade Report was first published in 2008 by the World Economic Forum.

The Enabling Trade Index measures the factors, policies and services that facilitate the trade in goods across borders and to destination. It is made up of four sub-indexes:

- Market access
- Border administration
- Transport and communications infrastructure
- Business environment

The World Economic Forum's Networked Readiness Index (NRI), also referred to as Technology Readiness, measures the propensity for countries to exploit the opportunities offered by information and communications technology (ICT). It is published in collaboration with INSEAD, as part of their annual Global Information Technology Report (GITR). The report is regarded as the most authoritative and comprehensive assessment of how ICT impacts the competitiveness and well-being of nations.

The Global Gender Gap Report was first published in 2006 by the World Economic Forum. The index is designed to measure gender-based gaps in access to resources and opportunities in countries rather than the actual level of the available resources and opportunities in those countries.

Q.118) With reference to World Economic Forum (WEF), consider the following statements:

1. It has observer status with the United Nations.
2. The Great Reset is an initiative by WEF to rebuild the economy sustainably following the COVID-19 pandemic.

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.118) Solution (b)

World Economic Forum (WEF) was established by Klaus Schwab in 1971 as a not-for-profit foundation. It was initially named as European Management Forum. Later, it changed its name to the World Economic Forum in 1987.

It aims to improve the state of the world by engaging business, political, academic and other leaders of society to shape global, regional, and industry agendas.

The World Economic Forum claims to be impartial and that it is not tied to any political, partisan, or national interests. Until 2012, it had observer status with the United Nations Economic and Social Council, when it was revoked; it is under the supervision of the Swiss Federal Council. The foundation's highest governance body is the foundation board.

The Great Reset is a proposal by the World Economic Forum (WEF) to rebuild the economy sustainably following the COVID-19 pandemic. It is based on the assessment that the world economy is in deep trouble.

Q.119) Consider the following statements:

1. A trademark is a property right issued by a government authority allowing the holder exclusive rights to the invention for a certain period of time.
2. A patent protects words and design elements that identify the source of a product.
3. Copyrights protect original works of authorship, such as writings, art, architecture, and music.

Which of the above statements is/are correct?

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

Q.119) Solution (c)

Patent:

- A patent is a property right issued by a government authority allowing the holder exclusive rights to the invention for a certain period of time.
- A patent safeguards an original invention for a certain period of time and is granted by the United States Patent and Trademark Office (USPTO).
- By granting the right to produce a product without fear of competition for the duration of the patent, an incentive is provided for companies or individuals to continue developing innovative new products or services
- There are three types of patents: utility patents, plant patents, and design patents.

Trademark:

- A trademark protects words and design elements that identify the source of a product.
- Brand names and corporate logos are primary examples.
- A service mark is similar, except that it safeguards the provider of a service instead of a tangible good.
- The term "trademark" is often used in reference to both designations.

Copyright:

- Copyrights protect "original works of authorship," such as writings, art, architecture, and music.
- For as long as the copyright is in effect, the copyright owner has the sole right to display, share, perform, or license the material.

Q.120) With reference to Organisation for Economic Co-operation and Development (OECD), consider the following statements:

1. Most OECD members are high-income economies with a very high Human Development Index.
2. India is a member of OECD.

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.120) Solution (a)

The Organisation for Economic Co-operation and Development (OECD) is an intergovernmental economic organisation with 38 member countries.

It is a forum of countries describing themselves as committed to democracy and the market economy, providing a platform to compare policy experiences, seek answers to common problems, identify good practices and coordinate domestic and international policies of its members.

Generally, OECD members are high-income economies with a very high Human Development Index (HDI) and are regarded as developed countries.

The OECD is an official United Nations observer.

Although the OECD does not have the power to enforce its decisions, which further require a unanimous vote from its members, it is recognised as a highly influential publisher of mostly economic data through publications as well as annual evaluations and rankings of member countries.

Q.121) Which of the following is/are the main objectives of monetary policy?

1. To maintain price stability
2. To substitute exports
3. To control business cycles

Choose the correct answer from the codes given below:

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

Q.121) Solution (c)

Credit and 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.

In India, monetary policy of the Reserve Bank of India is aimed at managing the quantity of money in order to meet the requirements of different sectors of the economy and to increase the pace of economic growth.

The main objectives of monetary policy are:

- To Regulate Money Supply in the Economy: The main aim of the monetary policy of the Reserve Bank was to control the money supply in such a manner as to expand it to meet the needs of economic growth and at the same time contract it to curb inflation. In other words monetary policy aimed at expanding and contracting money supply according to the needs of the economy.
- To Attain Price Stability: Another major objective of monetary policy in India is to maintain price stability in the country. It implies Control over inflation. Price level, is

affected by money supply. Monetary policy regulates money supply to maintain price stability.

- To promote Economic Growth: An important objective of monetary policy is to make available necessary supply of money and credit for the economic growth of the country. Those sectors which are quite significant for the economic growth are provided with adequate availability of credit.
- To Promote saving and Investment: By regulating the rate of interest and checking inflation, monetary policy promotes saving and investment. Higher rates of interest promote saving and investment.
- To Control Business Cycles: Boom and depression are the main phases of business cycle. Monetary policy puts a check on boom and depression.
- To Promote Exports and Substitute Imports: By providing concessional loans to export oriented and import substitution units, monetary policy encourages such industries and thus help to improve the position of balance of payments.
- To ensure more Credit for Priority Sector: Monetary policy aims at providing more funds to priority sector by lowering interest rates for these sectors. Priority sector include agriculture, small- scale industry, weaker sections of society, etc.
- To Develop Infrastructure: Monetary policy aims at developing infrastructure. It provides concessional funds for developing infrastructure.

Q.122) Consider the following statements:

1. Repo rate is the interest rate at which the central bank of a country lends money to commercial banks.
2. In the event of inflation, central bank decreases the repo rate.

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.122) Solution (a)

Repo rate is the interest rate at which the central bank of a country lends money to commercial banks.

The central bank in India i.e. the Reserve Bank of India (RBI) uses repo rate to regulate liquidity in the economy. In banking, repo rate is related to 'repurchase option' or 'repurchase agreement'.

When there is a shortage of funds, commercial banks borrow money from the central bank which is repaid according to the repo rate applicable.

The central bank provides these short terms loans against securities such as treasury bills or government bonds.

This monetary policy is used by the central bank to control inflation or increase the liquidity of banks.

The government increases the repo rate when they need to control prices and restrict borrowings.

On the other hand, the repo rate is decreased when there is a need to infuse more money into the market and support economic growth.

An increase in repo rate means commercial banks have to pay more interest for the money lent to them and therefore, a change in repo rate eventually affects public borrowings such as home loan, EMIs, etc.

Q.123) Consider the following statements:

1. When reverse repo rate is increased it leads to the excess flow of money into the economy.
2. While repo rate is used to control cash flow in the market, reverse repo rate is used to regulate liquidity in the economy.

Which of the above statements is/are correct?

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

Q.123) Solution (d)

Reverse Repo Rate is the rate the central bank of a country pays its commercial banks to park their excess funds in the central bank.

Reverse repo rate is also a monetary policy used by the central bank (i.e. RBI in India) to regulate the flow of money in the market.

When in need, the central bank of a country borrows money from commercial banks and pays them interest as per the reverse repo rate applicable.

At a given point in time, the reverse repo rate provided by RBI is generally lower than the repo rate.

While repo rate is used to regulate liquidity in the economy, reverse repo rate is used to control cash flow in the market.

When there is inflation in the economy, RBI increases the reverse repo rate to encourage commercial banks to make deposits in the central bank and earn returns. This in turn absorbs excessive funds from the market and reduces the money available for the public to borrow.

Q.124) Which of the following is/are the components of the revenue expenditure?

1. Manufacturing equipment
2. Utilities and Rent
3. Salaries of employees

Choose the correct answer from the codes given below:

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

Q.124) Solution (b)

Revenue expenditures are short-term expenses used in the current period or typically within one year. Revenue expenditures include the expenses required to meet the ongoing operational costs of running a business, and thus are essentially the same as operating expenses.

Revenue expenditures also include the ordinary repair and maintenance costs that are necessary to keep an asset in working order without substantially improving or extending the useful life of the asset.

Revenue expenditures include the following:

- Salaries and employee wages
- Any overhead expense, such as salaries for the corporate office, which typically fall under selling, general, and administrative expenses (SG&A)
- Research and development (R&D)
- Utilities and Rent
- Business travel
- Property taxes

Capital expenditures represent significant investments of capital that a company makes to maintain or, more often, to expand its business and generate additional profits.

Capital expenditures can include the purchase of the following:

- A facility or factory, including an upgrade or expansion
- Vehicles, such as trucks used for the delivery of products
- Manufacturing equipment

Q.125) Which of the following is/are the measures that can be used by the government to reduce fiscal deficit?

1. Reduction in expenditure on major subsidies such as food, fertilisers
2. Increase interest payments on past debt
3. Simplifing taxation structure

Choose the correct answer from the codes given below:

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

Q.125) Solution (d)

The difference between total revenue and total expenditure of the government is termed as fiscal deficit. It is an indication of the total borrowings needed by the government. While calculating the total revenue, borrowings are not included.

In the Indian context, the following measures can be adopted to reduce fiscal deficit and thereby to reduce inflationary pressures in the economy:

A drastic reduction in expenditure on major subsidies such as food, fertilisers, exports, electricity to curtail public expenditure can reduce the inflationary pressure in the economy. A huge sum of money equal to Rs. 20,000 crores are spent on major subsidies on food, fertilisers, export promotion by the central government. Without a drastic cut in subsidies over time it is difficult to reduce public expenditure to an appreciable degree.

Another useful measure to cut public expenditure is to reduce interest payments on past debt. In India, interest payments account for about 40 per cent of expenditure on revenue account of the central government.

To reduce fiscal deficit and thereby check rise in inflation rate, apart from reducing government expenditure, government revenue has to be raised. As regards mobilising resources to increase public revenue, it may be noted that the policy of moderate taxes with simplified taxation structure should be followed. This will help to increase public revenue rather than reduce it. High marginal rates of taxes should be avoided as they serve as disincentives to work more, save more and invest more. Further, high marginal rates of direct taxes cause evasion of taxes.

Q.126) The term 'Ricardian equivalence proposition' refers to:

a) It shows the cumulative share of income from different sections of the population.
b) It demonstrates the hypothesis that economic growth initially leads to greater inequality, followed later by the reduction of inequality.

c) It states that the financing government spending out of current taxes or future taxes will have equivalent effects on the overall economy.
d) It suggests that economic development initially leads to deterioration in the environment, but after a certain level of economic growth, a society begins to improve its relationship with the environment and levels of environmental degradation reduces.

Q.126) Solution (c)

Ricardian equivalence is an economic theory that says that financing government spending out of current taxes or future taxes (and current deficits) will have equivalent effects on the overall economy.

This means that attempts to stimulate an economy by increasing debt-financed government spending will not be effective because investors and consumers understand that the debt will eventually have to be paid for in the form of future taxes.

The theory argues that people will save based on their expectation of increased future taxes to be levied in order to pay off the debt, and that this will offset the increase in aggregate demand from the increased government spending.

Q.127) With reference to the fiscal policy, consider the following statements:

1. In a counter-cyclical fiscal policy, the government increases expenditure and reduces taxes during recession.
2. In a pro-cyclical fiscal policy, government reduces public spending or increases taxes during expansionary times.

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.127) Solution (a)

Cyclicality of the fiscal policy simply refers to a change in direction of government expenditure and taxes based on economic conditions. These pertain to decisions by policymakers based on the fluctuations in economic growth. There are two types of cyclical fiscal policies - counter-cyclical and pro-cyclical.

Counter-cyclical fiscal policy refers to the steps taken by the government that go against the direction of the economic or business cycle. Thus, in a recession or slowdown, the government increases expenditure and reduces taxes to create a demand that can drive an economic boom.

In a pro-cyclical fiscal policy, the government reinforces the business cycle by being expansionary during good times and contractionary during recessions. Pursuing a pro-cyclical fiscal policy is generally regarded as dangerous. It could raise macroeconomic volatility, depress investment in real and human capital, hamper growth and harm the poor.

Q.128) With reference to the fiscal policy, what is meant by the crowding out effect?

a) It is a situation when increased interest rates lead to increase in private investment spending.
b) It is a situation when decreased interest rates lead to a reduction in private investment spending.
c) It is a situation when decreased interest rates lead to increase in private investment spending.
d) It is a situation when increased interest rates lead to a reduction in private investment spending.

Q.128) Solution (d)

A situation when increased interest rates lead to a reduction in private investment spending such that it dampens the initial increase of total investment spending is called crowding out effect. Sometimes, government adopts an expansionary fiscal policy stance and increases its spending to boost the economic activity. This leads to an increase in interest rates. Increased interest rates affect private investment decisions. A high magnitude of the crowding out effect may even lead to lesser income in the economy.

With higher interest rates, the cost for funds to be invested increases and affects their accessibility to debt financing mechanisms. This leads to lesser investment ultimately and crowds out the impact of the initial rise in the total investment spending. Usually the initial increase in government spending is funded using higher taxes or borrowing on part of the government.

Q.129) Consider the following statements regarding fiscal multiplier:

1. It measures the effect that increases in fiscal spending will have on a nation's GDP.
2. The fiscal multiplier tends to be larger during an expansion as compared to a downturn.

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.129) Solution (a)

The fiscal multiplier measures the impact of a fiscal stimulus on the Gross Domestic Product (GDP) of an economy. The fiscal multiplier is driven by government spending on tangible things like building infrastructure or social programs.

There are two types of fiscal multipliers – the expenditure multiplier and the revenue multiplier:

- Expenditure Multiplier: It measures the change in output for every extra dollar spent by the government.
- Revenue Multiplier: It measures the change in output for every dollar increase in revenues collected by the government.

High levels of debt can reduce the impact of the fiscal multiplier. It is because any fiscal stimulus is used to service debt before being used for more productive activities. Hence, the output increases by a smaller amount, which means the fiscal multiplier is reduced.

Q.130) The debt-to-GDP ratio depends upon which of the following parameters?

1. Interest Rate Growth Differential
2. Debt-to-GDP ratio in the previous period
3. Ratio of primary deficit-to-GDP

Choose the correct answer from the codes given below:

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

Q.130) Solution (d)

The debt-to-GDP ratio is the ratio of a country's public debt to its gross domestic product (GDP).

The higher the debt-to-GDP ratio, the less likely the country will pay back its debt and the higher its risk of default, which could cause a financial panic in the domestic and international markets.

The debt-to-GDP ratio depends on three key parameters, namely the IRGD, the debt-to-GDP ratio in the previous period and the ratio of primary deficit-to-GDP.

Interest Rate Growth Differential (IGRD) refers to the difference between nominal rate of interest (r) in an economy and the nominal rate of growth (g).

Primary Deficit is the difference between the current year's fiscal deficit and the interest paid on the borrowings of the previous year.

Q.131) Which of the following statements is/are correct regarding Start Up India scheme?

1. The scheme is designed specifically for promoting entrepreneurship among aspiring women and SC/ST entrepreneurs.
2. DPIIT is the nodal agency which is mandated to coordinate implementation of Startup India initiative with other Government Departments.
3. It provides start ups for freedom from capital gain tax for first 3 years of operation.

Choose the correct answer from the codes given below:

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

Q.131) Solution (d)

The Startup India Scheme is an initiative of the Government of India in 2016. The primary objective of Startup India is the promotion of startups, generation of employment, and wealth creation. The Startup India has initiated several programs for building a robust startup ecosystem and transforming India into a country of job creators instead of job seekers. These programs are managed by the Department for Industrial Policy and Promotion (DPIIT).

Startup India scheme is different from Stand up India scheme. Start Up India scheme promotes new initiatives and ventures. Whereas Stand Up India Scheme is designed for promoting entrepreneurship among aspiring Women and SC/ST entrepreneurs. Stand up India is one of the core parts of Start-up India scheme in order to encourage the individuals to bring their ideas to life.

Features of the scheme are:

- 10,000 crore startup funding pool.
- Reduction in patent registration fees.
- Improved Bankruptcy Code, to ensure a 90-day exit window.
- Freedom from inspections for the first 3 years of operation.
- Freedom from Capital Gain Tax for first 3 years of operation.
- Freedom from tax for the first 3 years of operation.
- Self-certification compliance.
- Created an Innovation hub, under the Atal Innovation Mission.
- To target 5 lakh schools, and involve 10 lakh children in innovation-related programmes.
- New schemes to provide IPR protection to startup firms.
- Built Startup Oasis as Rajasthan Incubation Center.

Q.132) Which of the following statements is/are correct regarding Pradhan Mantri MUDRA Yojana?

1. The objective of this scheme is to provide loans up to 10 lakh to the non-corporate, non-farm small/micro enterprises.
2. MUDRA loans are directly given to the micro entrepreneurs without the involvement of any bank branch.

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.132) Solution (a)

Pradhan Mantri MUDRA Yojana (PMMY) is a scheme launched by the Hon'ble Prime Minister on April 8, 2015 for providing loans up to 10 lakh to the non-corporate, non-farm small/micro enterprises. These loans are classified as MUDRA loans under PMMY.

MUDRA is a refinancing Institution. MUDRA does not lend directly to the micro entrepreneurs / individuals. Mudra loans under Pradhan Mantri Mudra Yojana (PMMY) can be availed of from nearby branch office of a bank, NBFC, MFIs etc.

Under the aegis of Pradhan Mantri Mudra Yojana (PMMY), MUDRA has created products/ schemes. The interventions have been named 'Shishu', 'Kishore' and 'Tarun' to signify the stage of growth / development and funding needs of the beneficiary micro unit / entrepreneur and also provide a reference point for the next phase of graduation / growth to look forward to :

- Shishu : covering loans upto 50,000/-
- Kishor : covering loans above 50,000/- and upto 5 lakh
- Tarun : covering loans above 5 lakh and upto 10 lakh

Q.133) With reference to the Price Stabilisation Fund (PSF) scheme, consider the following statements:

1. It is created to help regulate the price volatility of important Agri-horticultural commodities.
2. It is used to advance loans to State Governments and Central agencies at 4% per annum to support their working capital and other expenses on procurement and distribution interventions for Agri-horticulture commodities.

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.133) Solution (a)

Price Stabilisation Fund is any fund created to absorb extreme volatility in selected commodity prices like onion, and potatoes. Pulses were also added subsequently.

The sum in the fund is usually used for activities aimed at bringing down/up the high/low prices say, for example, acquisition of certain goods and distribution of the same as and when appropriate so that costs remain within a range.

The PSF scheme provides for the advancement of interest-free loans to State Governments/Union Territories (UTs) and Central Agencies to finance their working capital and other expenses, which they may incur in the procurement and distribution of such commodities.

Consequently, the actual use of the fund depends on the willingness of the governments of the state/union territories to use such loans for these purposes.

Furthermore, the actual identification of the time in which assistance is needed and the implementation of the price support measures are left to the states.

Apart from domestic procurement from farmers/wholesale mandis, import may also be undertaken with support from the Fund.

Q.134) Which of the following statements is/are correct regarding Tejaswini scheme?

1. It seeks to empower the adolescent girls with basic life skills and thereafter provide further opportunities to acquire market driven skill training.
2. Indian government has signed financing agreement with World Bank for funding of this scheme.

Choose the correct answer from the codes given below:

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

Q.134) Solution (c)

Tejaswini scheme:

It is the scheme for the socio-economic empowerment of Adolescent Girls and Young women.

It seeks to empower the adolescent girls with basic life skills and thereafter provide further opportunities to acquire market driven skill training or completion of secondary education.

It has 3 main components:

- Expanding social, educational & economic opportunities
- Improve livelihood opportunities by developing participants' skills
- Strengthens women's participation in local governance.

Indian government has signed financing agreement with World Bank for funding of this scheme.

Q.135) Consider the following statements:

1. Atal Pension Yojana offers coverage for death due to any reason and is available to people in the age group of 18 to 50 years.
2. The age of joining Pradhan Mantri Jeevan Jyoti Bima Yojana is 18 years to 40 years.
3. Atal Pension Yojana provides for fixed pension ranging from Rs. 1000 - Rs. 5000 per month, at the age of 60 years, depending on their contributions.

Which of the above statements is/are correct?

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

Q.135) Solution (c)

Pradhan Mantri Jeevan Jyoti Bima Yojana(PMJJBY):

- The PMJJBY is available to people in the age group of 18 to 50 years having a bank account who give their consent to join / enable auto-debit.
- It is available to people in the age group of 18 to 50 and having a bank account.
- People who join the scheme before completing 50 years can, however, continue to have the risk of life cover up to the age of 55 years subject to payment of premium.
- It is administered through LIC and other Indian private Life Insurance companies.
- A person can join PMJJBY with one Insurance company with one bank account only.
- Eligible persons can join the scheme without giving self-certification of good health.

Atal Pension Yojana:

- Atal Pension Yojana is a pension scheme mainly aimed at the unorganized sector such as maids, gardeners, delivery boys, etc. This scheme replaced the previous Swavalamban Yojana which wasn't accepted well by the people.

- The goal of the scheme is to ensure that no Indian citizen has to worry about any illness, accidents or diseases in old age, giving a sense of security. Private sector employees or employees working with such an organization that does not provide them pension benefit can also apply for the scheme.
- To avail benefits from the Atal Pension Yojana, you must fulfil the below requirements:
  - Must be a citizen of India.
  - Must be between the age of 18-40
  - Should make contributions for a minimum of 20 years.
  - Must have a bank account linked with your Aadhar
  - Must have a valid mobile number
- There is an option of getting a fixed pension of Rs 1000, Rs 2000, Rs 3000, Rs 4000, or Rs 5000 on attaining an age of 60. The pension will be determined based on the individual's age and the contribution amount.

Q.136) With reference to the PM's Employment Generation Programme, consider the following statements:

1. The scheme aims to promote generation of employment opportunities through establishment of micro enterprises in specifically in rural areas.
2. It is a sub-scheme of Mahatma Gandhi National Rural Employment Guarantee Scheme.

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.136) Solution (d)

PM's Employment Generation Programme aims to promote generation of employment opportunities through establishment of micro enterprises in rural as well as urban areas.

Benefits under the scheme:

- The maximum cost of the project/unit admissible in manufacturing sector is Rs 25 lakhs and in the business/service sector, it is Rs 10 lakhs.\
- Rate of subsidy under PMEGP (of project cost)
  - For General category - 15% (Urban), 25%(Rural)
  - Special (including SC/ ST/ OBC/ Minorities/Women, Ex-servicemen, Physically handicapped, NER, Hill and Border areas, etc.) - 25% (Urban), 35% (Rural)
- The balance amount of the total project cost will be provided by the banks in the form of term loan and working capital.

The scheme is implemented by Khadi and Village Industries Commission (KVIC) functioning as the nodal agency at the national level. At the state level, the scheme is implemented through State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs), District Industries Centres (DICs) and banks. In such cases KVIC routes government subsidy through designated banks for eventual disbursal to the beneficiaries / entrepreneurs directly into their bank accounts.

Eligibility:

- Any individual, above 18 years of age.
- At least VIII standard pass for projects costing above Rs.10 lakh in the manufacturing sector and above Rs. 5 lakh in the business / service sector.
- Only new projects are considered for sanction under PMEGP.
- Self Help Groups (including those belonging to BPL provided that they have not availed benefits under any other Scheme), Institutions registered under Societies Registration Act,1860; Production Co-operative Societies, and Charitable Trusts are also eligible.

Q.137) PENCIL Portal of Government of India is aimed towards:

a) Eliminating Child Labour
b) Education for Elderly
c) Readmission of dropouts in schools
d) Vocational education to women

Q.137) Solution (a)

PENCIL is an electronic platform that aims at involving Centre, State, District, Governments, civil society and the general public in achieving the target of child labour free society.

The portal creates a robust implementing and monitoring mechanism for enforcement of the legislative provisions of National Child Labour Policy (NCLP)

Since the subject of labour is in the concurrent list, the enforcement of the policy depends on respective state governments.

This online portal aims to connect the Centre to the state government, district and to all project societies for effective implementation of NCLP.

The PENCIL Portal has the following components:

- Child Tracking System
- Complaint Corner
- State Government
- National Child Labour Project and
- Convergence

Q.138) Which of the following is/are the schemes/initiatives of the Ministry of Education?

1. KUSUM
2. LEAP
3. ARPIT

Choose the correct answer from the codes given below:

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

Q.138) Solution (b)

PM KUSUM: Pradhan Mantri Kisan Urja Suraksha evem Utthan Mahabhiyan (PM KUSUM) is the scheme of the Ministry of New and Renewable Energy (MNRE) for farmers for installation of solar pumps and grid connected solar and other renewable power plants in the country.

The scheme aims to add solar and other renewable capacity of 25,750 MW by 2022 with total central financial support of Rs. 34,422 Crore including service charges to the implementing agencies.

LEAP Initiative

- Leadership for Academicians Programme (LEAP) is a flagship leadership development training programme.
- The objective is mainly to train academic heads, who are likely to assume leadership roles in the future.
- Its focus group is second level academic functionaries in public funded higher education institutions.
- It would include both domestic and foreign training in managerial skills such as problem-solving, handling stress, team building work, conflict management, developing communication skills etc.
- The implementation will be through top ranked universities and top 100 global ranked foreign universities.

ARPIT initiative

- Annual Refresher Programme in Teaching (ARPIT) is a unique initiative of online professional development of 15 lakh higher education faculty using SWAYAM platform.
- National Resource Centres (NRC) will be identified to prepare online training material

- SWAYAM - Study Webs of Active learning for Young Aspiring Minds is a Massive Open Online Courses (MOOCs) platform launched to offer various online courses for school education and higher education.

Q.139) With reference to Sovereign Gold Bond scheme, consider the following statements:

1. Sovereign Gold Bonds are government securities denominated in grams of gold.
2. The sovereign gold bonds are sold through scheduled commercial banks, payment banks and small finance banks.
3. Its objective is to reduce the demand for physical gold and shift a part of the domestic savings into financial savings.

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.139) Solution (c)

Sovereign Gold Bond Scheme was launched by the government in November 2015, under Gold Monetisation Scheme.

Sovereign gold bonds are issued by the RBI on behalf of the government. They are government securities denominated in grams of gold. They are substitutes for holding physical gold.

The bonds are sold through banks (except small finance banks and payment banks), Stock Holding Corporation of India Limited (SHCIL), designated post offices, and recognised stock exchanges National Stock Exchange of India Limited and BSE.

SGBs are government securities denominated in grams of gold. They are substitutes for holding physical gold. Investors have to pay the issue price in cash and the bonds will be redeemed in cash on maturity. The Bond is issued by Reserve Bank on behalf of Government of India.

Q.140) Consider the following statements regarding Deen Dayal Upadhyaya Grameen Kaushalya Yojana:

1. It is the flagship scheme of the Ministry of Skill Development & Entrepreneurship.
2. It aims to diversify the income of rural poor families.
3. It is focused on rural youth between the ages of 15 and 35 years.

Which of the above statements is/are correct?

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

Q.140) Solution (d)

Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY) is a scheme of the Ministry of Rural Development.

It is tasked with the dual objectives of adding diversity to the incomes of rural poor families and caters to the career aspirations of rural youth.

DDU-GKY is uniquely focused on rural youth between the ages of 15 and 35 years from poor families.

As a part of the Skill India campaign, it plays an instrumental role in supporting the social and economic programs of the government like the Make In India, Digital India, Smart Cities and Start-Up India, Stand-Up India campaigns.

Over 180 million or 69% of the country's youth population between the ages of 18 and 34 years, live in its rural areas. Of these, the bottom of the pyramid youth from poor families with no or marginal employment number about 55 million.

Q.141) With reference to the Interest Rate Growth Rate Differential (IRGD), consider the following statements:

1. It is the difference between interest paid on government debt and economy's nominal growth rate.
2. India has positive IRGD.

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.141) Solution (a)

Interest Rate Growth Rate Differential (IRGD):

- It is the difference between the interest rate and the growth rate in an economy.
- With the Indian context of potential high growth, the interest rate on debt paid by the Indian government has been less than India's growth rate by norm, not by exception.
- According to economic survey 2021, the phenomenon of a negative IRGD in India, unlike advanced economies, is not due to lower interest rates but much higher

growth rates, prompting a debate on saliency of fiscal policy, especially during growth slowdowns and economic crises.

Q.142) With reference to the countercyclical fiscal policy, consider the following statements:

1. Under this policy measure total government spending as a percentage of GDP goes down and tax rates go up during recession.
2. This policy measure increases the government deficit during the period of boom.

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.142) Solution (d)

Government's fiscal policy has big role in stabilizing the economy during business cycles. The two important phases of business cycles are boom and recession.

Practically fiscal policy responses using taxation and expenditure can go in two ways in response to the business cycle: Countercyclical and procyclical.

A counter-cyclical fiscal policy refers to strategy by the government to counter boom or recession through fiscal measures. It works against the ongoing boom or recession trend; thus, trying to stabilize the economy. Understandably, countercyclical fiscal policy works in two different direction during these two phases.

Countercyclical fiscal policy during recession: Recession is a business cycle situation where there is slowing demand and falling growth in the economy. Here, the Government's responsibility is to generate demand by fine-tuning taxation and expenditure policies. Reducing taxes and increasing expenditure will help to create demand and producing upswing in the economy.

Countercyclical fiscal policy during boom: In the case of boom, economic activities will be on upswing. Amplifying the boom is disastrous as it may create inflation and debt crisis and the government's responsibility here is to bring down the pace of economic activities. Increasing taxes and reducing public expenditure will make boom mild. Thus, slowing down demand should be the nature of countercyclical fiscal policy during boom.

Q.143) With reference to the Pradhan Mantri Jan Arogya Yojana, consider the following statements:

1. It is one of the components of Ayushman Bharat Scheme.

2. It provides a cover of Rs. 5 lakhs per family per year for primary health care.
3. It covers up to 3 days of pre-hospitalization and 15 days post-hospitalization expenses.

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.143) Solution (c)

Ayushman Bharat, a flagship scheme of Government of India, was launched as recommended by the National Health Policy 2017, to achieve the vision of Universal Health Coverage (UHC). This initiative has been designed to meet Sustainable Development Goals (SDGs) and its underlining commitment, which is to "leave no one behind.

Ayushman Bharat adopts a continuum of care approach, comprising of two inter-related components, which are -

- Health and Wellness Centres (HWCs)
- Pradhan Mantri Jan Arogya Yojana (PM-JAY)

Pradhan Mantri Jan Arogya Yojna (PM-JAY):

- PM-JAY is the world's largest health insurance/ assurance scheme fully financed by the government.
- It provides a cover of Rs. 5 lakhs per family per year for secondary and tertiary care hospitalization across public and private empanelled hospitals in India.
- Over 10.74 crore poor and vulnerable entitled families (approximately 50 crore beneficiaries) are eligible for these benefits.
- PM-JAY provides cashless access to health care services for the beneficiary at the point of service, that is, the hospital.
- PM-JAY envisions to help mitigate catastrophic expenditure on medical treatment which pushes nearly 6 crore Indians into poverty each year.
- It covers up to 3 days of pre-hospitalization and 15 days post-hospitalization expenses such as diagnostics and medicines.
- There is no restriction on the family size, age or gender.
- All pre–existing conditions are covered from day one.
- Benefits of the scheme are portable across the country i.e. a beneficiary can visit any empanelled public or private hospital in India to avail cashless treatment.
- Services include approximately 1,393 procedures covering all the costs related to treatment, including but not limited to drugs, supplies, diagnostic services, physician's fees, room charges, surgeon charges, OT and ICU charges etc.

- Public hospitals are reimbursed for the healthcare services at par with the private hospitals.

Following causal impact of PM-JAY on health outcomes were observed according to the Economic Survey 2021:

- Enhanced health insurance coverage: Across all the states, the proportion of households with health insurance increased by 54% for the states that implemented PMJAY while falling by 10% in states that did not.
- Decline in Infant Mortality rate (IMR): IMR declined by 12% for states that did not
- adopt PM-JAY and by 20% for the states that adopted it.
- Decline in under-5 mortality rate

Q.144) Which of the following components are taken into account while calculating Bare Necessities Index (BNI)?

1. Source of drinking water
2. Housing
3. Child Mortality
4. Drainage system

Choose the correct answer from the codes given below:

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

Q.144) Solution (d)

The BNI summarises 26 indicators on five dimensions — water, sanitation, housing, micro-environment, and other facilities. The index classifies areas on three levels of access — high, medium, low — to bare necessities.

1. Water: It has been measured using indicators like the principal source of drinking water, distance to the source of drinking water, Method of taking water and the nature of access.
2. Sanitation: It has been measured through indicators like access of the household to latrine and type of latrine used by the household: piped sewer system, septic tank, twin leach pit, single pit.
3. Housing: It has been measured through indicators like Condition of structure, types of dwelling (independent, flat or others) and puccah or kutcha house.
4. Micro-Environment: It is measured through indicators like the Drainage system of the household, whether the household faced the problem of flies/mosquitoes during the last one year and if any effort was made by the Local Bodies/State Government to tackle mosquitoes.

5. Other Facilities: The other facilities include Kitchen type (with water tap or no separate kitchen), Ventilation of the dwelling unit, Type of bathroom used by the household, Whether the household has electricity for domestic use and electric wiring, Type of fuel used by the household for cooking.

Key findings related to bare necessities according to the Economic Survey 2021:

- Access to the 'bare necessities' has improved across all States in the country in 2018 as compared to 2012.
- It is highest in States such as Kerala, Punjab, Haryana and Gujarat while lowest in Odisha, Jharkhand, West Bengal and Tripura.
- Inter-State disparities declined across rural and urban areas.
- Improved access to the 'bare necessities' has led to improvements in health indicators such as IMR and also correlates with future improvements in education indicators.

Q.145) Consider the following statements:

1. A country's public debt is considered sustainable if the government is able to meet all its current and future payment obligations without exceptional financial assistance.
2. Debt sustainability of a country leads to its higher growth rate.

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.145) Solution (a)

A country's public debt is considered sustainable if the government is able to meet all its current and future payment obligations without exceptional financial assistance or going into default.

The Economic Survey 2021 examines the optimal stance of fiscal policy in India during a crisis and comes to the conclusion that it is growth that leads to debt sustainability and not necessarily vice-versa. With evidence from across several countries, the Survey shows that growth causes debt to become sustainable in countries with higher growth rates, and that such clarity about the causal direction is not witnessed in countries with lower growth rates.

Q.146) The V-shaped economic recovery is characterized by:

1. Slow return of businesses investment

2. Increase in consumer demand
3. Persistent unemployment

Choose the correct answer from the codes given below:

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

Q.146) Solution (b)

V-shaped recovery is one of the countless shapes a recession and recovery chart could take, including L-shaped, W-shaped, U-shaped and J-shaped.

Each type of recovery represents the general shape of the chart of economic metrics that gauge the health of the economy. Economists develop these charts by examining the relevant measures of economic health, such as employment rates, gross domestic product (GDP), and industrial production indexes.

In a V-shaped recovery, after the economy suffers a sharp economic decline, it then quickly and strongly recovers. Such recoveries are generally spurred by a significant shift in economic activity caused by rapid readjustment of consumer demand and business investment spending.

Because of the rapid adjustment of the economy and the quick recovery in major aggregate metrics of macroeconomic performance, a V-shaped recovery can be thought of as a kind of best-case scenario once an economy has hit a recession.

Q.147) Ricardian Equivalence Proposition suggests:

a) Using active government policy to manage aggregate demand in order to address or prevent economic recessions.
b) Population growth is potentially exponential while the growth of the food supply or other resources is linear, which eventually reduces living standards to the point of triggering a population die off.
c) Financing government spending out of current taxes or current deficits will have equivalent effects on the overall economy.
d) Individuals who have unrestricted access to a resource are likely to act within their own self-interest and, through collective action, may deplete the resource in its entirety.

Q.147) Solution (c)

Ricardian equivalence is an economic theory that says that financing government spending out of current taxes or future taxes (and current deficits) will have equivalent effects on the overall economy.

This means that attempts to stimulate an economy by increasing debt-financed government spending will not be effective because investors and consumers understand that the debt will eventually have to be paid for in the form of future taxes.

The theory argues that people will save based on their expectation of increased future taxes to be levied in order to pay off the debt, and that this will offset the increase in aggregate demand from the increased government spending.

This theory was developed by David Ricardo in the early 19th century and later was elaborated upon by Harvard professor Robert Barro. For this reason, Ricardian equivalence is also known as the Barro-Ricardo equivalence proposition.

Q.148) With reference to the headline inflation, consider the following statements:

1. It is a measure of the total inflation within an economy, excluding commodities such as food and fuel, prices of which tend to be much more volatile.
2. Headline inflation is more relevant for developing economies than developed economies.

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.148) Solution (b)

Headline inflation refers to the change in value of all goods in the basket. It is different from core inflation which excludes food and fuel items from headline inflation.

Since the prices of fuel and food items tend to fluctuate and create 'noise' in inflation computation, core inflation is less volatile than headline inflation.

In a developed economy, food & fuel account for 10-15% of the household consumption basket and in developing economies it forms 30-40% of the basket. Thus, headline inflation is more relevant for developing economies than developed economies.

Q.149) With reference to the Economic Survey, 2021, consider the following statements:

1. Economic growth has a greater impact on poverty alleviation than inequality.
2. Sovereign credit rating changes for India have weak correlation with macroeconomic indicators.

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.149) Solution (c)

As per Economic Survey 2021:

- The relationship between inequality and socio-economic outcomes vis-à-vis economic growth and socio-economic outcomes, is different in India from that in advanced economies.
- Both inequality and per-capita income (growth) have similar relationships with socio-economic indicators in India, unlike in advanced economies.
- Economic growth has a greater impact on poverty alleviation than inequality.
- India must continue to focus on economic growth to lift the poor out of poverty.

Economic Survey mentions that:

India's sovereign credit ratings do not reflect its fundamentals:

- A clear outlier amongst countries rated between A+/A1 and BBB-/Baa3 for S&P/ Moody's, on several parameters
- Rated significantly lower than mandated by the effect on the sovereign rating of the parameter

Credit ratings map the probability of default and therefore reflect the willingness and ability of borrower to meet its obligations:

- India's willingness to pay is unquestionably demonstrated through its zero sovereign default history
- India's ability to pay can be gauged by low foreign currency denominated debt and forex reserves.

Thus, Sovereign credit rating changes for India have no or weak correlation with macroeconomic indicators.

Q.150) According to the Budget 2021-22, the largest percentage of rupee comes to the union government in the form of:

a) GST
b) Borrowings
c) Income Tax
d) Non-Debt Capital Receipts

Q.150) Solution (b)

As per Budget 2021-22, Rupee comes from:

Item	Percentage
Borrowing & other liabilities	36%
Corporate Tax	13%
GST	15%
Non-tax revenue	6%
Union excise duties	8%
Customs	3%
Income tax	14%
Non debt capital receipts	5%

Q.151) Budget 2021-22 proposed Agriculture Infrastructure and Development Cess on which of the following products?

1. Gold
2. Urea
3. Petrol
4. Sugar

Choose the correct answer from the codes given below:

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

Q.151) Solution (a)

Agriculture Infrastructure and Development Cess:

The Budget 2021-22 has proposed a new levy, Agriculture Infrastructure Development Cess (AIDC) on 29 items.

The purpose of the new AIDC is to raise funds to finance spending on developing agriculture infrastructure.

On customs side the items covered under AIDC are gold, silver, alcohol beverages, crude palm oil, crude soyabean and sunflower oil, apples, coal, lignite and peat specified fertilizers, peas, kabuli chana, bengal gram, lentil and cotton.

On the excise side, AIDC of Rs. 2.5 per litre has been imposed on petrol and Rs. 4 per litre on diesel. However, Basic Excise Duty (BED) and Special Additional Excise Duty (SAED) rates on petrol and diesel have been reduced in the budget so that overall consumer does not bear any additional burden.

The new cess will only offset the reduction in Basic Custom Duty (BCD), Basic Excise Duty (BED) and Special Additional Excise Duty (SAED) on unbranded and branded petrol-diesel. Thus it will not raise the tax incidence for consumers.

Q.152) With reference to MITRA scheme, proposed in the Union Budget 2021-22, consider the following statements:

1. It aims to give boost to the agricultural sector.
2. Its objective is export promotion.
3. It aims at women empowerment.

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.152) Solution (b)

Mega Investment Textiles Parks (MITRA) scheme was announced by the Finance Minister during the union Budget 2021.

The scheme aims at making Textile Industry:

- Globally competitive
- Attract large Investments
- Boost employment generation and exports

Main Features of the scheme:

- To create a world class infrastructure with plug and play facilities to enable create global champion in exports.
- 7 Textile Parks will be established over 3 years.

The domestic textiles and apparel industry contributes 5% to India's GDP, 7% of industry output in value terms, and 12% of the country's export earnings. India is the 6th largest exporter of textiles and apparel in the world. India is one of the largest producers of cotton and jute in the world. The industry is the largest employer for women in India as they make up for more than 60% of its workforce. Nationally, 60 to 80% of the workers are women in the garment sector with millions of them employed in informal, unorganised or home-based units.

Q.153) With reference to the announcements made in the Union Budget 2021-22, consider the following statements:

1. FDI in investment sector has been increased to 49%.
2. Increase in FDI in insurance sector would help in bringing down the cost of insurance products in India.

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.153) Solution (b)

In the union Budget 2021-22 permissible FDI limit in insurance sector had been increased from 49% to 74% and allowed foreign ownership and control with safeguards.

In the follow-up to this announcement Parliament had passed the Insurance Amendment Bill 2021 to increase the FDI limit in the insurance sector to 74% from 49% and the Ministry of Finance has notified 'Indian Insurance Companies (Foreign Investment) Amendment Rules, 2021'.

Significance of this move:

- Insurance is considered a sensitive sector as it holds the long-term money of people. Various attempts were made in the past to open up the sector but without much success.
- The current amendment is an enabling amendment that gives companies access to foreign capital if they need it. It is an important shift in stance as the increase in the FDI cap means insurance companies can now be foreign-owned and -controlled as against the current situation wherein they are only Indian-owned and -controlled.
- The increase in foreign ownership to 74% can result in inclusion of global best practices in terms of insurance products going forward. It will also help in bringing down the cost of insurance products in India.
- This will give a foreign company the right to appoint a majority of directors, control the management and the policy decisions taken.
- The move is expected to increase India's insurance penetration or premiums as a percentage of GDP, which is currently only 3.76 per cent, as against a global average of more than 7 per cent.
- A higher FDI limit will help insurance companies access foreign capital to meet their growth requirements.
- Insurance is a long gestation business. It takes companies 7-10 years to breakeven and start becoming profitable. Allowing FDI upto 74 per cent could see more interest from foreign insurance companies who specialise in this business and who bring the so-called 'patient' capital.
- A higher FDI cap will mean that more promoters of insurance companies could now completely exit or bring down their stakes in their insurance joint ventures. It will also provide a reprieve to many state-owned banks that are dependent on the government to meet their own regulatory capital requirement and are being discouraged from putting more money into what is considered as a 'non-core' business.

Q.154) With reference to SARFAESI Act, consider the following statements:

1. It allows banks and other financial institution to auction residential or commercial properties of Defaulter to recover loans.
2. For NBFCs the minimum loan size eligible for debt recovery under the SARFAESI Act is Rs. 50 lakh.

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.154) Answer: (a)

The Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 also known as the SARFAESI Act allows banks and other financial institution to auction residential or commercial properties (of Defaulter) to recover loans.

The Act provides three alternative methods for recovery of non-performing assets, namely:

- Securitisation
- Asset Reconstruction
- Enforcement of Security without the intervention of the Court

The first asset reconstruction company (ARC) of India, ARCIL, was set up under this act.

In the Union Budget 2021-22, the finance minister announced the minimum loan size of Non Banking Financial Companies (NBFCs) eligible for debt recovery under the Sarfaesi Act to be reduced from the existing level of ₹50 lakh to ₹20 lakh.

- Proceedings under the Act help lenders recover their dues faster.
- If a lender cannot resort to the Sarfaesi Act, it needs to file cases in civil courts, which is a time-consuming process.
- Recovery under Sarfaesi is applicable only to secured loans, and allows lenders to auction the property mortgaged with them to recover dues from borrowers who have defaulted on loans.
- It is applicable to home loans, loan against property, and loan against collateral that micro small medium enterprises (MSME) avail.
- Under the Sarfaesi Act, a lender can take possession of the property or mortgaged assets after a 60-day notice. Lenders can take over the physical possession or control the mortgaged asset and can sell or transfer them to a buyer without the intervention of any court or a third party.
- Once the property is auctioned, the lender deducts its dues and pays the rest of the funds, if any, to the property owner.

The Finance Industry Development Council, a representative body for NBFCs, had suggested lowering the limit, to bring some level of parity between recovery procedures available to banks and NBFCs, as the former can initiate recovery under Sarfaesi Act for loans above ₹1 lakh.

Q.155) In the Union Budget 2021-22, a multipurpose seaweed park was announced to be developed in:

a) Odisha
b) Gujarat
c) Andaman and Nicobar Islands
d) Tamil Nadu

Q.155) Solution (d)

Budget 2021 has proposed a multi-purpose seaweed park to be set up in Tamil Nadu as part of promoting seaweed cultivation.

Seaweed farming is an emerging sector with potential to transform the lives of coastal communities and will provide large employment and additional income.

The commercially exploited seaweed species in India mainly include Kappaphycus alvarezii, Gracilaria edulis, Gelidiella acerosa, Sargassum spp. and Turbinaria spp. Seaweeds are valued for commercial products such as Karrageenan and Agar besides being used for the production of polysaccharides, fertilizer, sludge and other high-value products such as nutraceuticals and cosmeceuticals for use against various lifestyle diseases.

The development of seaweed park would go a long way in addressing the nutritional security of a large segment of undernourished and underprivileged marginal communities.

Q.156) Operation Green Scheme is applicable to which of the following:

1. Mango
2. Wheat
3. Potato
4. Onion

Choose the correct answer from the codes given below:

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

Q.156) Solution (c)

Operation Green Scheme is an initiative of the Ministry of Food Processing Industries.

The objective of this scheme is to protect the growers of fruits and vegetables from making distress sale due to lockdown and reduce the post-harvest losses.

Eligible Crops:- Fruits- Mango, Banana, Guava, Kiwi, Lichi, Papaya, Citrus, Pineapple, Pomegranate, Jackfruit; Vegetables: - French beans, Bitter Gourd, Brinjal, Capsicum, Carrot, Cauliflower, Chillies (Green), Okra, Onion, Potato and Tomato. Any other fruit/vegetable can be added in future on the basis of recommendation by Ministry of Agriculture or State Government

Ministry will provide subsidy @ 50 % of the cost of the following two components, subject to the cost norms:

- Transportation of eligible crops from surplus production cluster to consumption centre; and/or
- Hiring of appropriate storage facilities for eligible crops (for maximum period of 3 months).

Q.157) With reference to the Rural Infrastructure Development Fund (RIDF), consider the following statements:

1. The main objective of this fund is to provide loans to the state governments at the annual interest rate of 4% to enable them to complete ongoing rural infrastructure projects.
2. The funds released under RIDF are maintained by SIDBI.

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.157) Solution (d)

The Rural Infrastructure Development Fund (RIDF) was set up by the Government in 1995-96 for financing ongoing rural Infrastructure projects. The Fund is maintained by the National Bank for Agriculture and Rural Development (NABARD).

The main objective of the Fund is to provide loans to State Governments and State-owned corporations to enable them to complete ongoing rural infrastructure projects.

The activities to be financed under RIDF include minor irrigation projects/micro irrigation, flood protection, watershed development/reclamation of waterlogged areas, drainage, forest development, market yard/godown, apna mandi, rural haats and other marketing infrastructure, cold storage, seed/agriculture/horticulture farms, plantation and horticulture, grading and certifying mechanisms such as testing and certifying laboratories, etc.,community irrigation wells for irrigation purposes for the village as a whole, fishing harbour/jetties, riverine fisheries, animal husbandry and modern abattoir.

Eligible Institutions are:

- State Governments / Union Territories
- State Owned Corporations / State Govt. Undertakings
- State Govt. Sponsored / Supported Organisations
- Panchayat Raj Institutions/Self Help Groups (SHGs)/ NGOs

Mode of Finance: NABARD releases the sanctioned amount on reimbursement basis except for the initial mobilisation advance @30% to North Eastern & Hilly States and 20% for other states.

Rate of interest: With effect from 01 April 2012, the interest rates payable to banks on deposits placed with NABARD and loans disbursed by NABARD from RIDF have been linked to the Bank Rate prevailing at that point of time.

Q.158) Consider the following statements regarding Consolidated Sinking Fund (CSF):

1. The fund is administered by RBI.
2. It is part of the Consolidated Fund of the States.
3. This fund is only used by the state governments for redemption of loans.

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.158) Solution (c)

Consolidated Sinking Fund (CSF) was set up in 1999-2000 by the RBI to meet redemption of market loans of the States.

Initially, 11 States — Andhra Pradesh, Arunachal Pradesh, Assam, Chhattisgarh, Goa, Maharashtra, Meghalaya, Mizoram, Tripura, Uttaranchal and West Bengal — set up sinking funds.

Later, the 12th Finance Commission (2005-10) recommended that all States should have sinking funds for amortisation of all loans, including loans from banks, liabilities on account of NSSF National Small Saving Fund), etc.

The fund should be maintained outside the consolidated fund of the States and the public account.

It should not be used for any other purpose, except for redemption of loans.

As per the scheme, State governments could contribute 1-3% of the outstanding market loans each year to the Fund.

The Fund is administered by the Central Accounts Section of RBI Nagpur.

Q.159) Consider the following statements regarding GIS-enabled Land Bank System:

1. It is launched by the National Bank for Agriculture and Rural Development.
2. Its objective is to provide an integrated property validation solution for rural India.

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.159) Solution (d)

GIS-enabled Land Bank System is a one-stop repository of all industrial infrastructure-related information – connectivity, infra, natural resources & terrain, plot-level information on vacant plots, line of activity, and contact details.

It is developed by the Department for Promotion of Industry & Internal Trade (DPIIT) under the Ministry of Commerce and Industry.

It aims to provide information on available land for prospective investors looking at setting up units in the Country.

Q.160) With reference to the economic survey 2021, consider the following statements:

1. Services sector accounts for nearly 80% of the total FDI inflow into India.
2. Services sector accounts for 48% of total exports of India.

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.160) Solution (c)

As per Economic Survey 2021:

The contact intensive services sector was severely impacted; particularly sub-sectors such as tourism, aviation, and hospitality were severely affected due to COVID-19 pandemic. India's services sector contracted by nearly 16 %.

The services sector accounts for over 54 % of India's GVA and nearly four-fifths of total FDI inflow into India. Services sector accounts for 48% of total exports, outperforming goods exports in the recent years.