

**IAS BABA**



**60 DAY RAPID REVISION**

**(RARE) SERIES**

**UPSC/IAS Prelims 2023**

# **ECONOMY**

## **PART -1 COMPILATION**



Q.1) Consider the following statements with regards to trends of Below Poverty Line (BPL) Population in India after New Economic Reforms (1991):

1. The percentage of BPL Population in India has declined in both rural and urban areas.
2. Poverty Percentage declined at initial stage of 1991 reforms, especially from 1993-94 to 2004-05. But Poverty Percentage increased during 2004-05 to 2011-12
3. The gap between the percentage of BPL population in rural and urban areas has considerably reduced.

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

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

Q.1) Solution (c)

**Explanation:**

- There are two conclusions on trends in poverty. The first one, shown in a World Bank study by Gaurav Datt and others, is that poverty declined by 1.36 percentage points per annum after 1991, compared to that of 0.44 percentage points per annum prior to 1991. Their study shows that among other things, urban growth is the most important contributor to the rapid reduction in poverty even though rural areas showed growth in the post-reform period. **(Hence statement 1 is correct)**
- The second conclusion is that in the post-reform period, poverty declined faster in the 2000s than in the 1990s. The official estimates based on Tendulkar committee's poverty lines shows that poverty declined only **0.74 percentage points per annum during 1993-94 to 2004-05**. But **poverty declined by 2.2** percentage points per annum during **2004-05 to 2011-12**. Around 138 million people were lifted above the poverty line during this period. This indicates the success of reforms in reducing poverty **(Hence statement 2 is incorrect)**
- The gap between the absolute number of poor in rural and urban areas has got reduced whereas in the case of ratio, the gap has remained the same until 1999-2000 and has **widened in 2004-05**. **(Hence statement 3 is incorrect)**

Q.2) Consider the following statements about 'Production Linked Incentive Scheme for Food Processing Industry' (PLISFPI):

1. It is being implemented by the Ministry of Commerce and Industry.
2. This Scheme will be implemented over a six year period from 2021-22 to 2026-27.

Which of the statements given above is/are correct?

- a) 1 Only



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

Q.2) Solution (b)

**Explanation:**

- Production Linked Incentive Scheme for Food Processing Industry' (PLISFPI) is being implemented by the Ministry of Food Processing Industries (MoFPI). **(Hence, statement 1 is incorrect).**
- As a part of Prime Minister's announcement of Aatma nirbhar Bharat Abhiyan, Government of India has approved a new Central Sector Scheme namely 'Production Linked Incentive Scheme for Food Processing Industry' for implementation during 2021-22 to 2026-27 to support creation of global food manufacturing champions commensurate with India's natural resource endowment and support Indian brands of food products in the international markets. **(Hence, statement 2 is correct).**

Q.3) Consider the following statements related to Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) 2005:

1. It provides for 100 days of guaranteed wage employment to the rural households who volunteer to do unskilled manual work.
2. Priority is given to works where at least one third of wage seekers are women.
3. It provides employment only to the identified BPL Families in the rural areas.

Which of the statements given above is/are correct?

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

Q.3) Solution (b)

**Explanation:**

- MGNREGA aims to enhance livelihood security in rural areas by providing at least 100 days of wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work. **(Hence statement 1 is correct)**
- Another aim of MGNREGA is to create durable assets (such as roads, canals, ponds and wells). Employment is to be provided within 5 km of an applicant's residence, and minimum wages are to be paid. If work is not provided within 15 days of applying, applicants are entitled to an unemployment allowance. Thus, employment under MGNREGA is a legal entitlement.



- As per the MGNREGA, **any adult non-skilled worker from a rural region of India will be eligible to get a guaranteed job under the 100-day job scheme every financial year.** If an individual enrolls himself under this scheme, he will be eligible for a job within 15 days from the date of registration under the act. **(Hence statement 3 is incorrect)**

#### Target Group

- Scheme is open to all rural households who are in need of wage employment and desire to do manual and unskilled work.
- Period of employment should ordinarily be at least fourteen days continuously with not more than six days in a week.
- Priority to works where at least **one third of wage seekers are women. (Hence statement 2 is correct)**
- Persons desirous for work may submit their applications to the Gram Panchayat.
- Gram Panchayat shall register the household. After verification, job card is to be issued to the applicant household.

Q.4) What should India do to obtain full benefits of demographic dividend?

1. Promote skill development
2. Introduce more social security schemes
3. Improving the Total Factor Productivity
4. Privatize higher education
5. A transition from agriculture to non-agriculture sectors

Which of the statements given above are correct?

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

Q.4) Solution (c)

#### Explanation:

- Development of skills, at a young age, right at the school level, is very essential to channelize them for proper job opportunities. **(Hence statement 1 is correct)**
- There should be a balanced growth in all the sectors and all jobs should be given equal importance. Every job aspirant would be given training in soft skills to lead a proper and decent life.
- Skill development would reach the rural and remote areas also. Corporate educational institutions, non-government organizations, Government, academic institutions, and society



would help in the development of skills of the youths so that better results are achieved in the shortest time possible.

- The country can reap the demographic dividend by **improving the Total Factor Productivity, a transition from agriculture to non-agriculture sectors such as manufacturing/service sector**, and from unorganized sector to the organized. **(Hence statements 3 and 5 are correct)**
- **Introducing social security schemes will not provide any permanent jobs and might** even increase the dependence on the government. Reducing Infant mortality rates will have outcomes on the population and is **not related to obtaining benefits** from the demographic dividend. Privatisation of higher education may or may not improve the quality and access to duration. **(Hence statements 2 and 4 are incorrect)**

Q.5) Consider the following statements with reference to Human Development Index (HDI):

1. The Human Development Index (HDI) ranks countries on the basis of their performance in key areas of health, education and standard of living.
2. The Annual report of HDI is released by UNDP.
3. India ranks 132 out of 191 countries in the Human Development Report 2021-2022.

Select the correct answer using the code given below:

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

Q.5) Solution (d)

**Explanation:**

- The Human Development Index (HDI) is a composite index that measures the average achievements in a country in three basic dimensions of human development. These basic dimensions are a long and healthy life, knowledge and a decent standard of living. **(Hence statement 1 is correct)**
- India ranks 132 out of 191 countries. A report on the 2021 Human Development Index (HDI) is part of the Human Development Report 2021-2022 released by the **United Nations Development Programme.****(Hence statements 2 and 3 are correct)**

Q.6)'Soft loan window', which provides concessional loans to the less developed countries is given by:

- a) ADB
- b) IMF
- c) IBRD
- d) IDA

Q.6) Solution (d)



**Explanation:**

- A soft loan is a loan with no interest or a below-market rate of interest. The International Development Association (IDA) is known as the 'soft loan' window of the World Bank since it offers concessional loans and grants to the world's poorest developing countries.

Q.7) Consider the following pairs of economic terms related to employment and their definition:

	Economic Term	Definition
1	Labour Force Participation Rate	(Labour force/ Total population) X 100
2	Work Participation Rate	(Workers/Total population) X 100
3	Worker Population Ratio	Number of persons employed per1000 persons

Which of the pairs given above is/are correctly matched?

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

Q.7) Solution (c)

**Explanation:**

- The Labour Force Participation Rate is calculated by expressing the number of persons in the labour force as a percentage of the **working-age population not Total population. (Hence Pair 1 is incorrectly matched)**. The labour force is the sum of the number of persons employed and the number of persons unemployed. Thus, the measurement of the Labour Force Participation Rate requires the measurement of both employment and unemployment.
- The Work Participation Rate (WPR) is defined as the percentage of total workers to the total population. **(Hence Pair 2 is correctly matched)**
- The worker Population Ratio is defined as number of persons per 1000 persons. **(Hence Pair 3 is correctly matched)**

Q.8) Consider the following statements regarding the Rangarajan Committee:

1. The Rangarajan Committee estimation is based on an independent large survey of households by the Centre for Monitoring Indian Economy (CMIE).
2. According to the report of the Committee, the new poverty line should be Rs. 100 in rural areas and Rs. 165 in urban areas.



3. As per the Committee estimates 29.5% of the population in India is living below poverty line.

Which of the statements given above are correct?

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

Q.8) Solution (c)

**Explanation:**

- The Expert Group under the Chairmanship of Dr. C. Rangarajan to Review the Methodology for Measurement of Poverty in the country constituted by the Planning Commission in June 2012 has submitted its report on 30th June 2014.
- According to the report of the Committee, the new poverty line should be Rs. 32 in rural areas and Rs. 47 in urban areas. The earlier poverty line figure was Rs. 27 for rural India and Rs. 33 for urban India. (poverty line is estimated as Monthly Per Capita Expenditure of Rs. 1407 in urban areas and Rs. 972 in rural areas) **(Hence statement 2 is incorrect)**
- The Rangarajan Committee estimation is based on an independent large survey of households by the Centre for Monitoring Indian Economy (CMIE). It has also used different methodology wherein a household is considered poor if it is unable to save. **(Hence statement 1 is correct)**
- Based on this methodology, the Rangarajan Committee estimated the number of poor were 19 per cent higher in rural areas and 41 per cent more in urban areas, than what was estimated using the Tendulkar Committee formula.
- A committee headed by former RBI governor C Rangarajan has said that the number of poor in India was much higher in 2011-12 at 29.5% of the population, which means that 3 out of 10 persons are poor. **(Hence statement 3 is correct)**

Q.9) Which of the following statements is/are correct about disguised unemployment?

- 1. It is an unemployment that affects aggregate output.
- 2. An economy demonstrates disguised unemployment when productivity is low and too many workers are filling too few jobs.
- 3. The marginal productivity in case of disguised unemployment is zero

Select the correct answer using the code given below:

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





Q.9) Solution (d)

**Explanation:**

- Disguised unemployment exists where part of the labour force is either left without work or is working in a redundant manner where worker productivity is essentially zero.
- It is unemployment that does **not affect aggregate output. (Hence statement 1 is incorrect)** An economy demonstrates disguised unemployment when productivity is low and too many workers are filling too few jobs. The marginal productivity in case of disguised unemployment is zero. **(Hence statements 2 and 3 are correct)**
- Disguised unemployment exists frequently in developing countries whose large populations create a surplus in the labour force. It can be characterized by low productivity and frequently accompanies informal labour markets and agricultural labour markets, which can absorb substantial quantities of labour.

Q.10) Consider the following schemes:

1. MGNREGA
2. PM Ujjwala Yojana
3. Ayushman Bharat Yojana
4. Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (NRLM)

Which of the above Schemes is/are available only for BPL (Below Poverty Line) households?

- a) 1 only
- b) 1, 2 and 3 only
- c) 1 and 4 only
- d) None of the above

Q.10) Solution (d)

**Explanation:**

- MGNREGA – 100 days of work for any household. **(Hence scheme is not mandated to BPL only)**
- PM Ujjwala Yojana – In the original form, Ujjwala Yojana, in 2016, was extended to only BPL household women. Now it is extended to **all poor households. (Hence scheme is not mandated to BPL only)**
- Ayushman Bharat Yojana – Targets over 10 crore families belonging to poor and vulnerable population based on Socio Economic and Caste Census 2011 (SECC). **The beneficiaries are not mandatorily BPL. (Hence scheme is not mandated to BPL only)**
- Deendayal Antyodaya Yojana - National Rural Livelihoods Mission: The NRLM target households are identified through the **Participatory Identification of Poor (PIP)** instead of the BPL. The PIP is a community driven process, where the community based organizations themselves identify the poor and vetted by the Gram Sabha. **(Hence scheme is not mandated to BPL only)**





Q.11) Which of the following is/are **not** a feature(s) of developing countries?

1. Low rate of growth of population
2. Low rate of capital formation
3. Low social indicators of development
4. Low level of unemployment

Select the correct answer using the code given below:

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

Q.11) Solution (a)

**Explanation:**

**Common features of developing countries are:**

- Low per capita income;
- Poor level of living;
- High rate of growth of population; **(Hence statement 1 is incorrect)**
- Highly in equal income distribution;
- Prevalence of mass poverty;
- Low levels of productivity;
- Low rate of capital formation **(Hence statement 2 is correct)**
- Technological backwardness;
- High level of unemployment; **(Hence statement 4 is incorrect)**
- Low social indicators of development. **(Hence statement 3 is correct)**

Q.12) Consider the following statements about minimum wages in India:

1. The National Floor Level Minimum Wage (NFLMW) is fixed by the Central Government.
2. NFLMW is updated regularly based on CPI-Industrial Workers.
3. The Minimum Wages Act covers all workers.

Which of the statements given above is/are correct?

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



Q.12) Solution (b)

**Explanation:**

- The Central Government adopted **non-statutory** National Floor Level Minimum Wage (NFLMW). This NFLMW is updated regularly as per CPI-IW. **(Hence statement 1 is correct)**
- NFLMW, which has only persuasive value, as it lacked statutory backing, is revised every two years on the basis of rise in **consumer price index for industrial workers (CPI-IW)**, in order to have a uniform wage structure and reduce the disparity in minimum wages across the country. **(Hence statement 2 is correct)**
- The Minimum Wages Act covers **unskilled workers** across country but not all. **(Hence statement 3 is incorrect)**

Q.13) \_\_\_\_\_ is a type of unemployment that does not affect aggregate economic output. It occurs when productivity is low and too many workers are filling too few jobs.

- a) Open Unemployment
- b) Disguised Unemployment
- c) Frictional Unemployment
- d) Seasonal Unemployment

Q.13) Solution (b)

**Explanation:**

- Open unemployment is the situation when a person is willing to work, is educated but is unable to get a job and work. This kind of unemployment is clearly visible in the society.
- Disguised unemployment is unemployment that **does not affect aggregate economic output**. It occurs when productivity is low and too many workers are filling too few jobs. It can refer to any part of the population that is not employed at full capacity. **(Hence option b) is correct)**
- Seasonal unemployment is the type of unemployment that is prevalent during a specific season of the year. In some sectors such as agriculture, ice factories, holiday resorts, etc. production or economic activity is undertaken during a particular season and the rest of the year being an offseason the employees remain unemployed.
- Frictional unemployment occurs with voluntary employment transitions within an economy. As workers choose to move from one job to another and new workers enter the workforce for the first time, a temporary period of unemployment is created.

Q.14) Consider the following statements about the National Food Security Act, 2013:

1. It comes under the Ministry of Consumer Affairs, Food and Public Distribution
2. It covers Households under existing Antyodaya Anna Yojana
3. It guarantees age appropriate meal, free of charge through local Anganwadi for children up to 6 months and one free meal for children in age group 6-14 years in schools.



Which of the statements given above are correct?

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

Q.14) Solution (c)

**Explanation:**

**National food security act 2013**

**Ministry/Department:** Ministry of Consumer Affairs, Food and Public Distribution. **(Hence statement 1 is correct)**

**Aim** is to provide subsidized food grains to approximately two thirds of India's population i.e. 75% in rural areas and 50% in urban areas.

**Scheme:**

- It converts the various existing food security schemes into legal entitlements (i.e.) from welfare based approach to rights based approach.
- It includes the Midday Meal Scheme, ICDS scheme and the PDS. It also recognizes maternity entitlements.
- Under NFSA, each beneficiary is entitled to 5 kilograms of food grains per month at Rs.3, Rs.2, and Rs.1 per kg for rice, wheat and coarse grains respectively.
- However, the beneficiaries under Antyodaya Anna Yojana will keep receiving the 35 Kg per household per month at same rates.
- It guarantees age appropriate meal, free of charge through local Anganwadi for children up to 6 months and one free meal for children in age group 6-14 years in schools. **(Hence statement 2 is correct)**
- Every pregnant and lactating mother is entitled to a free meal at the local Anganwadi as well as maternity benefits of Rs. 6,000, in installments.
- Meals for children upto 14 years of age.
- Food security allowance to beneficiaries in case of non-supply of entitled food grains or meals.
- A maternal benefit does not extend to Government employees.
- The identification of eligible households is left to state governments.

**Coverage:**

- 75% of the rural population and up to 50% of the urban population for receiving subsidized food grains under Targeted Public Distribution System (TPDS).
- Overall, NFSA caters to 67% of the total population.



**Eligibility:**

- Priority Households to be covered under TPDS, according to guidelines by the State government.
- Households covered under existing Antyodaya Anna Yojana. **(Hence statement 3 is correct)**

Q.15) Consider the following pairs of Sustainable Development Goals and government programmes in India:

1. SDG 2 – Poshan Abhiyan
2. SDG 3 - Beti Bachao Beti Padhao
3. SGD 6 – Green India Mission
4. SDG 11 - AMRUT

Which of the pairs given above are correctly matched?

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

Q.15) Solution (a)

**Explanation:**

- SDG 2: End hunger, achieve food security and improved nutrition, and promote sustainable agriculture. **(Hence pair 1 correctly matched)**
- SDG 3: Ensure healthy lives and promote well- being for all at all ages. Beti Bachao Beti Padoo relates to SDG 5 (Achieve gender equality and empower all women and girls). **(Hence statement 2 is incorrect)**
- SDG 6- Ensure availability and sustainable management of water and sanitation for all. **(Hence statement 3 is incorrectly matched)**
- **Green India Mission is related to SDG 13** (Take urgent action to combat climate change and its impacts).
- SDG 11- Make cities and human settlements inclusive, safe, resilient and sustainable. **(Hence statement 4 is correctly matched)**

Q.16) Which of the following leads to human capital formation?

1. Expenditure on Education
2. Investments on health
3. On- the- job training
4. Migration and information
5. Population growth

Select the correct answer from the codes given below:



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

Q.16) Solution (d)

**Explanation:**

**Human Capital**

- Human Capital It refers to the stock of 'skill and expertise' of a nation at a point of time. It is the sum total of skill and expertise.
- Human Capital Formation It is the process of adding to the stock of human capital over time.

**Sources of Human Capital Formation**

- Expenditure on Education
- Expenditure on Health
- On-the-Job Training
- Study Programmes for Adults
- Migration
- Expenditure on Information

**Problems Facing by Human Capital Formation in India**

- Rising population (**Hence statement 5 is incorrect**)
- Deficient man power planning
- Low academic standards

Q.17) Which of the following measures are used to estimate poverty in India?

1. Consumption of calorie.
2. Income deprivation.
3. Hunger prevalence.
4. Provisions of social sector schemes in India.

Select the correct answer using the code given below:

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

Q.17) Solution (d)



**Explanation:**

- Since 1960s, various economists and committees have used numerous methods and approaches to arrive at the most standard for poverty measurements.
- Committee and reports, such as under Pant, Dhandhar, Rath, Lakdawala etc have suggested methods based on **calorie consumption, hunger deprivation** etc. **(Hence statement 1 and 3 are correct)**
- The Planning Commission, during 1970-80s, also used income deprivation. **(Hence statement 2 is correct)**
- The report of the Rangarajan Committee also took inclusion of important benefits, which a person derives from the government schemes. **(Hence statement 4 is correct)**

Q.18) Consider the following statements:

1. Lorenz curve and the Gini Coefficient are used for calculating income inequality.
2. Gini coefficient can vary from 0 to 1.
3. The Gini coefficient with a value of 1 expresses total equality and a value of 0 expresses maximum inequality.

Which of the statements given above is/are correct?

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

Q.18) Solution (a)

**Explanation:**

- There are two major methods of calculating income inequality- the Lorenz curve and the Gini Coefficient.**(Hence statement 1 is correct)**
- The Gini coefficient can vary from zero to one.**(Hence statement 2 is correct)**
- Higher the Gini coefficient greater the inequality. **Gini coefficient of 0 represents total equality and 1 represents maximum inequality.(Hence statement 3 is incorrect)**

Q.19. 'Poverty line in India is a quantitative measure'. In this context, consider the following statements:

1. It defines the number of people in an economy who are deprived of basic facilities.
2. Absolute poverty is taken into account not relative poverty.
3. India uses only one poverty line for the rural and the urban sphere.

Which of the statements given above are correct?



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

Q.19) Solution (b)

**Explanation:**

- Poverty line is defined as the number of people in an economy who are deprived of basic facilities, like food, water, housing etc. **(Hence statement 1 is correct)**
- It can only provide the absolute number of poor people, as it is a qualitative measure where the number of people above a threshold (a number in currency terms) is consider non-poor, while others under it are considered poor. **(Hence statement 2 is correct)**
- India uses separate poverty line for the rural and the urban sphere. (This is based on the Suresh Tendulkar Committee and Rangarajan Committee Reports). The Expert Group (Tendulkar) had used the all-India urban poverty line basket as the reference to derive state-level rural and urban poverty. This was a departure from the earlier practice of using two separate poverty line baskets for the rural and the urban areas. **(Hence statement 3 is incorrect)**
- The Expert Group (Rangarajan) reverts to the practice of having separate all-India rural and urban poverty basket lines and deriving state-level rural and urban estimates from these.

Q.20) The Global Multidimensional Poverty Index was developed by which of the following organizations?

- a) The World Bank
- b) The UN Development Programme
- c) The Oxford Poverty & Human Development Initiative
- d) Both b) and c)

Q.20) Solution (d)

**Explanation:**

**The Oxford Poverty & Human Development Initiative and the United Nations Development Programme** jointly developed the Global Multidimensional Poverty Index in 2010, replacing the Human Poverty Index. **(Hence option d) is correct answer)**

Q.21) Which of the following policy measures can be taken by the Reserve Bank of India in order to increase money supply in the Economy?

1. Decrease the Repo rate
2. Increase the Reverse Repo rate
3. Decrease the Bank Rate
4. Selling of Government Bonds under Open Market operations (OMOs)





Select the correct answer using the code given below:

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

Q.21) Solution (c)

**Explanation:**

- The interest at which banks borrow funds from RBI by selling their securities and bonds is called **“Repo Rate”**. In other words, it is simply the rate at which the RBI lends funds to commercial banks when they are facing a financial crunch and are unable to take care of their expenses. If the economy needs less money supply, RBI increases the repo rate, making it difficult for banks to borrow funds. Likewise, to pump funds into the system, the central bank may reduce the repo rate, encouraging banks to borrow funds. **(Hence statement 1 and 3 are correct)**
- **Reverse Repo** is the interest rate offered by RBI to banks who deposit money into its treasury. Simply put, when banks have excess funds, they choose to deposit it with RBI which is safer than lending it to their account holders or other companies. The rate of interest earned by the depositing bank is called reverse repo rate. An increase in reverse repo rate means that commercial banks will get more incentives to park their funds with the RBI, thus decreasing the supply of money in market. **(Hence statement 2 is incorrect)**
- Similarly, when **RBI buys a Government bond** in the open market, it leads to **increase in the money supply**. Selling of a bond by RBI (to private individuals or institutions) leads to reduction in the money supply. **(Hence statement 4 is incorrect)**

Q.22) Consider the following statements related to “Calibrated Tightening”:

1. It is one of the monetary policy stances of the RBI.
2. Under this policy stance, the repo rate either remains unchanged or increases.
3. This policy stance is adopted to increase the money supply in the economy.

Which of the statements given above are correct?

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

Q.22) Solution (a)

**Explanation:**

- **The RBI mainly follows three types of Policy stances.**



- Calibrated Tightening (**Hence statement 1 is correct**)
- Neutral stance
- Accommodative stance
- **Calibrated Tightening stance:** The central bank uses often is calibrated tightening. Calibrated tightening means during the current rate cycle, a cut in the repo rate is off the table. But, the rate hike will happen in a calibrated manner. This means the RBI would either keep the rates constant or increase the rates. Usually, this policy is adopted when there are concerns of higher rate of inflation. (**Hence statement 2 is correct and 3 is incorrect**)
- **Neutral stance** means the RBI would have the flexibility to either increase or decrease the policy rates by taking into account the macroeconomic conditions. Under this stance, key policy rates would move in either direction. Usually, this policy is adopted when the inflation rate is stable.
- **Accommodative stance** means RBI may reduce the policy rates to increase the money supply in the economy. Under this stance, policy rates normally decrease. Usually, this policy is adopted when there is slowdown in the economy.

Q.23) Which of the following is/are considered as assets of the RBI?

1. Government securities held by the RBI.
2. Currency Notes in circulation.
3. RBI's deposits with Bank for International Settlement
4. Loans and Advances to Central and State Governments.

Select the correct answer using the code given below:

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

Q.23) Solution (b)

**Explanation:**

The following are considered as the assets of the RBI:

- Gold, banknotes and coins kept in the vaults of the RBI.
- Foreign currency assets and balances with foreign entities like Bank for International Settlements (BIS), foreign commercial banks etc. (**Hence statement 3 is correct**)
- Government Bonds, Treasury Bills and Special Oil Bonds. (**Hence statement 1 is correct**).
- Loans and Advances to Central and State Governments to meet the temporary gap between receipts and payments. (**Hence statement 4 is correct**)
- Loans and advances to Commercial, Co-operative Banks, NABARD and others.
- The currency note in circulation is considered as **liabilities** of the RBI and not as assets. (**Hence statement 2 is incorrect**)



Q.24) Consider the following statements with respect to inflation:

1. Inflation is good for those who lend money, than for those who borrow money.
2. Inflation is good for those who borrow money than for those who lend money.
3. Inflation is good for those who buy the products than for those who make it.
4. Inflation is not good for those who make the products.

Select the correct answer using the code given below:

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

Q.24) Solution (d)

**Explanation:**

- Inflation is good for those who borrow money as once the inflation eases out the reduced inflation will offset the interest rate charged and thus, **in effect reduces the cost of borrowing** for the borrower. **(Hence statement 1 is incorrect and 2 is correct)**
- Inflation will have the same effect on those who make the product and those who buy it. This is because for those who make the product, the **factor cost will increase** and for those who buy the product, the **cost of the product is increased**. **(Hence statement 3 is incorrect and 4 is correct)**

Q.25) Consider the following statements in the context of money supply in the economy:

1. A Central Bank adopts cheap money policy in order to reduce inflation in the economy.
2. A dear money policy is often adopted in order to revive growth in the economy.

Which of the statements given above is/are correct?

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

Q.25) Solution (d)

**Explanation:**

- Cheap money policy implies that the Central Bank **reduces the interest rates** at which credit is available. This is often done in order to spur growth in the economy. **(Hence statement 1 is incorrect)**
- Dear money policy implies that the Central Bank is **raising the interest rates**. This is in order to mop up excess money in the market and thus, to tackle inflation. **(Hence statement 2 is incorrect)**



Q.26) Which of the following statements is/are correct with regarding steps taken by the Government to reduce inflation?

1. Imposing export duties on commodities.
2. Implementation of the Essential Commodities Act, 1955.
3. Implementation of the Price Stabilization Fund (PSF) Scheme.

Select the correct answer using the code given below:

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

Q.26) Solution (d)

**Explanation:**

- Inflation is considered to be a complex situation for an economy. It is not easy to control inflation by using a particular measure or instrument. The main aim of every measure is to reduce the inflow of cash in the economy or reduce the liquidity in the market.
- **The major steps taken by the Government in this regard are:**
  - Imposing a export price will increase the availability of commodities for domestic markets, thereby reducing inflationary pressures. **(Hence statement 1 is correct)**
  - Regular review meetings on price and availability situation at the highest level.
  - The states take strict action against hoarding and black marketing (as advised by the Government) and effectively enforce the Essential Commodities Act, 1955 and the Prevention of Black-Marketing and Maintenance of Supplies of Essential Commodities Act, 1980 for commodities in short supply. **(Hence statement 2 is correct)**
  - The Price Stabilization Fund (PSF)Scheme is being implemented to control price volatility of agricultural commodities, like pulses, onions, etc. **(Hence statement 3 is correct)**

Q.27) Which of the following statements is/are correct?

1. Stagflation is a situation of high inflation and low unemployment.
2. Skewflation is price rise of a small group of commodities over a sustained period of time.
3. Hyperinflation is accelerating inflation that takes place over a very short period of time.

Select the correct answer using the code given below:

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



Q.27) Solution (b)

**Explanation:**

- Stagflation is a situation in an economy when inflation and unemployment **both are at higher levels**, contrary to the conventional belief. When the economy is passing through the cycle of stagnation (i.e., long period of low aggregate demand in relation to its productive capacity) and the government shuffles with the economic policy, a sudden and temporary price rise is seen in some of the goods—such inflation is also known as stagflation. Stagflation is basically a combination of **high inflation and low growth**. The side effect of stagflation is increase in unemployment. **(Hence statement 1 is incorrect)**
- Skewflation is one in which there is a price rise of one or a small group of commodities over a sustained period of time, without a traditional designation. **(Hence statement 2 is correct)**
- Hyperinflation is a form of inflation that is 'large and accelerating', which might have the annual rates in million or even trillion. In such inflation, not only the range of increase is very large, but the increase takes place in a very short span of time, prices shoot up overnight. **(Hence statement 3 is correct)**

Q.28) Which of the following statements are correct about Wholesale Price Index (WPI) and the Consumer Price Index (CPI)?

1. Wholesale Price Index is used to calculate inflation in India
2. Ministry of Statistics and Program Implementation publishes the Wholesale Price Index figures.
3. WPI gives more weightage to manufactured goods, whereas CPI gives more weightage to food items.
4. Wholesale Price Index includes only the goods and not services.

Select the correct answer using the code given below:

- 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.28) Solution (b)

**Explanation:**

- In India inflation is calculated by using Wholesale Price Index. WPI calculates the price paid by the manufacturers and wholesalers in the market. **(Hence statement 1 is correct)**
- Figures related to Wholesale Price Index are published by the **Office of Economic Advisor** (Ministry of Commerce & Industry). **(Hence statement 2 is incorrect)**
- In WPI, more weightage is given to manufactured goods, while in CPI, more weightage is given to food items. **(Hence statement 3 is correct)**



- WPI tracks inflation at the producer level and CPI captures changes in prices levels at the consumer level. WPI does not capture changes in the prices of services, it includes only the goods. **(Hence statement 4 is correct)**

Q.29) Under which of the following situations, core inflation in an economy is said to increase?

1. The salaries of the employees have increased.
2. There is an increase in international crude oil prices.
3. Increased onion prices due to heavy flooding in the onion-producing states.

Select the correct answer using the code given below:

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

Q.29) Solution (a)

**Explanation:**

- Core inflation is an indicator of long-term inflation in an economy.
- This inflation shows the relationship between consumers' income and the prices of goods and services. In the sense that when income increase, the purchasing power of consumers will increase because the value of their income is higher than the changes in prices of goods and services. **(Hence statement 1 is correct)**
- Core inflation, also called as structural inflation, is that part of 'headline inflation', which excludes the effects of seasonal factors on increase in price level, like fluctuations in food and energy.
- More specifically, the supply side inflation is related to the fact that since crude oil is a basic input in production, an increase in its price leads to an increase in production costs that induces a firm to lower output. **(Hence statement 2 is incorrect)**
- It represents the '**underlying inflation**' and does not include temporary rises in the price level due to seasonal factors. **(Hence statement 3 is incorrect)**

Q.30) Which of the following is/are the effect/s of inflationary trends in an economy?

1. It leads to unemployment in short term.
2. Nominal growth in an economy increases.
3. The cost of borrowing increases.

Select the correct answer using the code given below:

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



d) 2 and 3

Q.30) Solution (b)

**Explanation:**

- Inflationary trends lead to unemployment in the short term, in order to offset the high cost of factors of production. **(Hence statement 1 is correct)**
- Nominal growth is not adjusted for inflation and, thus, it is said to increase during high inflation. When there is inflation usually high price, which means nominal growth in an economy increases, because in nominal growth, **growth rate calculated on the basis of current year prices. (Hence statement 2 is correct)**
- Inflation is good for those who borrow, as the nominal interest is offset by high inflation, resulting in low cost of borrowing. **(Hence statement 3 is incorrect)**

Q.31) Consider the following statements:

1. The Monetary Policy Committee (MPC) is constituted by the Reserve Bank of India.
2. The Reserve Bank's Monetary Policy Department (MPD) assists the MPC in formulating the monetary policy.
3. The responsibility of Monetary Policy is explicitly mandated under the Reserve Bank of India Act, 1934.

Which of the statements given above are correct?

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

Q.31) Solution (a)

**Explanation:**

- The Monetary Policy Committee (MPC), constituted by the **Central Government**, under Section **45ZB**, determines the policy interest rate required to achieve the inflation target. **(Hence statement 1 is incorrect)**
- The Reserve Bank's Monetary Policy Department (MPD) assists the MPC in formulating the monetary policy. Views of key stakeholders in the economy, and analytical work of the Reserve Bank contribute to the process for arriving at the decision on the policy repo rate. **(Hence statement 2 is correct)**
- Monetary policy refers to the policy of the central bank with regard to the use of monetary instruments under its control to achieve the goals specified in the Act.





- The Reserve Bank of India (RBI) is vested with the responsibility of conducting monetary policy. This responsibility is explicitly mandated under the Reserve Bank of India Act, 1934. **(Hence statement 3 is correct)**

Q.32) Which of the following statements are correct about the recommendations of the Urjit Patel Committee?

1. The headline Consumer Price Index (CPI) should be the nominal anchor for monetary policy and the Reserve Bank of India (RBI) should make this the predominant objective.
2. Monetary policy decisions should be vested in a Monetary Policy Committee (MPC), comprising the Governor, the Deputy Governor and Executive Director in charge of monetary policy, and two external full-time members.
3. There should be a remunerated standing deposit facility at the RBI to sterilize excess liquidity.
4. All sector specific refinance should be phased out.

Select the correct answer using the code given below:

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

Q.32) Solution (d)

**Explanation:**

**The key recommendations of the Urjit Patel Committee (2014) are:**

- The headline Consumer Price Index (CPI) should be the nominal anchor for monetary policy and the Reserve Bank of India (RBI) should make this the predominant objective. **(Hence statement 1 is correct)**
- The nominal anchor for inflation should be set for a two-year horizon at 4 per cent, with a band of plus or minus 2 per cent.
- The Central Government needs to reduce the fiscal deficit to 3.0 percent of GDP by 2016-17.
- Monetary policy decisions should be vested in a Monetary Policy Committee (MPC), comprising the Governor, the Deputy Governor and Executive Director in charge of monetary policy, and two external full-time members. The decisions of the MPC will be by voting. Members will be accountable for failure to attain the target – failure being defined as inability to attain the target for three successive quarters. **(Hence statement 2 is correct)**
- The real policy rate should be positive. In the first phase the weighted average call rate would be the operative target and the repo rate would be the single policy rate. The funds available at the repo rate would be restricted and increasingly liquidity would be provided at the 14day term repo; longer-term repo auctions should be introduced.



- In the second phase, the 14-day repo rate would be the operative target and recourse to outright two-way open market operations (OMOs) would determine liquidity. OMOs should not be used to manage yields on government securities.
- There should be a remunerated standing deposit facility at the RBI to sterilize excess liquidity. **(Hence statement 3 is correct)**
- With an independent debt management office, the market stabilization scheme and cash management bills should be phased out.
- All sector specific refinance should be phased out as committed to the **Asian Development Bank in 1992. (Hence statement 4 is incorrect)**

Q.33) The condition in which unemployment and inflation exist together is called as:

- a) Reflection
- b) Deflation
- c) Skewflation
- d) Stagflation

Q.33) Solution (d)

**Explanation:**

- The condition of a country's economy in which unemployment and inflation exist together is called 'stagflation' or 'filtration'. In this condition of the economy, the rate of inflation is very high and the rate of unemployment remains permanently high. **(Hence option d) is correct answer)**
- **'Reflation' or 'currency inflation'** is a mechanism to control currency deflation. In this, an attempt is made to gradually increase the prices of the currency to bring it to the normal level.
- The condition of the economy in which the supply of goods and services is more than the demand is called **'Deflation' or 'Currency Deflation'**. This represents the exact opposite of inflation.
- The condition prevailing in the economy in which inflation and deflation are present simultaneously is called 'skewflation'.

Q.34) Which of the following measures can control inflation in India?

1. Avoiding deficit financing by the government.
2. By selling government securities through Open Market Operation.
3. By decreasing Cash Reserve Ratio.
4. By preventing black marketing.

Select the correct answer using the code given below:

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



Q.34) Solution (c)

**Explanation:**

Inflation can be controlled by different measures.

**Fiscal Measures:**

The Government uses fiscal measures to control inflation. The two main components of fiscal policy are government revenue and government expenditure. Under fiscal policy, the government (not RBI) controls inflation and in the following ways:

- By reducing private spending (by enhancing taxes on private businesses), i.e. when the government reduces private spending by increasing taxes, individuals decrease their total expenditure; and the money supply in the economy is reduced.
- By decreasing non-developmental government expenditure.
- By avoiding deficit financing as far as possible. **(Hence statement 1 is correct)**

**Monetary Measures:**

These measures are taken by the RBI (not GOI) to check inflation by controlling supply of money, and it consists of the following:

**(a) Quantitative Measures**

- By selling Government securities through Open Market Operation (OMO) **(Hence statement 2 is correct)**
- By increasing Cash Reserve Ratio (CRR) **(Hence statement 3 is incorrect)**
- By increasing Statutory Liquidity Ratio (SLR)
- By increasing Bank Rate (thereby making borrowings costlier) By increasing Repo Rate and Reverse Repo Rate

**(b) Qualitative Measures**

- Margin requirements.
- Moral suasion, etc.

**Administrative Measures:**

- Prevention of black marketing and prevention of hoarding. Banning export of constrained materials. **(hence statement 4 is correct)**
- Suspending future trading, etc.
- Facilitating supply of goods and services in case of demand-pull inflation.

Q.35) Which of the following best describes the concept of "Inflation Tax"?



- a) Increase in tax burden due to higher rate of inflation.
- b) Increase in inflation due to decrease in tax rates.
- c) Increase in the tax revenue of the government due to higher rate of inflation.
- d) Decrease in purchasing power of the currency.

Q.35) Solution (d)

**Explanation:**

**Inflation tax** is not a tax paid to the government. Instead "inflation tax" refers to the penalty for holding cash at a time of high inflation. When the government prints more money or reduces interest rates, it floods the market with cash, which raises inflation in the long run. If an investor is holding securities, real estate or other assets, the effect of inflation may be negligible. But, if a person is holding cash, the purchasing power of this cash reduces during higher rate of inflation.

Q.36) "Base Effect" in the measurement of the rate of inflation in an economy refers to which of the following?

- a) Change in the basket of commodities for the measurement of inflation.
- b) The rate of inflation in the present year depends upon the rate of inflation in the previous year.
- c) Change in the base year for the measurement of inflation.
- d) Change in the rate of inflation due to increase in the monetary base.

Q.36) Solution (b)

**Explanation:**

The "Base Effect" refers to the impact of the rise in the price level (i.e., last year's inflation) in the previous year over the corresponding rise in the price levels in the current year (i.e., current inflation). If the previous year rate of inflation is higher, then the current year rate of inflation would be lower. On the other hand, if the inflation rate was too low in the corresponding period of the previous year, even a relatively smaller rise in the Price Index will arithmetically give a high rate of inflation in the current year.

Q.37) Match the following List - I (Type of Inflation) with List - II (Characteristic)

	List - I (Type of Inflation)		List - II (Characteristic)
1	Deflation	A	Slow growth and a high unemployment rate accompanied by inflation.
2	Disinflation	B	An act of stimulating the economy by reducing taxes or by increasing the money supply



3	Reflation	C	Temporary slowing of the pace of price inflation
4	Stagflation	D	A situation where inflation is negative.

Select the correct answer using the codes given below.

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

Q.37) Solution (a)

**Explanation:**

- **Deflation:** When the overall price level decreases so that **inflation rate becomes negative**. It is a process where prices of consumer goods and services fall and money increases in value. Longer periods of deflation can lead to higher unemployment, a decrease in demand, and a reduction in economic activity.
- **Disinflation:** It is a **temporary slowing of the pace of price inflation** and is used to describe instances when the inflation rate has reduced marginally over the short term. This is not much harmful to the economy because the inflation rate is reduced marginally over a short-term period.
- **Reflation:** An act of stimulating the economy by **reducing taxes or by increasing the money supply**. To curb the effects of deflation, a monetary or fiscal policy is designed by the Government or Central Bank to stimulate spending and expand output.
- **Stagflation:** It is an economic cycle characterized by slow growth and a **high unemployment rate accompanied by inflation**. The term stagflation is combined effects of inflation and stagnation a "stagflation situation."

Q.38) Which of the following factors are considered as causes for cost push inflation?

1. Higher Price of Commodities
2. Imported Inflation
3. More money in the system
4. Government spending
5. Higher Taxes
6. Higher Wages

Select the correct answer using the code given below:

- a) 1, 2, 5 and 6 only
- b) 2, 3, 4 and 6 only



- c) 1, 2, 4 and 6 only
- d) 1, 2, 3, and 4 only

Q.38) Solution (a)

**Explanation:**

**Causes for cost push inflation:**

- **Higher Price of Commodities:** A rise in the price of oil would lead to higher petrol prices and higher transport costs. All firms would see some rise in costs. As the most important commodity, higher oil prices often lead to cost-push inflation (e.g. 1970s, 2008, 2010-11)
- **Imported Inflation:** Devaluation will increase the domestic price of imports. Therefore, after devaluation, we often get an increase in inflation due to rising cost of imports.
- **Higher Wages:** Wages are one of the main costs facing firms. Rising wages will push up prices as firms have to pay higher costs (higher wages may also cause rising demand)
- **Higher Taxes:** Higher VAT and Excise duties will increase the prices of goods. This price increase will be a temporary increase.
- **Profit-push inflation:** If firms gain increased monopoly power, they are in a position to push up prices to make more profit
- **Higher Food Prices:** In western economies, food is a smaller % of overall spending, but in developing countries, it plays a bigger role. (food inflation)

**Causes of Demand-Pull Inflation**

- There are five primary causes of demand-pull inflation:
- **A growing economy:** When consumers feel confident, they spend more and take on more debt. This leads to a steady increase in demand, which means higher prices.
- **Increasing export demand:** A sudden rise in exports forces an undervaluation of the currencies involved.
- **Government spending:** When the government spends more freely, prices go up.
- **Inflation expectations:** Companies may increase their prices in expectation of inflation in the near future.
- **More money in the system:** An expansion of the money supply with too few goods to buy makes prices increase.

Q.39) Consider the following statements about the Phillips Curve:

1. It depicts relation between inflation and unemployment.
2. In the long-run Phillips curve is seen as a vertical line, where the rate of inflation has no effect on unemployment.

Which of the statements given above is/are correct?



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

Q.39) Solution (c)

**Explanation:**

- A.H. Phillips (1914-75) proposed that there was relationship **between inflation and unemployment**. The lower the unemployment rate, the higher the inflation rate. Governments simply need to choose the right balance between the two evils. **(Hence statement 1 is correct)**.
- Philips curve states that inflation and unemployment have a stable and inverse relationship.
- It claims that with economic growth comes inflation, which in turn should lead to more jobs and less unemployment. But this is said to be true only in the short run.
- In the long run, rising inflation will not decrease unemployment. The long-run Phillips curve is seen as a vertical line at the natural rate of unemployment, where the rate of inflation has no effect on unemployment. **(Hence statement 2 is correct)**
- The non-accelerating inflation rate of unemployment (NAIRU) is the specific unemployment rate at which the rate of inflation stabilizes and inflation will neither increase nor decrease.

Q.40) Consider the following statements with respect to GDP Deflator:

1. The GDP Deflator measures the average change in prices of consumer goods only.
2. The GDP Deflator is published by the Ministry of Finance.

Which of the statements given above is/are correct?

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

Q.40) Solution (d)

**Explanation:**

- The GDP Deflator measures the average change in prices of all goods and services in the economy (all goods means both consumer and capital goods.) **(Hence statement 1 is incorrect)**
- However, the statistic does not account for the impact of inflation or rising prices when GDP rises and declines.
- The GDP price deflator tackles this by demonstrating the impact of price changes on GDP by first defining a base year and then comparing current prices to base year prices.





- Simply expressed, the GDP price deflator indicates how much a change in GDP is influenced by price increases.
- It tracks the prices paid by businesses, the government, and consumers to reflect the magnitude of price level fluctuations, or inflation, within the economy.
- The GDP Deflator is published by the Ministry of Statistics and Programme Implementation. **(Hence statement 2 is incorrect)**

Q.41) Consider the statements with respect to Legal Tender Money:

1. The money which is tendered in court of law to defray the fee of legal cases.
2. Any form of payment recognized by a government that is used to pay debts or financial obligations.
3. A person who refuses to accept this money may face legal action.

Which of the statements given above is/are correct?

- e) 1 only
- f) 1 and 2 only
- g) 2 and 3 only
- h) 2 only

Q.41) Solution (c)

**Explanation:**

- The term legal tender does not represent the money itself, rather it is a kind of status which can be bestowed on certain types of money. Legal tender can only be issued by the authorized body. (In India it is RBI) So it is not tendered in courts of law. **(Hence statement 1 is incorrect)**
- Any form of payment recognized by a government that is used to pay debts or financial obligations, such as tax payments, is considered legal tender. **(Hence statement 2 is correct)**
- While all denominations of circulating paper money are usually legal tender, the denomination and amount of coins acceptable as legal tender vary by country.
- **Limited Legal Tender Money**
  - This is a type of money that can be used to pay off a debt up to a certain amount, after which a person can refuse to accept the payment and no legal action can be taken against them.
  - In India, coins are only legal tender in limited quantities.
- **Unlimited Legal Tender Money**
  - In this form of money, it is possible to pay off any amount of debt.
  - A person who refuses to accept this money may face legal action. **(Hence statement 3 is correct)**
  - In India, paper notes/currency are unlimited legal tender.

Q.42) Consider the following statements:



1. The money which have High intrinsic value is known as Fiat money.
2. High powered money includes Currency of both Notes and Coins.

Which of the statements given above is/are correct?

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

Q.42) Solution (b)

**Explanation:**

- Fiat money is currency that has the government backing and is declared by it to be legal tender. It is not backed by a physical commodity and thus **doesn't have any intrinsic value. (Hence statement 1 is incorrect)**
- High powered money is the total liability of the monetary authority of the country. This is also called the monetary base and is created by the RBI. High powered money **includes currency (notes and coins)**, deposits of the government and reserves of commercial banks with RBI. **(Hence statement 2 is correct)**
- So, to sum up, high powered money is  $H = C + R$  Where
  - H – High powered money
  - C – Currency
  - R – Cash Reserves of commercial banks

Q.43) Consider the following statements regarding Marginal Standing Facility (MSF):

1. Under MSF banks can borrow overnight funds from RBI.
2. The banks can avail up to 5% of their respective Net Demand and Time Liabilities (NDTL)
3. The banks can use the securities under the SLR quota as it is an emergency situation.
4. Generally the MSF rate is lower than the repo rate.

Which of the statements given above are correct?

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

Q.43) Solution (a)

**Explanation:**



- Marginal Standing Facility (MSF) refers to the rate at which banks can borrow overnight funds from the RBI. **(Hence statement 1 is correct)**
- This was introduced by the RBI in its credit policy of May 2011.
- The banks have to exchange the securities with the RBI to avail of the overnight credit through MSF.
- The maximum credit a bank can **avail through MSF is 3% of its total deposits** (NDTL). **(Hence statement 2 is incorrect)**
- The banks can use the securities under the SLR quota without paying a penalty as it is an emergency situation. **(Hence statement 3 is correct)**
- This will shield the banks from the volatility of overnight inter-bank interest rates.
- Generally, the MSF is **higher than the repo rate**, and MSF in February 2023 it is 6.75% and Repo rate is 6.50% Usually there is 25 base points difference between MSF and Repo rate. **(Hence statement 4 is incorrect)**

Q.44) Consider the statements with respect to Monetary Policy Measures:

1. RBI uses contractionary monetary policy to control the money supply in the economy.
2. During the post Pandemic period, RBI used expansionary monetary policy to increase the money supply in the economy.
3. To reduce money supply in the economy, RBI reduces the rates like CRR, SLR, Repo Rate and Reverse Repo Rate.

Which of the statements given above is/are correct?

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

Q.44) Solution (d)

**Explanation:**

- There is a close link between the money supply and inflation, therefore, money supply can be controlled with the help of monetary policy.
- Using contractionary monetary policy, the money supply in the economy can be decreased. This leads to decrease in aggregate demand in the market and thereby reduces inflation. **(Hence statement 1 is correct)**
- Using expansionary monetary policy, the money supply in the economy can be increased. This leads to increase in aggregate demand in the market and thereby increases inflation.
- During the period May 2020 to March 2022, when the repo rate was kept at 4 per cent, the year-on-year growth in bank credit was an average of 6.4 per cent. By April 2022, this had grown to



10.1 per cent which means RBI following expansionary monetary policy. **(Hence statement 2 is correct)**

- Decrease in supply of money → rate of interest increases → Investment decreases → Aggregate demand decreases → prices decline → rate of inflation is lower
- Similar process follows when CRR, SLR, Repo Rates are increased and decreased.
- Rates like CRR, SLR, Repo Rate and Reverse Repo Rate are **increased** to impact the money supply in the economy by the RBI to control inflation. **(Hence statement 3 is incorrect)**

Q.45) Consider the following statements with respect to Open Market Operations (OMO):

1. It refers to the sale and purchase of government securities and treasury bills by RBI.
2. When the RBI wants to increase the money supply in the market, it will sell the securities in the market.
3. RBI deals with the public directly to carry out Open Market Operations.

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

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

Q.45) Solution (d)

**Explanation:**

- Open market operations refer to the selling and purchasing of the treasury bills and government securities by the central bank of any country in order to regulate money supply in the economy. **(Hence statement 1 is correct)**
- It is one of the most important ways of monetary control that is exercised by the central banks. Under this system, the central bank sells securities in the market when it wants to reduce the money supply in the market. It is done to increase interest rates. This policy is also known as the contractionary monetary policy.
- Similarly, when the central bank wants to increase the money supply in the market, **it will purchase securities from the market.** This step is taken to reduce the rate of interest and also to help in the economic growth of the country. This policy is known as the expansionary monetary policy. **(Hence statement 2 is incorrect)**
- Open market operations are carried out by the central bank in association with the commercial banks. For conducting such operations, there is **no involvement of the public.** **(Hence statement 3 is incorrect)**

Q.46) Consider the following statements about NPAs of banks in India:



1. It is an asset which ceases to generate income for the bank and becomes overdue for more than 90 days.
2. It places a financial burden on the lender.
3. Public Sector banks have lower NPAs in comparison Private Sector Banks.
4. Droughts are the major causes of rising NPAs in India.

Which of the statements given above are correct?

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

Q.46) Solution (a)

**Explanation:**

- NPA stands for Non-Performing Asset: It is an asset which ceases to generate income for the bank and becomes overdue for more than 90 days. **(Hence statement 1 is correct)**
- It places a financial burden on the lender. **(Hence statement 2 is correct)**
- It was also found that If NPAs are reduced then the Public sector banks could have a higher profitability. The magnitude of **NPA is comparatively higher in public sectors banks than private sector banks**. To improve the efficiency and profitability of banks the NPA need to be reduced and controlled. **(Hence statement 3 is incorrect)**
- Drought alone cannot because of rising NPAsThe other causes of non-performing assets which can be attributed as internal causes are faulty and incomplete documentation, absence of regular follow ups, credit appraisal system is poor, lending process was defective, deficiencies of the managers.**(Hence statement 4 is incorrect)**

Q.47) Consider the following pairs:

1. **Bearer cheque** - Presented after 6 months of issue.
2. **Crossed cheque** - It cannot be en-cashed at cash counter, it can only be paid in the drawee's account.

Which of the above pairs are correctly matched?

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

Q.47) Solution (b)

**Explanation:**



- **A bearer cheque** is the one in which the payment is made to the person bearing or carrying the cheque. These cheques are transferable by delivery, that is, if you are carrying the cheque to the bank, you can be issued the payment. **(Hence pair 1 is not correctly matched).**
- **A crossed cheque** is any check that is crossed with two parallel lines, either across the whole check or through the top left-hand corner of the check. This double-line notation signifies that the check may only be deposited directly into a bank account. **(Hence pair 2 is correctly matched).**

Q.48) Consider the following statements with reference to the difference between NBFCs and Banks as per the RBI:

1. NBFCs are incorporated under the Companies Act, 1956, whereas Banks are incorporated under Banking Regulations Act, 1949.
2. Banks can accept demand deposits but NBFCs cannot accept demand deposits.
3. A NBFC can issue cheques payable to itself but a Bank cannot issue cheques payable to itself.

Which of the statements given above are correct?

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

Q.48) Solution (d)

**Explanation:**

<b>Banks as per the RBI</b>	<b>NBFCs</b>
<b>Incorporated under Banking Regulations Act, 1949</b>	<b>Incorporated under the Companies Act, 1956</b>
Is a government-authorized organization	Doesn't need a bank license to operate
Can issue Demand Draft	Can not issue Demand Draft
Creates credit	Does not create credit
Provides transaction services	Does not provide transaction services
<b>Can accept demand deposits</b>	<b>Cannot accept demand deposits</b>
Form part of the payment and settlement system	Does not form part of the payment and settlement system
<b>Can make cheques payable to itself</b>	<b>Cannot make cheques payable to itself</b>
Depositors can use the Deposit Insurance and Credit Guarantee Corporation's deposit insurance facility	Depositors cannot use the Deposit Insurance and Credit Guarantee Corporation's deposit insurance facility

Q.49) Consider the following statements with reference to RRBs:

1. RRBs are established for specifically target the group of small and marginal farmers, landless laborers, rural artisans, and others through the Integrated Rural Development Programme.
2. RRBs are completely owned by Central Government.
3. According to the RBI, RRBs are required to maintain a minimum Capital to Risk-weighted Assets Ratio (CRAR) of 9%.

Which of the statements given above is/are correct?

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

Q.49) Solution (c)

**Explanation:**

- Regional Rural Banks were established in accordance with the provisions of an Ordinance promulgated on September 26, 1975, and the RRB Act, 1976, with the goal of ensuring adequate institutional credit for agriculture and other rural sectors.
- RRBs are **jointly owned by Central Government, the State Governments, and Sponsor Banks**; the issued capital of an RRB is divided among the owners in the proportions of 50%, 15%, and 35%, respectively. **(Hence statement 2 is incorrect)**
- They also specifically target the group of **small and marginal farmers, landless laborers, rural artisans**, and others through the Integrated Rural Development Programme by extending credit to the poorest of the poor in rural areas. **(Hence statement 1 is correct)**
- The Regional Rural Banks has a Priority Sector Lending (PSL) target of 75% where loans are lent to agricultural activities and vulnerable sectors.
- According to the RBI, regional rural banks (RRBs) are required to maintain a minimum Capital to Risk-weighted Assets Ratio (CRAR) of 9% on an ongoing basis. **(Hence statement 3 is correct)**
- CRAR is also known as Capital Adequacy Ratio (CAR), which is the ratio of bank's capital to its risk.

Q.50) Which of the following statement describes the term 'Core Banking Solutions'?

- a) It is a network of a bank's branches which enables customers to operate their accounts from any branch of the bank on its network regardless of where they open their accounts.
- b) It is an effort to increase RBI's control over commercial banks through computerization.
- c) It is a detailed procedure by which a bank with huge non-performing assets is taken over by another bank.





- d) It is a process of lending money to people who are having difficulty getting loans, usually at a higher rate than a bank would charge.

Q.50) Solution (a)

**Explanation:**

Core Banking Solution (CBS) is the networking of bank branches, which allows customers to manage their accounts, and use various banking facilities from any part of the world. In simple terms, there is no need to visit your own branch to do banking transactions. **(Hence option a) is correct)**

Q.51) Consider the following statements regarding 'PM Jan Dhan Yojna':

1. It is a national mission for financial inclusion to ensure access to financial services.
2. No minimum balance is required to be maintained in the account.
3. Overdraft facility of up to 10000/- is available to the account holder in that up to Rs 5000 is allowed without any conditions under this scheme.
4. The scheme was launched to solve the problems which arose due to demonetization.

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

- a) 1, 2 and 3 only
- b) 3 and 4 only
- c) 4 only
- d) None of the above

Q.51) Solution (b)

**Explanation:**

- Pradhan Mantri Jan-Dhan Yojana (PMJDY) is National Mission for Financial Inclusion to ensure access to financial services, namely, Banking/ Savings & Deposit Accounts, Remittance, Credit, Insurance, Pension in an affordable manner. **(Hence statement 1 is correct)**
- There is no requirement to maintain any minimum balance in PMJDY accounts. Interest is earned on the deposit in PMJDY accounts. Rupay Debit card is provided to PMJDY account holder. **(Hence statement 2 is correct)**
- The scheme provides Basic savings bank accounts with an overdraft facility of Rs. 10,000 to every eligible adult. The Upper age limit for OD has been increased from 60 to 65 years. Overdraft up to **Rs 2000** is allowed without any conditions. **(Hence statement 3 is incorrect)**
- Pradhan Mantri Jan Dhan Yojana (PMJDY), the biggest financial inclusion initiative in the world, was announced by the Hon'ble Prime Minister Shri Narendra Modi on 15<sup>th</sup> August 2014 from the ramparts of the Red Fort and launched by him on **28<sup>th</sup> August 2014** across the country. But Demonetization was initiated on **8<sup>th</sup> November 2016**, Hence PMJDY was not launched to solve the problems of demonetization. **(Hence statement 4 is incorrect).**



Q.52) Consider the following statements with respect to merging of the banks:

1. The merger will lead to increased operational efficiency that will help these banks lower their costs, thus enabling them to lower their lending rates.
2. One business entity takes ownership control over another by paying for the ownership privileges in the form of stocks only.
3. Recently the Union Bank of India was merged with the Andhra Bank.

Which of the statements given above are correct?

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

Q.52) Solution (b)

**Explanation:**

- A merger is simply the combining of two business entities to form a larger one but with no explicit change in ownership.
- This is in contrast to an acquisition where one business entity takes ownership control over another by paying for the ownership privilege in cash, stock, or other means. **(Hence statement 2 is incorrect)**
- The merger will lead to increased operational efficiency that will help these banks lower their costs, thus enabling them to lower their lending rates. **(Hence statement 1 is correct)**
- **The Indian Government has decided to merge-**
  - The Indian Bank will be merged with Allahabad Bank (anchor bank – Indian Bank).
  - The Punjab National Bank will be merged with the Oriental Bank of Commerce and the United Bank (anchor bank -PNB).
  - The Union Bank of India will be merged with the Andhra Bank and Corporation Bank (anchor bank – Union Bank of India). **(Hence statement 3 is correct)**
  - The Canara Bank will be merged with the Syndicate Bank (anchor bank – Canara Bank).

Q.53) Consider the following statements about 'UPI123Pay':

1. Ministry of Finance has launched new UPI service for feature phones called UPI123Pay.
2. It is a three-step offline method to initiate and execute transactions that will work on simple feature phones.
3. The service does not need an internet connection for transactions.

Which of the statements given above are correct?



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

Q.53) Solution (d)

**Explanation:**

- **Reserve Bank of India has launched two initiatives related to digital payments. One is UPI123pay-** which provides a UPI payment facility on feature phones and the second is “DigiSaathi” which is a 24x7 Helpline for Digital Payments. **(Hence statement 1 is incorrect)**
- It is a three-step offline method to initiate and execute transactions that will work on simple feature phones. It has all features for undertaking transactions except scan and pay. **(Hence statement 2 is correct)**
- The service does not need an internet connection for transactions. **(Hence statement 3 is correct)**
- These four options are given below
  - **App-based Functionality-** An app would be installed on the feature phone through which several UPI functions, available on smart phones, will also be available on feature phones.
  - **Missed Call:** Under this facility users of feature phones can make payments at the merchant outlet by giving a missed call on the number displayed at the merchant outlet. The customer will receive an incoming call to authenticate the transaction by entering UPI PIN. The users can also access their bank account and perform routine transactions such as receiving, transferring funds, regular purchases, bill payments, etc., by giving a missed call.
  - **Inter-active Voice Response (IVR):** UPI payment through pre-defined IVR numbers would require users to initiate a secured call from their feature phones to a predetermined number and complete UPI on-boarding formalities to be able to start making financial transactions without internet connection.
  - **Proximity Sound-based Payments:** This uses sound waves to enable contactless, offline, and proximity data communication on any device....

Q.54) Consider the following statements with reference Insolvency and Bankruptcy Code (IBC):

1. The enactment of IBC has reduced the piled-up non-performing assets of the banks and protracted resolution of the debts.
2. Total amount recovered highest under IBC is more as compared to other channels such as Lok Adalat's, SARFAESI Act and DRTs(Debts Recovery Tribunals) in Financial year 2022.

Which of the statements given above is/are correct?

- a) 1 only



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

Q.54) Solution (c)

**Explanation:**

- Insolvency and Bankruptcy Code is one of the most important reforms implemented by the Parliament of India in November 2016. The Insolvency and Bankruptcy Code or IBC Code was introduced to harmonize India's scattered and divergent bankruptcy laws. The enactment of Insolvency and Bankruptcy Code was important to reduce the piled-up non-performing assets of the banks and protracted resolution of the debts. **(Hence statement 1 is correct)**
- Economic survey **2022-23 clearly mentioned that**
  - CIRPs performing well: Since inception in 2016, around 6,000 Corporate Insolvency Resolution Processes (CIRPs) had commenced of which **67% of the cases have been resolved.**
  - 69% of the distressed assets were rescued and helped via IB process to achieve a realization value around 178% of the liquidation value.
  - Total amount recovered highest under IBC as compared to other channels such as Lok Adalat's, SARFAESI Act and DRTs in FY22. **(Hence statement 2 is correct)**
- **The SARFAESI Act** allows banks and other financial institutions for auctioning commercial or residential properties to recover a loan when a borrower fails to repay the loan amount.

Q.55) When there is an increase in demand of money and Supply of money remains the same, there will be:

1. A fall in the level of prices
2. An increase in the rate of interest
3. A decrease in the rate of interest

Which of the statements given above is/are correct?

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

Q.55) Solution (c)

**Explanation:**

- If the demand increases when the supply of money is same, there will be a shortage, it will lead to an **increase in prices**. Because the producer rises the price of the goods. **(Hence statement 1 is incorrect)**



- Similarly, when supply of money remains the same but the demand for it increases then the Lender will increase in interest rate. **(Hence statement 2 is correct)**

Q.56) Consider the following statements with respect to 'UPI-PAYNOW' Linkage:

1. The Unified Payments Interface (UPI) of India and PayNow of Malaysia are integrated to facilitate quicker and more affordable cross-border remittance transfers.
2. It supports both Person-to-Person (P2P) and Person-to-Merchant (P2M) payments and it also enables a user to send or receive money

Which of the statements given above is/are correct?

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

Q.56) Solution (b)

**Explanation:**

- The Unified Payments Interface (UPI) of India and PayNow of **Singapore** are integrated, to facilitate quicker and more affordable cross-border remittance transfers. On February 21 2023, cross-border connectivity would essentially be launched in front of Prime Ministers Lee Hsien Loong of Singapore and Narendra Modi of India. **(Hence statement 1 is incorrect)**
- The Reserve Bank of India's (RBI) Governor Shaktikanta Das and the Monetary Authority of Singapore's (MAS) Managing Director Ravi Menon will conduct the launch, according to the Prime Minister's Office.
- The action will ensure that UPI's advantages don't just apply to India but also to other nations.
- The use of UPI-PayNow will help workers who visit Singapore for a brief time and normally forgo roughly 10% of their earnings in bank fees for money transfers.
- UPI supports both Person-to-Person (P2P) and Person-to-Merchant (P2M) payments and it also enables a user to send or receive money. **(Hence statement 2 is correct)**

Q.57) Consider the following statements with respect to the NHB RESIDEX:

1. It is India's first-ever official residential price index.
2. It was prepared by National Housing Bank on behest of Ministry of Housing and Urban Affairs.
3. The index was formulated under the guidance of a Technical Advisory Committee comprising of stakeholders from the housing market.
4. The index can predict future trends of the housing market prices.

Which of the statements given above are correct?



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

Q.57) Solution (a)

**Explanation:**

- NHB RESIDEX is India's first-ever official residential price index. NHB Residex from the National Housing Bank, designed by a technical advisory committee comprising Government representatives, lenders and property market players, is a set of benchmarks that aims to track housing price indicators across Indian cities. **(Hence statement 1 is correct)**
- NHB RESIDEX, India's first official housing price index, was an initiative of the National Housing Bank (NHB), undertaken at the behest of the Government of India, **Ministry of Finance (not the Ministry of Housing and Urban Affairs)**. **(Hence statement 2 is incorrect)**
- The index was formulated under the guidance of a Technical Advisory Committee (TAC) comprising of stakeholders from the housing market. **(Hence statement 3 is correct)**
- NHB RESIDEX will help recognize current trends in micro as well as macro markets and predict future behavior of the housing market. It will be use to banks, HFCs, developers, and home-buyers. **(Hence statement 4 is correct)**

Q.58) Consider the following statements with respect to Micro ATMs:

1. These can be easily transfer from one place to another.
2. These machines are not capable of keeping any cash.
3. Micro ATMs can provide money at any time.

Which of the statements given above is/are correct?

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

Q.58) Solution (b)

**Explanation:**

- Micro ATM is a mini version of ATM. Micro-ATMs are connected through GSM and are portable device, hence can be transported easily from one place to another. **(Hence statement 1 is correct)**
- These ATMs have been very beneficial in rural areas where conventional ATMs are generally available in lesser numbers. This machine contains card swipe facility and fingerprint scanner.



- These machines are handy and not capable of keeping any cash. The cash is carried by the bank representative along with him/her. The bank representative is responsible for collecting cash and depositing it in user account. **(Hence statement 2 is correct)**
- Therefore, Micro ATMs, unlike conventional ATMs, **cannot provide “anytime” or 24\*7 money**, especially if the bank correspondent is unavailable or the shopkeeper in whose shop the micro-ATM is installed has shut his shop. **(Hence statement 3 is incorrect)**
- Micro ATMs can support all the transactions that can be normally conducted at regular bank ATMs. They can be even used for payment of utility bills such as electricity bill, water bill, etc.

Q.59) Consider the following statements with respect to ‘Special Zero-Coupon Recapitalization Bonds’:

1. These are unique bonds issued by the central government to a specific institution.
2. These Bonds Neither tradable nor transferable.

Which of the statements given above is/are correct?

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

Q.59) Solution (c)

**Explanation:**

Recapitalization of Banks is injecting additional capital into state-owned banks to bring them up to capital adequacy standards. The government injects capital into banks that are short on cash using a variety of instruments. All commercial banks have to meet certain capital adequacy requirements specified by the Reserve Bank of India (RBI) which are based on Basel norms.

**Special Zero-Coupon Recapitalization Bonds**

- These are unique bonds issued by the central government to a specific institution. **(Hence statement 1 is correct)**
- Nobody else, only those banks, who are designated, can invest in them.
- It is neither marketable nor transferable. It is restricted to a single bank and is only valid for a short time. **(Hence statement 2 is correct)**
- There is no coupon, it is a zero-coupon, it is issued at par, and it will be paid at the end of the term.
- The interest that an investor receives on a bond is known as a coupon.
- According to RBI requirements, it is held under the bank's Held-To-Maturity (HTM) category.
- HTM securities are purchased with the intention of holding them until they mature.
- These are products that are similar to recapitalization bonds but serve the same objective, and they are issued in accordance with RBI regulations.



- The issuing of these special bonds will have no impact on the fiscal deficit while also providing the bank with much-needed equity capital.
- For instance, Punjab & Sind Bank will be recapitalized by issuing Special Zero-Coupon Recapitalization Bonds worth Rs.5,500 crore.

Q.60) Consider the following statements with respect to Banks Board Bureau (BBB):

1. It is set up as a statutory body to improve the management of public sector banks.
2. RBI governor is the ex-officio Chairman of BBB.
3. It recommends the names for the selection of heads of Public Sector Banks.

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

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

Q.60) Solution (b)

**Explanation:**

- Banks Board Bureau is a **self-governing autonomous body** of the Central Government. It is an advisory authority comprising eminent professionals and officials to improve the management of public sector banks. **(Hence statement 1 is incorrect)**
- Banks Board Bureau comprises the Chairman, three ex-officio members (i.e Secretary, Department of Public Enterprises, Secretary of the Department of Financial Services and Deputy Governor of the Reserve Bank of India) and five expert members, two of them are from the private sector. **The Chairman is selected by the central government. (Hence statement 2 is incorrect)**
- Banks Board Bureau **recommends for the selection of head for Public Sector Banks** and other key personnel if required. It also develops strategies for raising capital and improving performance of PSBs. **(Hence statement 3 is correct)**

Q.61) Consider the following statements:

1. Fiscal deficit is the difference between the government's total expenditure and its total receipts excluding borrowing.
2. A large share of revenue deficit in fiscal deficit indicates that a large part of borrowing is being used to meet its consumption expenditure needs rather than investment.

Which of the above given statements is/are correct

- a) 1 only





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

Q.61) Solution (c)

**Explanation:**

- Fiscal Deficit: Fiscal deficit is the difference between the government's total expenditure and its total receipts excluding borrowing. **(Hence statement 1 is correct).**
- **Gross fiscal deficit = Net borrowing at home + Borrowing from RBI + Borrowing from abroad**
- Net borrowing at home includes that directly borrowed from the public through debt instruments (for example, the various small savings schemes) and indirectly from commercial banks through Statutory Liquidity Ratio (SLR). The gross fiscal deficit is a key variable in judging the financial health of the public sector and the stability of the economy. From the way gross fiscal deficit is measured as given above, it can be seen that revenue deficit is a part of fiscal deficit (Fiscal Deficit = Revenue Deficit + Capital Expenditure non-debt creating capital receipts). A large share of revenue deficit in fiscal deficit indicated that a large part of borrowing is being used to meet its consumption expenditure needs rather than investment. **(Hence statement 2 is correct)**

Q.62) Consider the following statements:

1. Revenue receipts create liabilities for the government.
2. Capital receipts increases an asset of the government.

Which of the above given statements is/are correct

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

Q.62) Solution (d)

**Explanation:**

- Revenue receipts do not create any liability for the government. For example, taxes received by the government, unlike borrowings, do not create any liabilities for it. No asset reduction: Revenue receipts do not lead to any reduction in the government's assets. **(Hence statement 1 is incorrect)**
- Capital receipts are all those money receipts of the government that either creates a liability for the government or reduce an asset of the government. Therefore, capital receipts include small

savings, market loans and provident funds. Capital receipts increases mainly because of Disinvestment Hence it reduces the Asset of the government. **(Hence statement 2 is incorrect)**

Q.63) Consider the following statement with respect to the difference between Revenue Deficit and Primary Deficit:

1. Revenue Deficit is an excess of revenue expenditure over revenue receipts whereas Primary Deficit is an excess of total revenue expenditure over total receipts.
2. Revenue Deficit occurs when the government is not able to meet its regular and recurring expenditures whereas Primary Deficit talks about the borrowing requirements of the government for various purposes except for interest payment.

Which of the above given statements is/are correct

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

Q.63) Solution (b)

**Explanation:**

Difference between Revenue Deficit and Primary Deficit

Revenue Deficit	Primary Deficit
It is when there is an excess of revenue expenditure over revenue receipts.	It is the difference between the fiscal deficit of the current year and the interest payment of the previous fiscal year.
It occurs when the government is not able to meet its regular and recurring expenditures.	It talks about the borrowing requirements of the government for various purposes except for interest payment.
It is calculated by deducting revenue expenditure from revenue receipts	It is calculated by deducting fiscal deficit from the interest payments

Q.64) Which of the following is/are the objectives of the Indian Budget?

1. To manage and properly distribute resources.
2. To reduce inequalities in income and wealth.
3. To achieve social stability.
4. Decrease regional differences.



Select the correct answer using the code given below:

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

Q.64) Solution (a)

**Explanation:**

**Objectives of Government Budget**

- **Reallocation of resources** – It helps to distribute resources, keeping in view the social and economic aspects of the country. **(Hence statement 1 is correct)**
- **Minimise inequalities in income and wealth** – In an economic system, income and wealth inequality is an integral part. So, the government aims to bring equality by imposing a tax on the elite class and spending extra on the well-being of the poor. **(Hence statement 2 is correct)**
- **Economic stability** – The budget is also utilised to avoid business fluctuations to accomplish the aim of financial stability. Policies such as deficit budget during deflation and excess budget during inflation assist in balancing the prices in the economy.
- **Manage public enterprises** – Many public sector industries are built for the social welfare of people. The budget is planned to deliver different provisions for operating such business and imparting financial help.
- **Economic growth** – A country's economic growth is based on the rate of investments and savings. Therefore, the budgetary plan focuses on preparing adequate resources for investing in the public sector and raising the overall rate of investments and savings.
- **Decrease regional differences** – It aims to diminish regional inequalities by implementing taxation and expenditure policy and promoting the installation of production units in underdeveloped regions. **(Hence statement 4 is correct)**

Q.65) Consider the following statements with respect to 'Zero-Based Budgeting':

1. It is an approach to planning and preparing the budget from zero bases.
2. It is a method of budgeting in which all expenses must be justified for each new period.
3. The process of zero-based budgeting involves the review and justification of each ministry's expenditure to receive funding at the beginning of each financial year.

Which of the above given statements are correct?

- a) 2 and 3 only



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

Q.65) Solution (d)

**Explanation:**

**Zero-based budgeting**

- “Zero-based budgeting” is an approach to planning and preparing the budget from the beginning.
- As the name suggests, it refers to planning and preparing the budget from scratch or ‘zero bases’. **(Hence statement 1 is correct)**
- Plays a vital role as an emerging budgeting concept that is introduced with the aim of subsisting with the demerits of the traditional budgeting system.
- It is a reverse of traditional planning and decision-making with respect to budgeting.
- Zero-based budgeting (ZBB) is basically a systematic cost management process that prioritizes the efficient allocation of income to fixed expenditure, variable expenses, and savings in order to nullify the difference between income and expenditure.
- A method of budgeting in which all expenses must be justified for each new period. **(Hence statement 2 is correct)**
- The process of zero-based budgeting involves the review and justification of each and every ministry’s expenditure to receive funding at the beginning of each financial year. **(Hence statement 3 is correct)**

Q.66) Consider the following statements with respect to 'Financial Stability and Development Council' (FSDC):

1. It is a statutory body established by the recommendations of Raghuram Rajan Committee.
2. It is under the Ministry of Finance.
3. It helps Coordination of India's foreign interactions with financial sector organisations.

Which of the above given statements are correct?

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

Q.66) Solution (a)

**Explanation:**

The Financial Stability and Development Council (FSDC) is an autonomous agency established by the Government of India. The Raghuram Rajan Committee proposed the formation of such a super regulatory organisation in 2008. It is an autonomous agency founded in December 2010 with the purpose of strengthening and institutionalising the system for preserving financial stability, promoting inter-regulatory collaboration, and supporting financial sector growth.

**Financial Stability and Development Council**

- Financial Stability and Development Council is an **autonomous non-apex body** that was established by executive order. **(Hence statement 1 is incorrect)**
- It is under the Ministry of Finance. **(Hence statement 2 is correct)**
- It monitors various macro-prudential activities of the Indian economy and is also responsible for the promotion of financial inclusion and literacy among the masses.
- It is an independent institution with the mission of strengthening and institutionalising the mechanism for maintaining financial stability, improving inter-regulatory cooperation, and fostering financial sector development.
- The FSDC was established to improve cooperation among financial market authorities.
- It emphasises financial knowledge and inclusivity.
- Coordination of India's foreign interactions with financial sector organisations such as the Financial Action Task Force (FATF) and the Financial Stability Board (FSB). **(Hence statement 3 is correct)**

Q.67) Consider the following statements with respect to Securities and Exchange Board of India (SEBI):

1. SEBI is a statutory organisation formed on April 1992.
2. SEBI is a quasi-legislative and quasi-judicial agency with the authority to write rules, conduct investigations, issue judgments, and apply fines.
3. SEBI can now regulate any money pooling arrangement of Rs. 100 crore or more and seize assets in situations of non-compliance.
4. Ajay Tyagi is the current Chairman of SEBI.

Which of the above given statements are correct?

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



Q.67) Solution (b)

**Explanation:**

- Securities and Exchange Board of India (SEBI) is a statutory organisation formed on April 12, 1992, in compliance with the requirements of the Securities and Exchange Board of India Act, 1992. **(Hence statement 1 is correct).**
- The Securities and Exchange Board of India's primary duties are to safeguard the interests of investors in securities and to promote and regulate the securities market. It is headquartered in Mumbai, has four regional offices in Ahmedabad, Chennai, Delhi, and Kolkata.
- **Ms Madhabi Puri Buch is the current SEBI Chairman**, having been selected to take up the chairmanship on March 2, 2022, succeeding outgoing chairman Ajay Tyagi. **(Hence statement 4 is incorrect)**

**SEBI - Powers and Functions**

- SEBI is a quasi-legislative and quasi-judicial agency with the authority to write rules, conduct investigations, issue judgments, and apply fines. **(Hence statement 2 is correct)**
- It fulfills the standards of three categories -
- Issuers - By creating a marketplace for issuers to boost their financing.
- Investors - By assuring the security and availability of precise and accurate information.
- Intermediaries - By creating a competitive professional intermediary market.
- SEBI can now regulate any money pooling arrangement of Rs. 100 crore or more and seize assets in situations of noncompliance under **the Securities Laws (Amendment) Act, 2014. (Hence statement 3 is correct)**
- SEBI Chairman can authorise "search and seizure operations". The SEBI board may also request information, such as telephone call data records, from any person or entity in connection with any securities transaction under investigation.
- SEBI is responsible for the registration and regulation of venture capital funds and collective investment plans, including mutual funds.
- It also aims to promote and regulate self-regulatory bodies, as well as to ban fraudulent and unfair trading activities in the securities markets.

Q.68) Consider the following statements with respect to latest FRBM targets:

1. The Central Governments must ensure that the general Government debt does not exceed 60%.
2. The Central Government should not give additional guarantees with respect to any loan on security of the Consolidated Fund of India in excess of 0.5% of GDP, in any financial year.



3. The Central Government debt should not exceed 40% of GDP by the end of financial year 2024-2025.

Which of the above given statements are correct?

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

Q.68) Solution (d)

**Explanation:**

- The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 is an act to provide for the responsibility of the Central Government to ensure intergenerational equity in fiscal management and long-term macro-economic stability by removing fiscal impediments in the effective conduct of monetary policy.
- The Act sets a target for the government to establish financial discipline in the economy, improve public funds management and reduce fiscal deficit.
- **Latest FRBM targets**
  - i. Fiscal Deficit: The Central Government shall take appropriate measures to limit the fiscal deficit up to 3% of GDP by the 2021.
  - ii. The Central Government shall also ensure that the general Government debt does not exceed 60%. **(Hence statement 1 is correct)**
  - iii. The Central Government does not give additional guarantees with respect to any loan on security of the Consolidated Fund of India in excess of 0.5% of GDP, in any financial year. **(Hence statement 2 is correct)**
  - iv. The Central Government debt should not exceed 40% of GDP by the end of financial year 2024-2025. **(Hence statement 3 is correct)**

Q.69) Consider the following statements with respect to Disinvestment:

1. Disinvestment is the sale or the liquidation of assets by the government.
2. The funds generated from disinvestment helps in increasing the debt to GDP ratio.
3. It helps to reduce political interference in non-essential services.

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

- a) 3 only
- b) 2 only



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

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

**Explanation:**

- Disinvestment is the sale or the liquidation of assets by the government, usually the central and state public sector enterprises, projects, or other fixed assets. **(Hence statement 1 is correct)**
- The funds generated from disinvestment **helps in reducing public debt and decreasing the debt to GDP ratio. (Hence statement 2 is incorrect)**
- According to the Budget 2022-23, the disinvestment target for 2022-23 is Rs 65,000 crore.
- **Goals of Disinvestment Policy in India**
  - i. Decrease the financial burden from the sick, loss-making PSU's
  - ii. To help improve public finances.
  - iii. Introduce competition and market discipline amongst enterprises.
  - iv. Help in the funding of various social sector welfare initiatives.
  - v. To encourage a wider share of ownership
  - vi. Reduce political interference in non-essential services **(Hence statement 3 is correct)**

Q.70) Consider the following statements with regarding to measures taken by the government to revamp Special economic zones (SEZs)?

1. Recently the government constituted a committee to study the existing SEZs of India and prepare a policy framework to adopt strategic policy measures headed by Mr Nachiketh Mor.
2. This committee recommended a framework shift of SEZs from export growth to broad-based employment and economic growth.

Which of the above given statements is/are correct?

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

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

**Explanation:**





The government constituted a committee headed by **Mr Baba Kalyani**, in 2018 to study the existing SEZs of India and prepare a policy framework to adopt strategic policy measures. **(Hence statement 1 is incorrect)**

#### Recommendations of the Baba Kalyani committee

- Rename SEZs in India as 3Es- Employment and Economic Enclave **(Hence statement 3 is correct)**
- Framework shift from export growth to broad-based employment and economic growth **(Hence statement 2 is correct)**
- Separate rules and procedures for manufacturing and service SEZs
- Ease of Doing Business (EoDB) in 3Es such as one integrated online portal for new investments
- Extension of Sunset Clause and retaining tax or duty benefits
- Unified regulator for IFSC
- Dispute resolution through arbitration and commercial courts

Q.71) Consider the following statements with respect to the Pigouvian taxes:

1. It is imposed on negative externalities and it is common instrument to control externalities.
2. A Pigouvian tax on carbon ensures that the cost of emitting GHGs is reflected in the price of the commodity or service.

Which of the above given statements is/are correct

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

Q.71) Solution (c)

#### Explanation:

- The idea dates to 1920 to Arthur Pigou in his book 'The Economics of Welfare'. A Pigouvian tax is a per-unit tax on a good, thereby generating negative externalities equal to the marginal externality at the socially efficient quantity. Some Pigouvian taxes, such as the gas tax or cigarette tax, are regressive because they are flat, or the same for everyone. They end up taking a greater percentage of income from people who make less money.



- Imposition of a Pigouvian tax leads to a competitive equilibrium, taking account of the tax, which is efficient. In the case of a positive externality, a subsidy can be used to obtain efficiency. Taxes and subsidies are common instruments to control externalities. **(Hence statement 1 is correct)**
- A Pigouvian tax on carbon ensures that the cost of emitting GHGs is reflected in the price of the commodity or service. **(Hence, statement 2 is correct).**

Q.72) Consider the following statements about GST council:

1. Every decision of the GST Council shall be taken by a majority of not less than three-fourths of the weighted votes of the members present and voting.
2. Union and State legislatures have equal and unique power to make laws on GST.

Which of the above given statements is/are correct

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

Q.72) Solution (c)

**Explanation:**

**GST council**

- It is a constitutional body under Article 279A.
- It makes recommendations to the Union and State Government on issues related to Goods and Service Tax and was introduced by the Constitution (One Hundred and First Amendment) Act, 2016.
- The GST Council is chaired by the Union Finance Minister and other members are the Union State Minister of Revenue or Finance and Ministers in charge of Finance or Taxation of all the States.
- It is considered as a federal body where both the centre and the states get due representation.
- Every decision of the Goods and Services Tax Council shall be taken at a meeting by a majority of not less than three-fourths of the weighted votes of the members present and voting. **(Hence statement 1 is correct)**
- The vote of the Central Government shall have a weightage of one-third of the total votes cast, and the votes of all the State Governments taken together shall have a weightage of two-thirds of the total votes cast, in that meeting.
- The Supreme Court in a judgment championing the importance of “cooperative federalism” for the well-being of democracy held that **Union and State legislatures have “equal, simultaneous and unique powers” to make laws on Goods and Services Tax (GST)** and the recommendations of the GST Council are not binding on them. **(Hence statement 2 is correct)**

Q.73) Which of the following correctly describes the term ‘tax expenditure’?



- a) It is a departure from the normal tax code that lowers the tax burden of individuals through exemptions, deductions, credits, or preferential rates.
- b) It reduces the consumption of the consumer by decreasing the personal disposable income.
- c) It reduces the consumption of the consumer by increasing the personal disposable income.
- d) It is a departure from the normal tax code that increases the tax burden of individuals.

Q.73) Solution (a)

**Explanation:**

- Tax expenditures are a departure from the normal tax code that lowers the **tax burden of individuals or businesses, through an exemption, deduction, credit, or preferential rate.**
- Expenditures can result in significant revenue losses to the government and include provisions such as the earned income tax credit, child tax credit, deduction for employer health-care contributions, and tax-advantaged savings plans.
- When the tax burden increases to such an extent that it impacts the sustenance of a sector the relaxations are given for the sector to flourish constitute tax expenditure. These can be given in the form of lower rates of tax as compared to normal rates.
- It is often regarded by many as wasteful, like subsidies.
- For instance, under the income tax act, every taxpayer can obtain a rebate of Rs. 12500 which is the tax expenditure for the government.

Q.74) \_\_\_\_\_ of the taxes adds to the deadweight loss.

- a) Base effect
- b) Cascading-effect
- c) Tax buoyancy
- d) None of the above

Q.74) Solution (b)

**Explanation:**

- **Taxation over taxes or cascading-effect** of the taxes adds to the deadweight loss i.e., slump in total surplus of the supply chain consisting of the supplier, manufacturer, retailer, and consumer. Due to cascading tax imposition leads to a disproportionate increase in prices by an extent more than the rise in the tax.
- Tax buoyancy explains the 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.

Q.75) Consider the following statements with respect to Regressive tax:

1. It affects people with low incomes more severely than people with high incomes.
2. The burden of the tax increases as income rises.
3. The tax rate decreases as income increases.



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

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

Q.75) Solution (b)

**Explanation:**

- A regressive tax is a tax applied uniformly, taking a larger percentage of income from low-income earners than from middle- and high-income earners. It is in opposition to a progressive tax, which takes a larger percentage from high-income earners. **With a regressive tax, the tax burden decreases as income rises. (Hence statement 2 is incorrect)**
- Some examples of a regressive tax include sales tax, gas tax, and payroll tax.
- A regressive tax affects people with low incomes more severely than people with high incomes because it is applied uniformly to all situations, regardless of the taxpayer. **(Hence statement 1 is correct)**
- A regressive tax system is one in which the **tax rate decreases as the taxpayer's income increases**. A progressive tax system, on the other hand, is one in which the tax rate increases as the taxpayer's income increases. **(Hence statement 3 is correct)**

Q.76) Which 'Five Year Plan' prioritized eradication of poverty and providing employment opportunities.

- a) Fourth Five Year Plan
- b) Fifth Five Year Plan
- c) Seventh Five Year Plan
- d) Sixth Five Year Plan

Q.76) Solution (b)

**Explanation:**

- The main objective of **Fifth Five-year plan was to eradicate poverty and provide employment opportunities and justice**. It has also focused on self-reliance in terms of Agricultural and defence requirements. There have been some changes since the second five-year plan, most notably the change in Prime Minister from Jawaharlal Nehru to Indira Gandhi.

Q.77) Which of the following statements is/are correct with respect to Niti Aayog?

1. It is an executive body.
2. The main function of the Aayog is to develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government.
3. Gujarat has topped the NITI Aayog's India Innovation Index 2022.

Select the correct code:



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

Q.77) Solution (d)

**Explanation:**

- NITI Aayog was formed via a resolution of the Union Cabinet on 1 January 2015. NITI Aayog is a non-constitutional and non-statutory body. It is an executive body. **(Hence statement 1 is correct)**
- **Major functions of NITI Aayog:**
- To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government. **(Hence statement 2 is correct)**
  - To pay special attention to the sections of our society that may be at risk of not benefitting adequately from economic progress
  - To ensure, on areas that are specifically referred to it, that the interests of national security are incorporated in economic strategy and policy
  - Feedback for constant innovative improvements
  - To mainstream external ideas into Government policies, through collaboration with national and international experts
  - To be the Government's link to the outside world, outside experts and practitioners
- NITI Aayog India Innovation Index -**2022- Karnataka Top Rank:** Karnataka has topped the NITI Aayog's India Innovation Index, 2022, which ranks sub-national innovation capacities and ecosystems. The state has ranked first in the Major States category in all three editions of the Index. **(Hence statement 3 is incorrect)**

Q.78) Consider the following statements with respect to tax haven:

1. A tax haven is a country that offers foreign businesses and individuals minimal or no tax liability for their bank deposits in a politically and economically stable environment.
2. Tax havens encourage foreign depositors by offering tax advantages to corporations and the wealthy.
3. Depositing money in a tax haven is legal as long as the depositor pays the taxes required by the home jurisdiction.

Which of the above given statements are correct?

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

Q.78) Solution (d)

**Explanation:**



- A tax haven is a country that offers foreign businesses and individuals minimal or no tax liability for their bank deposits in a politically and economically stable environment. They have tax advantages for corporations and for the very wealthy and obvious potential for misuse in illegal tax avoidance schemes. **(Hence statement 1 is correct)**
- Tax havens encourage foreign depositors by offering tax advantages to corporations and the wealthy. **(Hence statement 2 is correct)**
- Many have secrecy laws that block information on their deposits from foreign tax authorities.
- Depositing money in a tax haven is legal if the depositor pays the taxes required by the home jurisdiction. **(Hence statement 3 is correct)**

**Q.79)** If Company “ABC” recently issued new shares to the public for the second time in past 5 years. What will be such an issue called;

- a) Initial public offer
- b) secondary public offer
- c) Follow on public offer
- d) Disinvestment

Q.79) Solution (c)

**Explanation:**

- A follow-on public offer (FPO) is an issuing of shares to investors by a company that is already listed on an exchange. An FPO is essentially a stock issue of supplementary shares made by a company that is already publicly listed and has gone through the IPO process.

**Q.80)** Consider the following statements with reference to ‘Global Corporate Minimum Tax’:

1. The UN has published detailed rules to assist the implementation of Global Corporate Minimum Tax.
2. This tax will help in counter rising global inequality.
3. It will prevent the unilateral imposition of domestic laws by the developed world over the developing countries.

Which of the statements given above are correct?

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

Q.80) Solution (b)

**Explanation**

- The **OECD published** detailed rules to assist in the implementation of a landmark reform to the international tax system, which will ensure Multinational Enterprises (MNEs) will be subject to a



minimum 15% tax rate from 2023. However, the rules are not legally binding. **(Hence statement 1 is incorrect)**

- As many as 136 countries entered into an agreement earlier to redistribute taxing rights and impose a global minimum corporate tax on large multinational corporations.
- The tax will help in counter **rising global inequality by making** it tougher for large businesses to pay low taxes by availing the services of tax havens. **(Hence statement 2 is correct)**
- It will prevent the **unilateral imposition of domestic** laws by the developed world over the developing countries. **(Hence statement 3 is correct)**

Q.81) Consider the following statements about the Real Effective Exchange Rate (REER):

1. The REER is the weighted average of a country's currency in relation to an index or basket of other major currencies.
2. The weights are determined by comparing the relative trade balance of a country's currency against other countries within the index.
3. An increase in REER implies that exports will become cheaper and imports will become costlier.

Select the correct answer using the code given below:

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

Q.81) Solution (a)

**Explanation:**

- 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. **(Hence statement 1 is correct)**
- The weights are determined by comparing the relative trade balance of a country's currency against each country within the index. **(Hence statement 2 is correct)**
- This exchange rate is used to determine an individual country's currency value relative to the other major currencies in the index.
- REER is used to measure the value of a specific currency in relation to an average group of major currencies. A country's REER is an important measure when assessing its trade capabilities.
- An increase in REER implies that exports become more expensive and imports become cheaper; therefore, an increase indicates a loss in trade competitiveness. **(Hence statement 3 is incorrect)**

Q.82) Which of the following statements is/are correct about the Nominal Effective Exchange Rate (NEER)?

1. NEER is a measure of the value of a currency against a weighted average of several foreign currencies.



2. An increase in NEER indicates an appreciation of the local currency against the weighted basket of currencies of its trading partners.

Select the correct answer using the code given below:

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

Q.82) Solution: (c)

**Explanation:**

- The NEER is used in economic studies and for policy analysis on international trade. It is also used by forex traders who engage in currency arbitrage.
- The Federal Reserve calculates three different NEER indices for the United States:
  - i. the broad index
  - ii. the major currencies index and
  - iii. The other important trading partners (OITP) index.
- The NEER is a measure of the value of a currency against a weighted average of several foreign currencies. **(Hence statement 1 is correct)**
- An increase in the NEER indicates an appreciation of the local currency against the weighted basket of currencies of its trading partners. **(Hence statement 2 is correct)**
- The NEER only describes relative value. It cannot definitively show whether a currency is strong or gaining strength in real terms.
- It only describes whether a currency is weak or strong, or weakening or strengthening, compared to foreign currencies. As with all exchange rates, the NEER can help identify which currencies store value more or less effectively. Exchange rates influence where international actors buy or sell goods.

Q.83) Consider the following statements:

1. The Certificate of Deposit (CD) is a negotiable money market instrument.
2. Treasury bills are issued by SEBI on behalf of Government of India

Select the correct answer using the code given below:

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

Q.83) Solution (a)





**Explanation:**

- Certificate of Deposit – Certificate of Deposit (CD) is a negotiable money market instrument and issued in dematerialized form or as a Usance Promissory Note against funds deposited at a bank or other eligible financial institution for a specified time period. **(Hence statement 1 is correct)**
- **Reserve Bank of India (RBI)** is the apex of the monetary and banking structure of the country that regulates and controls the entire banking system of India. Reserve Bank of India (RBI) sells treasury bills on behalf of the government to the public in order to raise short term finance for the government which is usually for 3-6 months tenure. **(Hence statement 2 is incorrect)**

Q.84) Consider the following statements with reference to exchange rates in India :

1. Fixed exchange rate is determined by the Monetary Authority of the country and it will not fluctuate beyond limit.
2. Floating exchange rate is decided by the market forces and it is likely to fluctuate.

Which of the statements given above is/are correct?

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

Q.84) Solution (c)

**Explanation:**

**Fixed Exchange Rate System:**

- A fixed exchange rate is a regime imposed by a government or central bank which ties the official exchange rate of the country's currency with the currency of another country.
- Fixed exchange-rates are not permitted to fluctuate freely or respond to daily changes in demand and supply. The government fixes the exchange value of the currency. **(Hence statement 1 is correct)**

**Floating Exchange Rate System:**

- A floating exchange rate is a type of exchange rate regime in which a currency's value is allowed to fluctuate in response to foreign exchange market events.
- Flexible exchange rate system is the exchange system where the exchange rate is dependent upon the supply and demand of money in the market. **(Hence statement 2 is correct)**

Q.85) Which of the following are considered as 'Money Market Instruments' in India?

1. Treasury Bills
2. Dated Securities of the Government



3. Commercial Paper
4. Certificate of Deposit
5. Call/Notice Money

Select the correct answer using the code given below:

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

Q.85) Solution (d)

**Explanation:**

Money Market refers to the Financial Market that fills the demand-supply gap in short term funds with maturity period less than 1 year.

**Instruments:**

- **Treasury Bills:** Instruments that the government uses to raise short-term money from the financial market. (For long term: Dated Securities).
- **Certificate of Deposit:** Issued by the banks and the FIs to the individuals, companies, corporations, funds etc.
- **Commercial Paper:** Debt instruments issued by the companies to raise short term funds.
- **Call/Notice Money:** Used for inter-bank lending. Call money is usually availed for 1day. Notice money is availed for 2-14 days.

**(Hence option (d) is correct answer)**

Q.86) Which of the following are the objectives of SEBI?

1. To regulate the securities market.
2. To protect the interests of inventors.
3. To promote individual businesses.
4. To promote the development of financial market.

Select the correct answer using the code given below:

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



Q.86) Solution (c)

**Explanation:**

**Objectives of SEBI**

The main objective of SEBI is protection of the interest of investors, promotion of the development of stock exchange, and regulation the activities of stock market. The objectives of SEBI are as follows:

- Regulation of the activities of stock market.
- Protection of the rights of investors and ensuring safety of their investment.
- Prevention of fraudulent and malpractices by having a balance between self-regulation of business and its statutory regulations.
- Regulation and development of a code of conduct for the intermediaries like underwriters, brokers, etc.

**(Hence statement 3 is incorrect)**

Q.87) Consider the following statements regarding a 'closed-ended' mutual fund in India:

1. These units are listed on the stock exchanges where they are traded on a daily basis. As these units are listed, any investor can buy and sell these units through the exchange.
2. These schemes are managed for a limited number of years.

Which of the statements given above is/are incorrect?

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

Q.87) Solution (d)

**Explanation:**

- A close- ended fund, usually, issues units to investors only once, when they launch an offer, called New Fund Offer (NFO) in India.
- Thereafter, these units are listed on the stock exchanges where they are traded on a daily basis. As these units are listed, any investor can buy and sell these units through the exchange. **(Hence statement 1 is correct)**
- Close-ended schemes are managed by fund houses for a limited number of years (as the name suggests), and at the end of the term either money is returned to the investors or the scheme is made open-ended. However, there is a word of caution here; Usually, units of close ended funds which are listed on the stock exchanges, trade at a high discount to their NAVs. But as the date



for closure of the fund nears, the discount between the NAV and the trading price narrows, and vanishes on the day of closure of the scheme. **(Hence statement 2 is correct)**

Q.88) Which of the following statements is/are correct about Call Money?

1. It is a short-term financial loan that must be paid in full and immediately when the lender demands it.
2. It has a fixed maturity and payment schedule,
3. It consists of overnight money and money at short notice for a period of up to 14 days.

Select the correct answers using 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.88) Solution (c)

**Explanation:**

- The call money is the most important segment of the Indian financial system.
- Call money, also known as "money at call," is a short-term interest-bearing loan that the borrower must repay immediately if the lender demands it. **(Hence statement 1 is correct)**
- Unlike a term loan, which has a fixed maturity and payment schedule, call money does not have to adhere to a set schedule, nor does the lender have to provide any advance notice of repayment. **(Hence statement 2 is incorrect)**
- Call money allows banks to earn interest on their excess funds, which is known as the call money rate (call loan rate/call rate).
- The call money market primarily serves to rebalance banks' and other participants' short-term liquidity positions. It consists of overnight money and money at short notice for a period of up to 14 days. **(Hence statement 3 is correct)**

Q.89) Consider the following statements with regard to Hedge funds:

1. Hedge funds are open to all types of investors.
2. These are strictly regulated by the Securities and Exchange Board of India.

Which of the statements given above is/are **not correct**?

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



Q.89) Solution (c)

**Explanation:**

- A hedge fund is a limited partnership of private investors whose money is managed by professional fund managers who use a wide range of strategies, including leveraging or trading of non-traditional assets, to earn above-average investment returns. Hedge funds are limited to wealthier investors who can afford the higher fees and risks of hedge fund investing, and institutional investors, including pension funds. **(Hence statement 1 is incorrect)**
- Hedge funds in India do not need to be necessarily registered with the Securities and Exchange Board of India. **(Hence statement 2 is incorrect)**

Q.90) Consider the following statements about the differences between FDI and FII:

1. FDI involves a direct investment in a company with the intention of acquiring management control or influence, while FII involves investment in securities or assets of a foreign company.
2. FDI results in a short-term investment and is focused on the secondary market, whereas FII investment is usually long-term.
3. FDI is subject to stricter regulations compared to FII.

Which of the following statement are correct?

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

Q.90) Solution (c)

**Explanation:**

- FDI involves a direct investment in a company with the intention of acquiring management control or influence, while FII involves investment in securities or assets of a foreign company. **(Hence statement 1 is correct)**
- FDI results in a long-term interest in the investee company, whereas FII investment is usually short-term and focused on the secondary market. **(Hence statement 2 is incorrect)**
- FDI brings in not just finance, but also technical knowledge and direct involvement in the day-to-day operations of the foreign company, while FII investment primarily provides financial benefits.
- FDI is subject to stricter regulations compared to FII, which allows for a relatively easy entry and exit from investment. **(Hence statement 3 is correct)**
- The maximum permissible investment by an FII in an Indian company is 24% of the paid-up capital, with a 2% lower cut-off, while there is no such limit for FDI.
- FDI is considered a more stable form of foreign investment as compared to FII, which is known as “hot money” due to its quick entry and exit from investments.



Q.91) Consider the following statements about Venture Capitals:

1. It is particularly offered to large scale industries.
2. Venture capitalists are those people who invest in young companies having promising futures.
3. It is a long term investment.

Which of the following statement are correct?

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

Q.91) Solution (b)

**Explanation:**

- It is basically financing of new companies which are finding it difficult to go to the capital market at their early stage of existence. It is particularly offered to small and medium-sized businesses not for large scale industries. **(Hence statement 1 is incorrect)**
- Venture capitalists are those people who invest in early-stage companies having promising futures. A venture capitalist can be a sole investor or a group of investors who come together through investment firms. **(Hence statement 2 is correct)**
- This finance can also be loan-based or in-convertible debentures so that they carry a fixed yield for the providers of venture capital.
- Those who provide venture capital aim at capital gain due to the success achieved by the concern that borrows.
- It is a long-term investment and made in companies which have high growth potential. The provision of venture capital will bring rapid growth for the business. **(Hence statement 3 is correct)**
- The venture capital provider will also take part in the business of borrowing concern whereby, the venture capital financier not merely confines to finance, but also provide managerial skill.
- Not all the capitalists will experience high risk. But venture capital financing contains risks. But the risk is compensated with a higher return.
- Not much of technology is involved in venture capital, it involves financing mainly small and medium size firms, which are in their early stages. With the assistance of venture capital, these firms will stabilize and later can go in for traditional finance.

Q.92) Which among the following instruments belongs to the secondary capital market:

1. Debentures
2. Equity Shares
3. Initial Public Offering
4. Sovereign Bonds



Select the correct answer using the codes given below:

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

Q.92) Solution (b)

**Explanation:**

A secondary market is a platform wherein the shares of companies are traded among investors. It means that investors can freely buy and sell shares without the intervention of the issuing company. In these transactions among investors, the issuing company does not participate in income generation, and share valuation is rather based on its performance in the market. Income in this market is thus generated via the sale of the shares from one investor to another.

**Different Instruments in the Secondary Market**

- **Fixed Income Instruments:** These are primarily debt instruments ensuring a regular form of payment such as interests, and the principal is repaid on maturity. Examples- debentures, sovereign bonds, and preference shares.
- **Variable Income Instruments:** These instruments generate an effective rate of return to the investor, and various market factors determine the quantum of such return. These securities expose investors to higher risks as well as higher rewards. Examples- equity shares and derivatives.
- **Hybrid Instruments:** Two or more different financial instruments are combined to form hybrid instruments. Convertible debentures serve as an example of hybrid instruments.

**(Hence statement 1, 2 and 4 are correct)**

- **Initial Public Offering** is a Primary market instrument, where the proceeds go to the issuing organization directly. **(Hence statement 3 is incorrect)**

Q.93) Consider the following statements:

1. Pension Fund Regulatory and Development Authority (PFRDA) is a statutory authority.
2. NPS is extended to all Indian citizens including overseas citizens.

Which of the statements given above is/are incorrect?

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



Q.93) Solution (d)

**Explanation**

- The Pension Fund Regulatory and Development Authority (PFRDA) is a statutory regulatory body established under the Pension Fund Regulatory and Development Authority Act, 2013. It was established to oversee the National Pension System (NPS), and regulate India's pensions sector. **(Hence statement 1 is correct)**
- NPS was extended to all Indian citizens (including non-resident and overseas) on a voluntary basis and to corporate for its employees. **(Hence statement 2 is correct).**

Q.94) Which of the following statements with reference to debentures is/are correct?

1. The debenture is a type of bond or other debt instrument that is unsecured.
2. The debenture holders have the right to vote in meetings of the company.
3. The debenture holder is a creditor of the company

Select the correct code:

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

Q.94) Solution (c)

**Explanation**

- A debenture is a type of bond or other debt instruments that is unsecured by collateral. It is in the form of a certificate of indebtedness of the company and issued by the company itself. **(Hence statement 1 is correct)**
- It generally creates a charge on the undertaking or undertakings of the company. There is usually a specific date of redemption.
- A debenture is creditor of the company. **(Hence statement 3 is correct)**
- As the debenture holders are not the owner of the company so they are not entitled with the administration and management of the company. The **debenture holders cannot claim the privilege to vote in any meeting of the company.** **(Hence statement 2 is incorrect)**

Q.95) Which one of the following is the most liquid asset?

- a) Term Deposit
- b) Demand Deposit
- c) Bonds
- d) Shares

Q.95) Solution (b)





### Explanation

- An asset which can be easily transformed into cash in less time and with no loss or little loss in value is known as a liquid asset. Liquid assets are usually compared with cash as the value remains the same whenever sold. This type of asset is commonly used by businesses and buyers.
- M1 is known as narrow money as it includes only 100% liquid deposits which is a very narrow definition of the money supply it includes the components of Cash held by the public and Demand deposits of the commercial banks. **(Hence option b) is correct answer).**

Q.96) Consider the following:

1. Market borrowing
2. Treasury bills
3. External assistance
4. Special securities issued to RBI

Which of these are components of internal debt?

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

Q.96) Solution: a)

### Explanation:

- Internal debt is part of the total debt that is owed to lenders within the country. **Market borrowings, Treasury bills and special securities issued to RBI** are the sources of internal borrowings. **(Hence statements 1, 2 and 4 are correct)**
- **External Assistance** is the flow of resources from developed countries to developing countries. However, a proper definition of Technical Co-operation would be the flow of resources from one country to another under mutually agreed arrangements and it is the source of external borrowings. **(Hence statement 3 is incorrect)**

Q.97) Consider the following statements regarding Mutual Fund Companies:

1. It is a company that pools investor's money in stocks, bonds and money market instruments
2. Investment in mutual funds is less risky compared to shares and hedge funds.

Select the correct answer using the code given below:

- e) 1 only
- f) 2 only
- g) Both 1 and 2
- h) Neither 1 nor 2



Q.97) Solution (c)

**Explanation:**

- Mutual Fund is trusts which pool the savings of large number of investors and then reinvests those funds for earning profits and then distribute the dividend among the investors. **(Hence statement 1 is correct)**
- Mutual funds are generally considered safer investments than hedge funds. That's because fund managers are limited in their ability to use riskier strategies such as leveraging their holdings, which can increase returns, but it also increases volatility. **(Hence statement 2 is correct)**

Q.98) Consider the following statements:

1. Indian Depository receipts enable foreign companies to raise funds from the Indian securities Markets.
2. Global depository receipts are used to invest in companies from developing or emerging markets.

Which of the statements given above is/are correct?

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

Q.98) Solution (c)

**Explanation:**

- A foreign company can access Indian securities market for raising funds through issue of Indian Depository Receipts (IDRs). An IDR is an instrument denominated in Indian Rupees in the form of a depository receipt created by a Domestic Depository (custodian of securities registered with the Securities and Exchange Board of India) against the underlying equity of issuing company to enable foreign companies to raise funds from the Indian securities Markets. **(Hence statement 1 is correct)**
- GDRs represent ownership of an underlying number of shares of a foreign company and are commonly used to invest in companies from developing or emerging markets by investors in developed markets. **(Hence statement 2 is correct)**

Q.99) Consider the following statements about the differences between Money market and Capital Market:

1. Money markets consists of short-term transactions, whereas, capital markets involve long-term transactions.
2. Money markets exhibit lower levels of financial risk, whereas, capital markets experience higher levels of financial risk



Which of the statements given above is/are correct?

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

Q.99) Solution (c)

**Explanation:**

- Money markets consist of short-term transactions of Certificates of Deposits, commercial paper, and treasury. Besides, the time period for these exchanges is usually equal to or less than 1 year. Whereas, capital markets involve trading of capital market tools for a period between 3 years and 10 years, or even longer. As a result, capital markets fulfill the medium and long-term capital goals of corporations. **(Hence statement 1 is correct)**
- Money market instruments like CDs, CPs, BAs, and Repurchase Agreement are valid for a period between 1 day and 1 year. As a result, their liquidity factor is significant for corporations to fund their short-term capital requirements. Whereas capital market instruments like shares, bonds, and debentures have a lower degree of liquidity. They contribute to long-term capital needs and are prone to changes in financial value as per appreciation and depreciation.
- Money markets exhibit lower levels of financial risk because the trading of short-term assets is done within a short period of time. Therefore, money market instruments benefit corporations immensely due to their ability to withstand market risks. Additionally, these instruments are liquid, and thus can be traded in the market to minimise risks. On the other hand, capital markets experience higher risk levels since they have a much longer period of maturity. As a result, these have an enhanced elasticity towards market and financial trends. **(Hence statement 2 is correct)**
- Another essential point of money market and capital market difference is that the former offers a comparatively lower rate of return on investment. Whereas, the rate of return on investment in capital markets is higher due to the long time period involved.

Q.100) Consider the following pairs regarding different types of FDI:

1. Inward FDI - Direct investment in a foreign country aimed to sell the output of the firm's domestic production.
2. Conglomerate FDI - Direct investment overseas aimed at manufacturing products which are not manufactured by the firm in the home country.
3. Forward vertical FDI - Foreign firms investing overseas and taking control over foreign assets.

Which of the following pairs is correctly matched?

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



d) 1, 2 and 3

Q.100) Solution (c)

**Explanation:**

- **Inward FDI**- Foreign firms investing overseas and taking control over foreign assets. **(Hence statement 1 is incorrect)**
- **Conglomerate FDI** Direct investment overseas aimed at manufacturing products not manufactured by the firm in the home country. **(Hence statement 2 is correct)**
- **Forward vertical FDI** -Direct investment in a foreign country aimed to sell the output of the firm's domestic production. **(Hence statement 3 is incorrect)**
- **Backward Vertical FDI** - Direct investment overseas aimed at providing inputs for the firm's production process in the home country.

Q.101) Consider the following statements with respect to 'National Monetization Pipeline (NMP)' which was announced in the Union Budget 2021-22:

1. It was developed by the Ministry of Finance, with the aim of leasing out public assets to a private sector entity for an upfront or periodic pay-out.
2. Contracts under it include provision for transfer of asset back to the government at the end of the period.

Which of the above given statements is/are correct?

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

Q.101) Solution (b)

**Explanation:**

- **National Monetisation Pipeline (NMP):** The NMP (announced in the Union Budget 2021-22), **developed by the Niti Aayog**, aims to lease out public assets to a private sector entity for an upfront or periodic pay-outs. **(Hence statement 1 is incorrect)**
- During the period of the lease the private sector entity will operate and maintain the asset and generate returns (through higher operating efficiencies and enhanced user experience). The funds, so received are to be reinvested in new infrastructure projects or deployed for other developmental works.
- Contracts under it include provision for transfer of **asset back to the government** at the end of the period (i.e., ownership of assets to remain with government). **(Hence statement 2 is correct)**



- The pipeline will include 'de-risked' and 'Brownfield' public assets which have stable profit generation profile to make investment attractive for the private sector. Government estimates to mobilize 6 lakh crores over the 4-year period around 5.4 per cent of the total investment envisaged under the National Infrastructure Pipeline (to which the NMP is co-terminus).

Q.102) What is de-reservation of the Industries?

- a) Selling of industries to private entities.
- b) Opening up of those industries for the private sector that were exclusively reserved for the government sector.
- c) Allowing FDI into industrial sector.
- d) None of the above.

Q.102) Solution (b)

**Explanation:**

- De-reservation of the Industries: The industries which were reserved for the Central Government by the IPR, 1956, were cut down to only eight. In coming years many other industries were also **opened for private sector investment**. At present there are only two industries which are fully or partially reserved for the Central Government: **(Hence option (b) is correct)**
  - **Atomic energy and nuclear research** and other related activities, i.e., mining, use management, fuel fabrication, export and import, waste management, etc., of radioactive minerals (none of the nuclear powers in the world have allowed entry of private sector players in these activities, thus no such attempts look logical in India, too).
  - **Railways** (many of the functions related to the railways have been allowed private entry, but still the private sector cannot enter the sector as a full-fledged railway service provider).

Q. 103) Which of the following is/are the features of New Industrial Policy, 1991?

1. De-licensing of the industries.
2. Abolition of the monopoly restricted trade policy (MRTP).
3. Restrictions to foreign investment and promotion of domestic investment.

Select the correct answer by using the code below:

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

Q. 103) Solution (a)

**Explanation:**

### Features of New Industrial Policy, 1991

- **De-licensing of the Industries:** The number of industries put under the compulsory provision of licensing (belonging to Schedules B and C as per the IPR, 1956) were cut down to only 18. **(Hence statement 1 is correct)**
- **Abolition of the MRTP Limit:** The MRTP limit was 100 crore so that the mergers, acquisitions and takeovers of the industries could become possible. In 2002, a Competition Act was passed which has replaced the MRTP Act. In place of the Commission, the Competition Commission has started functioning (though there are still some hitches regarding the compositional form of the latter and its real functions and jurisdictions). **(Hence statement 2 is correct)**
- **Promotion to Foreign Investment:** Functioning as a typical closed economy, the Indian economy had never shown any good faith towards foreign capital. The new industrial policy was a path-breaking step in this regard. Not only the draconian FERA committed to be diluted but also the government went to encourage FI in both its forms-direct and indirect. **(Hence statement 3 is incorrect)**

Q. 104) With reference to disinvestment, consider the following statements:

1. Disinvestment and Privatization both involve the sale of Government's share in the Public Sector Undertakings.
2. The Department of Investment and Public Asset Management (DIPAM) under the Ministry of Finance has been made the nodal department for the strategic stake sale in the Public Sector Undertakings (PSUs).
3. The objective of disinvestment is to reduce the financial burden on the government.

Which of the above given 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. 104) Solution (d)

#### Explanation:

- The term privatization is used for a stake sell in which there is a transfer of 51% or more equity to the private players. Whereas disinvestment is the government sells only a part of the equity which is essentially less than 51% and in a manner so that ownership and management rights can be hold by the Government itself. **(Hence statement 1 is correct)**
- The objective of disinvestment is to reduce the financial burden on the government, improve the management and performance of the public sector enterprise, and promote the growth of the private sector. **(Hence statement 3 is correct)**



- The Department of Investment and Public Asset Management (DIPAM) under the Ministry of Finance has been made the nodal department for the strategic stake sale in the Public Sector Undertakings (PSUs). **(Hence statement 2 is correct)**

Q. 105) Which of the following factors led to LPG Reforms?

1. High Inflation.
2. Decreased Fiscal Deficit.
3. Foreign Exchange Reserves Depletion.
4. Increase in the favorable Balance of Payments.

Select the correct answer by using the code below:

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

Q. 105) Solution (c)

**Explanation:**

**Factors that led to LPG Reforms**

- **Price Increase:** Inflation soared from 6.7% to 16.7%, worsening the country's economic situation.
- **Increased Fiscal Deficit:** The government's fiscal deficit increased as non-development spending increased. The national debt and interest rates have risen as a result of the increased budget imbalance. Interest liabilities accounted for 36.4% of overall government spending in 1991.
- **Increase in the Unfavorable Balance of Payments (BOP):** It was Rs. 2214 crore in 1980-81 and Rs. 17,367 crores in 1990-91. To finance the deficit, a considerable number of foreign loans were needed, and the interest rate had to be raised.
- **The Iraq War broke out in 1990-91,** resulting in a spike in gasoline costs. The influx of foreign currency from Gulf countries ceased, exacerbating the situation.
- **PSU Performance:** Due to political influence, PSUs were underperforming and became a major burden for the government.
- **Foreign Exchange Reserves Depletion:** In 1990-91, India's foreign exchange reserves depleted to the point where they were unable to cover a two-week import bill.

Q. 106) With reference to Indian economy after the 1991 economic liberalization, consider the following statements:

1. Worker productivity increased in urban areas while it decreased in rural areas.
2. The percentage share of rural areas in the workforce steadily increased.
3. In rural areas, the growth in the non-farm economy increased.



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

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

Q. 106) Solution (a)

**Explanation:**

- Worker productivity has increased in **both rural and urban areas**, according to the NITI Ayog report. Take a look at the information below: It was Rs. 37273 in 2004-05 and Rs. 101755 in 2011-12 in rural regions, and Rs. 120419 in 2004-05 and Rs. 282515 in 2011-12 in urban areas. **(Hence statement 1 is incorrect)**
- The steady **transition to urbanisation has resulted in a decrease** in the rural workforce share, from 77.8% in 1993-94 to 70.9% in 2011-12. **(Hence statement 2 is incorrect)**
- From 76.1% in 1999-00 to 70.9% in 2011-12, the rural workforce's share of the total workforce has continuously decreased. The **non-farm economy's share in the rural economy increased**. **(Hence statement 3 is correct)**

Q. 107) Which of the following Policy steps are taken by the government to enhance ease of doing business for the manufacturing sector and their faster growth?

1. Interest subvention of 2 per cent to all Goods and Services Tax (GST) registered firms.
2. Government to bear 70 per cent of the cost for establishing Pharma clusters.
3. Loans up to 1 crore to be approved online within an hour.

Which of the above given statements are correct?

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

Q. 107) Solution (d)

**Explanation:**

**Enhancing ease of doing business for the sector and their faster growth have been given special attention by the Government in the last few years - with following policy steps :**

- Loans up to 1 crore to be approved online within 59 minutes. **(Hence statement 3 is correct)**





- Interest subvention of 2 per cent to all Goods and Services Tax (GST) registered firms. **(Hence statement 1 is correct)**
- PSUS to compulsorily procure 25 per cent (up from 20 per cent) with 3 per cent reserved for women entrepreneurs-through the GeM portal.
- 20 Technology Centers (TCs) and 100 Extension Centers (ECS) to be established.
- Government to bear 70 per cent of the cost for establishing Pharma clusters. **(Hence statement 3 is correct)**
- Returns under 8 labour laws and 10 Union regulations to be filed once a year.
- Establishments to be visited by an Inspector will be decided through a computerized random allotment.
- For minor violations under the Companies Act, entrepreneurs no longer have to approach the court but can correct them through simple procedures.

Q. 108) Consider the following pairs of MSMEs and their new definition:

	MSME Enterprises	New definition
1	Micro enterprise	Investment capital increased to 5 crore and 25 crores of turnover
2	Small enterprises	Investment capital increased to 10 crore and 50 crores of turnover
3	Medium enterprises	Investment capital increased to 50 crore and 250 crores of turnover

Which of the above given pairs are correct?

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

Q. 108) Solution (b)

**Explanation:**

The distinction between manufacturing and service sector, MSMEs has been abolished and an upward revision in their definition has been adopted:

- Micro enterprise investment capital increased to **1 crore** (from 25 lakh) **and 5 crores** of turnover (from 1 crore). **(Hence pair 1 is incorrectly matched)**
- Small enterprises investment capital to 10 crores of investment (from 5 crores) and 50 crores of turnover (from 2 crores). **(Hence pair 2 is correctly matched)**
- Medium enterprises investment increased to 50 crores (from 10 crores) of investment and 250 crores of turnover (from 25 crores). **(Hence pair 3 is correctly matched)**



Q. 109) Central Public Sector Enterprises (CPSEs) must fulfill which of following criteria to get Maharatna status?

1. They must have Navratna status.
2. They should have average annual turnover of more than Rs. 25,000 crore, during last 3 years.
3. They should be listed on a stock exchange with minimum prescribed public shareholding limit under SEBI regulations.

Which of the above given statements are correct?

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

Q. 109) Solution (d)

**Explanation:**

**Maharatna Status:**

The “Maharatna” category for CPSEs was introduced in 2009 with objective to empower mega CPSEs to expand their operations and emerge as global giants or become Indian Multinational Companies (MNCs).

**At present, there are Eight Maharatna companies:**

Bharat Heavy Electricals (BHEL), Coal India (CIL), GAIL (India), Indian Oil Corporation Limited, NTPC, Oil and Natural Gas Corporation (ONGC), Steel Authority of India (SAIL), Bharat Petroleum Corporation Limited.

**Criteria for Maharatna status:**

- Under government rules, Central Public Sector Enterprises (CPSEs) must fulfill following criteria for grant of Maharatna status.
- Must Having Navratna status. **(Hence statement 1 is correct)**
- Average annual turnover of more than Rs. 25,000 crore, during last 3 years. **(Hence statement 2 is correct)**
- Average annual net worth of more than Rs. 15,000 crore, during last 3 years.
- Average annual net profit after tax of more than Rs. 5,000 crore, during last 3 years.
- Should have significant global presence and international operations.
- Listed on Indian stock exchange with minimum prescribed public shareholding limit under SEBI regulations. **(Hence statement 3 is correct)**

Q.110) Consider the following statements with regard to Corporate Social Responsibility (CSR):

1. The CSR is applicable to companies that have a net worth of at least 100 Crore and a net profit of at least 10 crore rupees during the most recent financial year.



2. India is the first nation to have a law for CSR for specific companies.
3. Companies have to spend at least 2% of last 3 years average net profits on CSR activities.

Which of the above statements are correct?

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

Q. 110) Solution (b)

**Explanation:**

- India is the first nation to have a statutory mandate for CSR for specific corporations thanks to the enactment of Section 135 in the 2013 Companies Act. **(Hence statement 2 is correct).**
- According to the 2013 Companies Act, businesses that have a **net worth of at least 500 crore rupees**, a revenue of at least 1,000 crore rupees, or a net profit of at least 5 crore rupees during the most recent financial year are required to invest 2% of their average net profits over the immediately preceding three years on CSR activities. **(Hence statement 1 is incorrect).**
- Needed to spend at least 2% of last 3 years average net profits on CSR activities as specified in Schedule VII of the Companies Act. **(Hence statement 2 is correct).**
- It is a concept where a company spends a certain share of its earnings towards the environment, social and human development field in the areas or locality where it is operating.

Q.111) With reference to the corporate governance initiatives, consider the following statements:

1. Corporate governance initiatives have been undertaken by the Ministry of finance and SEBI.
2. Corporate governance was established by the SEBI on the recommendations of Kumarmangalam Birla Committee Report.

Which of the above given statements is/are correct?

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

Q.111) Solution (b)

**Explanation:**

**Corporate Governance Initiatives in India**



- In India, corporate governance initiatives have been undertaken by the **Ministry of Corporate Affairs (MCA)** and the Securities and Exchange Board of India (SEBI). **(Hence statement 1 is incorrect)**
- The first formal regulatory framework for listed companies specifically for corporate governance was established by the SEBI in February 2000, following the **Recommendations of Kumarmangalam Birla Committee Report**. It was enshrined as Clause 49 of the Listing Agreement. **(Hence statement 2 is correct)**
- Further, SEBI is maintaining the standards of corporate governance through other laws like the Securities Contracts (Regulation) Act, 1956; Securities and Exchange Board of India Act, 1992; and Depositories Act, 1996.
- The Ministry of Corporate Affairs had appointed Naresh Chandra Committee on Corporate Audit and Governance in 2002 in order to examine various corporate governance issues. It made recommendations in two key aspects of corporate governance:
  - **Financial and non-financial disclosures:**an independent auditing and board oversight of management. It is making all efforts to bring transparency to the structure of corporate governance through the enactment of Companies Act and its amendments.

Q.112) With reference to the Navaratna Companies, Consider the following statements:

1. Navaratnas are a set of public sector companies that possess financial autonomy to invest up to 1000 crores without any approval from the central government.
2. Navaratna status will help in implementing various ambitious projects of the government such as providing funds for infrastructure.
3. Navaratna status was first allotted to 9 public sector enterprises in 1997. As of Now there are 20 navratnas in India.

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.112) Solution (a)

**Explanation:**

- Navaratna Companies (Navaratnas) is a category of Central Public Sector Enterprise (CPSE) which meets certain operational and financial eligibility based on net profit, the total cost of production, earnings per share and inter-sectoral performance. Navaratnas are a set of public sector companies that possess financial autonomy to invest up to 1000 crores without any approval from the central government. **(Hence statement 1 is correct)**
- Navaratna status was first allotted to 9 public sector enterprises in 1997. As of January 2022, there are 13 navratnas in India. **(Hence statement 3 is incorrect)**



- Acquiring the navaratna status will help in implementing various ambitious projects of the government such as providing funds for infrastructure, etc. **(Hence statement 2 is correct)**
- **Following are the 13 Navratna CPSEs in the country, these are:**
  - Bharat Electronics Limited
  - Container Corporation of India Limited
  - Engineers India Limited
  - Hindustan Aeronautics Limited
  - Mahanagar Telephone Nigam Limited
  - National Aluminium Company Limited
  - NBCC (India) Limited
  - NMDC Limited
  - NLC India Limited
  - Oil India Limited
  - Rashtriya Ispat Nigam Limited
  - Rural Electrification Corporation Limited
  - Shipping Corporation of India Limited

Q.113) Consider the following statements with respect to Cottage industries and Small Scale Industries:

1. Khadi and Village Industries Commission (KVIC) is a statutory organization that promotes Cottage industries.
2. Small scale industries use outside labor whereas in cottage industries family labor is used.
3. A small scale industry uses both modern and traditional techniques whereas Cottage industries depend on traditional techniques of production.

Which of the above statements are correct?

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

Q.113) Solution (d)

**Explanation:**

- Cottage industries or cottage manufacturing are also called household industries or rural industries or traditional industries. The artisans use local raw materials and simple tools to produce everyday goods in their homes with the help of their family members or part-time labour. Finished products may be for consumption in the same household or, for sale in local (village) markets, or, for barter. It is the smallest industry unit and it is different from small-scale industries. For example, Pots making, bamboo basket weaving, fabric, mats, Curtain making, furniture making, Jewellery making of gold or silver.



- Small Scale Industries are industries in which manufacturing, production, and rendering of services are done on small scale. The investment limit is up to Rs.5 crore while the annual turnout is up to Rs. 10 crores.
- Cottage Industries are usually very small and are established in cottages or dwelling places. **Khadi and Village Industries Commission (KVIC)** is a statutory organization that promotes village industries that also helps cottage industries. **(Hence statement 1 is correct)**
- **In Small scale industry outside labour is used whereas in cottage industries family labour is used. SSI uses both modern and traditional techniques.** Cottage industries depend on traditional techniques of production. **(Hence statements 2 and 3 are correct)**

Q.114) What does ZED stand for in the context of MSMEs?

- a) Zero Defect Zero Effect.
- b) Zero Effect Zero Defect.
- c) Zero Effectiveness Zero Defectiveness.
- d) Zero Delays Zero Effect.

Q.114) Solution (a)

**Explanation:**

- The Government has launched a new scheme namely “Financial Support to MSMEs in ZED Certification Scheme”.
- The objective of the scheme for promotion of **Zero Defect and Zero Effect (ZED)** manufacturing amongst micro, small and medium enterprises (MSMEs).
- It also involves ZED Assessment for their certification so as to:
  - Develop an Ecosystem for Zero Defect Manufacturing in MSMEs.
  - Promote adaptation of Quality tools/systems and Energy Efficient manufacturing.
  - Enable MSMEs for manufacturing of quality products.
  - Encourage MSMEs to constantly upgrade their quality standards in products and processes.

Q.115) Which of the following Ministry launched the programme Micro & Small Enterprises – Cluster Development Programme (MSE-CDP)?

- a) Ministry of Micro, Small, and Medium Enterprises (MSME).
- b) Ministry of Skill development.
- c) Ministry of Finance.
- d) Ministry of Corporate affairs.

Q.115) Solution (a)

**Explanation:**

**Micro & Small Enterprises – Cluster Development Programme (MSE-CDP)**



The programme was launched by the **Ministry of Micro, Small, and Medium Enterprises (MSME)**, Government of India (GoI). Cluster can be defined as a number of enterprises that practice and produce the same products and services. **(Hence option (a) is correct)**

Q.116) Consider the following statements with respect to the Industrial Policy Resolution, 1956:

1. It was shaped by the Mahalanobis Model of growth, which suggested that emphasis on heavy industries would lead the economy towards a long-term higher growth path.
2. The policy tried to build the basis for a Capitalist pattern of society.
3. No new industry was allowed unless a license was obtained from the government.

Which of the above statements are correct?

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

Q.116) Solution (c)

**Explanation:**

**The Industrial Policy Resolution - 1956**

- It was shaped by the Mahalanobis Model of growth, which suggested that emphasis on heavy industries would lead the economy towards a long-term higher growth path. **(Hence statement 1 is correct)**
- This resolution formed the basis of the Second Five Year Plan, the plan which tried to build the basis for a **socialist pattern** of society. **(Hence statement 2 is incorrect)**
- **This resolution classified industries into three categories.**
  - The first category comprised industries that would be exclusively owned by the state;
  - The second category consisted of industries in which the private sector could supplement the efforts of the state sector, with the state taking the sole responsibility for starting new units.
  - The third category consisted of the remaining industries which were to be in the private sector.
- No new industry was allowed unless a license was obtained from the government. **(Hence statement 3 is correct)**
- This policy was used for promoting industry in backward regions; it was easier to obtain a license if the industrial unit was established in an economically backward area. Even an existing industry had to obtain a license for expanding output or for diversifying production (producing a new variety of goods).
- This was meant to ensure that the number of goods produced was not more than what the economy required.



Q.117) With reference to the Industrial Policy 1973, Consider the following statements:

1. The term "Core Industries" was introduced for the first time in the IPR of 1973.
2. The Public-Private Partnership (PPP) was emphasized as a prototype for the first time and it was called 'Joint Sector' in which a partnership between state, center and private sector was allowed.

Which of the above given statements is/are correct?

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

Q.117) Solution (c)

**Explanation:**

#### Industrial Policy 1973

- In the Industry Policy Statement 1973, the term "**Core Industries**" was introduced. It referred to the 6 Core Industries: 1. Iron and Steel Industry 2. Cement 3. Coal 4. Crude Oil 5. Oil Refining 6. Electricity they were called the basic industries or infrastructure industries. **(Hence statement 1 is correct)**
- The private players were allowed to apply for licensing in these industries and for that they required Rs. 20 Crore assets or more. In this policy, some industries were reserved for small and medium players. The Public-Private Partnership (PPP) also was emphasized as a prototype and it was called "**Joint Sector**" in which a partnership between state, center, and private sector was allowed. **(Hence statement 2 is correct)**

Q.118) Consider the following statements with respect to National Renewal Fund:

1. It was set up by the Industrial Policy 1991.
2. The NRF was established to provide relief to the workers affected by technological changes.

Which of the above given statements is/are correct?

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

Q.118) Solution (c)

**Explanation:**

- It was announced by Industrial Policy 1991. **(Hence statement 1 is correct)**





- The NRF was established to provide relief to the workers affected by technological changes, privatization of public sector units, and closure of public sector units. Those who lost their jobs would be either paid money under the VRS scheme or will be retrained/rehabilitated. **(Hence statement 2 is correct)**
- NRF was eventually abolished and the VRS was shifted to the Department of Public Enterprises (DPE).

Q.119) Which among the following Industrial Policy is hailed as the "Economic Constitution of India"

- a) Industrial Policy of 1948
- b) Industrial Policy of 1956
- c) New Industrial Policy of 1991
- d) Industrial Policy of 1980

Q.119) Solution (b)

**Explanation:**

- The Industrial Policy, 1956 was an elaborate document and was hailed as the "Economic Constitution of India". It touched virtually all aspects of Industrial development. It established the public sector as the epicenter of industrialization. **(Hence option b) is correct)**
- The outcome of this policy must be seen in conjunction with the Industries (Development & Regulation) Act of 1951. The first major outcome was that the public sector in the country expanded and it became the main vehicle for Industrial Growth. The government gave priority to backward regions to establish the Industrial units to spur balanced growth.

Q.120) Which of the following is/are ingredients of the Globalization?

1. Reduction in import duties.
2. Abolition of import licensing.
3. Free flow of Foreign Direct Investment.
4. Disinvestment of Public.

Which of the above statements are correct?

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

Q.120) Solution (b)

**Explanation:**



The main Ingredients of the Globalization of the Indian Economy are the **Privatization of the public sector, Disbanding of Controls and Regulations, Deregulation of Trade and Finance, Reduction in import duties, Abolition of import licensing and free flow of Foreign Direct Investment etc.**

**Disinvestment of Public Sector equity doesn't include in Globalization.(Hence 4<sup>th</sup> one is not an Ingredient of the Globalization)**

Q.121) With reference to the Foreign exchange market, Consider the following statements:

1. Depreciation in a currency can take place only if an economy follows the floating exchange rate system.
2. Devaluation in a currency can take place only if an economy follows the floating exchange rate system.
3. Revaluation in a currency can take place only if an economy follows the fixed exchange rate system.
4. Appreciation in a currency can take place only if an economy follows the fixed exchange rate system.

Which of the above given statements are correct?

- i) 1 and 2 only
- j) 3 and 4 only
- k) 1 and 3 only
- l) 2 and 4 only

Q.121) Solution (c)

**Explanation:**

- **Depreciation:** In the foreign exchange market, it is a situation when domestic currency loses its value in front of a foreign currency if it is market- driven. It means depreciation in a currency can only take place if the economy follows the **floating exchange rate system.(Hence statement 1 is correct)**
- **Devaluation:** In the foreign exchange market, when the exchange rate of a domestic currency is cut down by its government against any foreign currency, it is called devaluation. It means official depreciation is devaluation which means the economy follows fixed exchange rate system.**(Hence statement 2 is incorrect)**
- **Revaluation:** A term used in a foreign exchange market which means a government increasing the exchange rate of its currency against any foreign currency. It is official appreciation, which means the economy follows fixed exchange rate system. **(Hence statement 3 is correct)**
- **Appreciation:** In the foreign exchange market, if a free-floating domestic currency increases its value against the value of a foreign currency, it is appreciation. In a domestic economy, if a fixed asset has seen an increase in its value, it is also known as appreciation. Appreciation rates for

different assets are **not fixed by any Government** as they depend upon many factors which are unseen. **(Hence statement 4 is incorrect)**

Q.122) Consider the following pairs with respect to currencies:

	Name of the currency	Meaning
1	Soft Currency	A term used in the foreign exchange market which denotes the currency that is easily available in any economy in its forex market.
2	Hard Currency	It is the international currency in which the highest faith is shown and is needed by every economy.
3	Heated Currency	A term used in the forex market to denote the domestic currency which is under enough pressure of depreciation due to a hard currency's high tendency of exiting the economy.

Which of the above given pairs are correct?

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

Q.122) Solution (d)

**Explanation:**

- **Hard Currency** It is the international currency in which the highest faith is shown and is needed by every economy. The strongest currency of the world is one which has a high level of liquidity. **(Hence pair 2 is correctly matched)**
- **Soft Currency** A term used in the foreign exchange market which denotes the currency that is easily available in any economy in its forex market. For example, the rupee is a soft currency in the Indian forex market. It is basically the opposite term for the hard currency. **(Hence pair 1 is correctly matched)**
- **Hot currency** is a term of the forex market and is a temporary name for any hard currency. Due to certain reasons, if a hard currency is exiting in an economy at a fast pace for the time, the hard currency is known to be hot. As in the case of the SE Asian crisis, the US dollar had become hot.
- **Heated Currency** A term used in the forex market to denote the domestic currency which is under enough pressure (heat) of depreciation due to a hard currency's high tendency of exiting the economy (since it has become hot). It is also known as currency under heat or under hammering. **(Hence pair 3 is correctly matched)**

Q.123) Consider the following statements with respect to Current account in Balance of Payment (BoP):

1. All transactions are shown as either inflow or outflow at the end of the year in current account.
2. The positive one is known as a surplus current account, and the negative one is known as a deficit current account.



3. India never had current account surplus since independence.

Which of the above given statements is/are correct?

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

Q.123) Solution (a)

**Explanation:**

- Current transactions of an economy in foreign currency all over the world are export, import, interest payments, private remittances and transfers.
- All transactions are **shown as either inflow or outflow** (credit or debit). At the end of the year, the current account might be positive or negative. **The positive one is known as a surplus current account**, and the negative one is known as a deficit current account. **(Hence statement 1 and 2 are correct)**
- **India had surplus current accounts for three consecutive years (2001-04) - for the first time in Indian economic history. (Hence statement 3 is incorrect)**
- India had a current account deficit of 0.2 per cent of GDP (i.e., US\$ 3.1 billion) during 2021-22 (April-September) after witnessing a surplus in the same period the previous year. However, the deficit in current account remained much lower than the deficit of US\$ 22.6 billion recorded in the same period of in 2019-20 (the pre-pandemic level).
- From a historical perspective, India can sustain a current account deficit of 2.5-3.0 per cent of GDP without getting into an external sector crisis, as per the Economic Survey 2021-22 (which has quoted the RBI Bulletin of December, 2021).

Q.124) With reference to the recent FDI limit among the sectors, Consider the following statements:

- 1. Construction and real estate brokerage are open to receive 100 per cent FDI under automatic route.
- 2. Upper limit of FDI was increased to 74 per cent from existing 49 per cent in the insurance sector
- 3. FDI limits in the defense sector has been increased to 74 per cent from the existing 49 per cent under automatic route.

Which of the above given statements are correct?

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

Q.124) Solution (d)



**Explanation:**

- The 'single brand retail trading' (SBRT) is now open for 100 per cent FDI under automatic route.
- The '**construction**' and '**real estate brokerage**' are open to receive **100 per cent FDI** under automatic route. **(Hence statement 1 is correct)**
- Aviation' sector is allowed to receive 49 per cent FDI under automatic route (it includes the public sector aviation company Air India).
- Foreign institutional investments (FIIs)/FPIS have been allowed in 'power distribution' over and above the FDI limit of 49 per cent under automatic route. Earlier, it used to be allowed but under the overall FDI limit.
- The marketplace-based model of the e-Commerce sector has been allowed to receive 100 per cent FDI under the automatic route. But this ease came with rider-sales of any vendor through them or its group companies limited to 25 per cent of the total sales of such vendor.
- In the case of FDI in the 'pharma sector', the reference to Drugs and Cosmetics Act has been dropped-making things easier for the investors.
- In the wake of the COVID-19 pandemic, the Government gave an emphatic call for self-reliance (under the newly launched campaign, the Atma nirbhar Bharat Abhiyan) and raised the **FDI limits in the defence sector to 74 per cent (from the existing 49 per cent) under automatic route**. India already allows 100 per cent FDI in the sector on a case-by-case basis. **(Hence statement 3 is correct)**
- Upper limit of FDI was increased to 74 per cent (from 49 per cent) in the insurance sector by the Union Budget 2021-22, which was a long-awaited demand from the capital-starved industry. **(Hence statement 2 is correct)**

Q.125) Which one of the following are components of India's foreign exchange reserves?

1. Foreign currency assets.
2. Special Drawing Rights (SDRs).
3. Loans from foreign countries.
4. Gold holdings of the RBI.
5. Loans from the World Bank.

Select the correct answer using the code given below:

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

Q.125) Solution (b)

**Explanation:**

- Foreign exchange reserves are the reserves held by a country that consist of primarily **foreign currencies and other reserve assets** which can be used to balance the international payments of a country.
- Forex reserves in the Indian context consist of **foreign currencies, holdings of gold by the RBI and Special Drawing Rights with the International Monetary Fund** which are foreign exchange reserve assets created and maintained by the RBI. **(Hence option b) is correct)**
- India's foreign reserves also constitute a Reverse Tranche Position with the IMF. This is that required quota of currency that each IMF member has to provide. These funds can be accessed at any time by that member country.

Q.126) Which of the following measures are taken by RBI to control the rupee depreciation?

1. By selling the foreign exchange reserves.
2. Boost the capital inflows in NRI accounts.
3. Buying or selling swap.

Select the answer using the code given below:

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

Q.126) Solution (d)

**Explanation:**

**What can RBI do to stop further rupee depreciation?**

We import crude oil in billions. Hence, the depreciation of the local currency is harmful to the economy. RBI has to intervene to stop the sharp depreciation. Below are some ways RBI can stop the rupee depreciation:

- **Sell forex reserves:** RBI can sell (it is already doing it) a part of its foreign forex reserves to control the falling rupee. In 2021, India's foreign exchange reserves stood at \$642 billion. The latest data (September last week) show that the forex reserves have fallen to \$545 billion. It had prevented a sharp fall in the Indian rupee, unlike other currencies. **(Hence statement 1 is correct)**
- Not everyone is happy about the depleting foreign forex reserves, but the purpose of having high forex reserves was to use them in situations like these, right? It is important to note that this measure is only to counter volatility and cannot be RBI's policy.
- **Boost capital inflows in NRI accounts:** The RBI can take measures to encourage capital flows in NRI deposits. When the NRIs start to deposit money in India, they would be selling dollars to convert it to a rupee, which will help the cause. RBI can reach out to banks so banks can offer non-residents higher interest rates on deposits and short-term bonds. **(Hence statement 2 is correct)**



- **Buy/sell swap:** In a buy/sell swap, the Indian currency is injected into the banking system, while taking out dollars. The swap will help the RBI keep the currency rates in check, although, in a limited way. **(Hence statement 3 is correct)**

Q.127) Consider the following statements with respect to Comprehensive Economic Partnership Agreement (CEPA) and Comprehensive Economic Cooperation Agreement (CECA):

1. CECA is mainly concerned with tariff reductions and the elimination of tariffs.
2. CECA is considered as the first step or a stepping stone to accomplish CEPA.
3. CEPA is much broader and more complicated compared to CECA.

Which of the above given statements are correct?

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

Q.127) Solution (d)

**Explanation:**

- CECA is mainly concerned with tariff reductions and the elimination of all items that are considered to be listed tariff rate quota items. On the other hand, CEPA has the same components of CECA with an additional focus and options in the terms of trade investments and services. In looking at the big picture, **CEPA is much broader and more complicated** compared to CECA. **(Hence statements 1 and 3 are correct)**
- In a comparable economic standing, **CECA is considered as the first step or a stepping stone** to accomplish **CEPA**. If negotiations can still be conducted between countries, and both parties are open to discussion and have a good economic relationship with each other, CECA can evolve into CEPA. This makes CEPA a result of on-going efforts and negotiations of two countries that started from CECA. **(Hence statement 2 is correct)**

Q.128) With reference to the Purchasing Power Parity (PPP), Consider the following statements:

1. PPP is an economic theory that compares different countries' currencies through a "basket of goods" approach.
2. Every three years, the World Bank releases a report that compares various countries, in terms of PPP and U.S. dollars.
3. India has the 2nd highest Purchasing Power Parity in the World.

Which of the above given statements are correct?

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



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

Q.128) Solution (a)

**Explanation:**

**What Is Purchasing Power Parity-PPP?**

- One popular macroeconomic analysis metric to compare economic productivity and standards of living between countries is purchasing power parity (PPP). PPP is an economic theory that **compares different countries' currencies through a "basket of goods" approach. (Hence statement 1 is correct)**
- **Every three years, the World Bank releases a report that compares various countries, in terms of PPP and U.S. dollars.** Both the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD) use weights based on PPP metrics to make predictions and recommend economic policy. The recommended economic policies can have an immediate markets short-term impact on financial. **(Hence statement 2 is correct)**
- Nations with the Highest Purchasing Power Parity-PPP There are five nations that have the highest GDP in market exchange terms. The list is as follows: **(Hence statement 3 is incorrect)**
  - 1) China
  - 2) USA
  - 3) India
  - 4) Japan
  - 5) Germany

Q.129) With reference to the devaluation of domestic currency, Consider the following statements:

1. Devaluation means that more local currency is needed to purchase imports
2. Volume of exports might increase.

Which of the above given statements is/are correct?

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

Q.129) Solution (c)

**Explanation:**

- A devaluation means that more local currency is needed to purchase imports and exporters get more local currency when they convert the export proceeds (the foreign exchange that they get



for their exports). In other words: imports become more expensive; importers lose money while exporters earn more money. **(Hence statement 1 is correct)**

- This is supposed to discourage imports – and to encourage exports and, in turn, to reduce trade deficits.
- Assume that India is the exporting country and America as the importing country. India exports apples to America. Assume that India devalued India rupee from Rs.50 = 1 dollar to Rs.100 = 1 dollar. The cost of an apple in India before and after rupee devaluation is Rs.50. Now analyse what will happen.
- Before rupee devaluation: Americans will get only 1 apple for 1 dollar.
- After rupee devaluation: Now Americans will get 2 apples for 1 dollar.
- Think from the American perspective. For them earlier with 1\$, they used to get only 1 apple. Now after falling in Indian rupee, they get 2 apples.
- So importing from India has become really cheaper for America and they will use this case to their maximum advantage.
- This case will favor exporters in India in two ways:
  - They can now sell more apples (volume effect), trade volume will increase. **(Hence statement 2 is correct)**
  - Indian currency they get when converted is now higher than before. (It was Rs.50 before, now it is Rs.100 – for 1 US\$ received)
- Thus, every time there is a fall in rupee against US dollar, exporters from India are benefited. (Eg: Software companies, seafood exporters etc.)

Q.130) With reference to the FEMA, Consider the following statements:

1. FEMA is equally applicable to the offices and agencies which are located outside India which are owned by Indian Citizens.
2. FEMA is applicable to any overseas company that is owned 60% or more by an NRI.

Which of the above given statements is/are correct?

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

Q.130) Solution (c)

**Explanation:**

**Applicability of Foreign Exchange Management Act, 1999:**

As per Section 1(2) of FCRA Foreign Contribution (regulation) Act, 2010, Foreign Exchange Management Act, 1999 is applicable to the following entities and transactions:



- FEMA is applicable to all parts of India.
- It is also equally applicable to the offices and agencies which are located outside India however is managed or owned by an Indian Citizen. **(Hence statement 1 is correct)**
- Any citizen of India, residing in the country or outside (NRI) **(Hence statement 2 is correct)**
- Any overseas company that is owned 60% or more by an NRI (Non-Resident Indian)
- Any Associate Branches or subsidiaries, outside India, of companies or bodies corporate, registered or incorporated in India
- Exports of any goods and services from India, foreign currency, that is any currency other than Indian currency, foreign exchange, foreign security,
- Imports of goods and services from outside India to India,
- Banking, financial and insurance services provided outside India,
- Cross-border sale, purchase and exchange of any kind (i.e. Transfer).

Q.131) With reference to the appreciation of rupee, Consider the following statements:

1. If the Indian Rupee (INR) appreciates, Indian goods will become cheaper in international market.
2. Imports will become more expensive in the domestic market.

Which of the above given statements is/are correct?

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

Q.131) Solution (d)

**Explanation:**

**Effects of currency appreciation**

- **Export costs rise:** If the Indian Rupee (INR) appreciates, foreigners will find **Indian goods more expensive because they have to spend more for those goods in INR**. That means that with the higher price, the number of Indian goods being exported will likely drop. This eventually leads to a reduction in gross domestic product (GDP). **(Hence statement 1 is incorrect)**
- **Cheaper imports:** If Indian goods become more expensive on the foreign market; foreign goods, or imports, will become cheaper in India. The length to which 1 INR will stretch will go further, meaning one can buy more goods imported from abroad. That leads to a benefit of lower prices, leading to lower overall inflation. **(Hence statement 2 is incorrect)**



Q.132) Recently Union Minister of Commerce and Industry, Consumer Affairs, Food and Public Distribution and Textiles launched the 'Foreign Trade Policy 2023'. The policy is based on 4 pillars, which of the following is not a pillar among them?

- a) Incentive to Remission.
- b) Export promotion through collaboration.
- c) Devaluation of rupee.
- d) Ease of doing business, reduction in transaction cost and e-initiatives.

Q.132) Solution (c)

**Explanation:**

- Union Minister of Commerce and Industry, Consumer Affairs, Food and Public Distribution and Textiles, Shri Piyush Goyal launched the Foreign Trade Policy 2023 saying that it is dynamic and has been kept open ended to accommodate the emerging needs of the time.
- The Key Approach to the policy is based on these 4 pillars: **(i) Incentive to Remission, (ii) Export promotion through collaboration - Exporters, States, Districts, Indian Missions, (iii) Ease of doing business, reduction in transaction cost and e-initiatives and (iv) Emerging Areas – E-Commerce Developing Districts as Export Hubs and streamlining SCOMET policy. (Hence option (c) is correct answer)**

Q.133) External Commercial Borrowings are included in:

- a) Current Account.
- b) Capital Account.
- c) Balance of Invisibles.
- d) Balance of Trade.

Q.133) Solution (b)

**Explanation:**

- Capital inflows into the capital account can be divided into two categories: debt-creating and non-debt-creating.
- Foreign investment (both direct and portfolio) is a non-debt creating capital inflow, whereas external assistance (concessional loans from abroad), **external commercial borrowing (ECB)**, and nonresident deposits are debt-creating capital inflows. **(Hence option (b) is correct)**

Q.134) Which of the following components are recorded under the Current Account of a country?

1. Net earnings on cross-border investments.
2. Net trade in services.



3. Net transfer payments.

Select the correct answer using code given below:

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

Q.134) Solution (d)

**Explanation:**

- The Current Account records a nation's transactions with the rest of the world- specifically its **net trade in goods and services, its net earnings on cross-border investments, and its net transfer payments over a defined period of time**, such as a year or a quarter. **(Hence option d) is correct)**
- The Current Account represents a country's imports and exports of goods and services, payments made to foreign investors, and transfers, such as foreign aid.
- The Current Account may be positive (a surplus) or negative (a deficit). Positive means the country is a net exporter of goods and services, and negative means it is a net importer of goods and services.

Q.135) Consider the following statements regarding Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER):

1. NEER is a multilateral rate representing the price of a representative basket of foreign currencies.
2. The Real Effective Exchange Rate (REER) is calculated as the weighted average of the real exchange rates of a country's major trade partners

Which of the above given statements is/are correct?

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

Q.135) Solution (c)

**Explanation:**

**Nominal Effective Exchange Rate (NEER)**

- This is calculated as the Nominal Effective Exchange Rate (NEER) which a multilateral rate is **representing the price of a representative basket of foreign currencies**, each weighted by its

importance to the domestic country in international trade (the average of export and import shares is taken as an indicator of this). **(Hence statement 1 is correct)**

- The Real Effective Exchange Rate (REER) is calculated as the weighted average of the real exchange rates of all its trade partners, the weights being the shares of the respective countries in its foreign trade. It is interpreted as the number of domestic goods required to purchase one unit of a given basket of foreign goods. **(Hence, statement 2 is correct).**

Q.136) Arrange the following sectors in descending order with respect to FDI Equity Inflows in India:

1. Computer Software & Hardware.
2. Automobile Industry.
3. Financial, banking and other services.
4. Non-Conventional Energy.

Select the correct answer using code given below:

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

Q.136) Solution (a)

**Explanation:**

STATEMENT ON SECTOR WISE FDI EQUITY INFLOWS FROM APRIL 2021 TO NOVEMBER 2021	
Sector	FDI in US\$ million
METALLURGICAL INDUSTRIES	1,350.77
MINING	104.32
POWER	473.47
<b>NON-CONVENTIONAL ENERGY</b>	<b>1,100.15</b>
PETROLEUM & NATURAL GAS	44.09
ELECTRICAL EQUIPMENTS	436.59
<b>COMPUTER SOFTWARE &amp; HARDWARE</b>	<b>9,063.56</b>
TELECOMMUNICATIONS	547.04
<b>AUTOMOBILE INDUSTRY</b>	<b>5,849.63</b>
<b>SERVICE SECTOR</b>	<b>4948.00</b>
DRUGS & PHARMACEUTICALS	1,104.50

Q.137) With reference to the deficit Balance of Payment (BoP), Consider the following statements:

1. Expenditure-reducing policies helps to reduce BoP deficit



2. Deficit BoP can be solved by expenditure switching policies.

Which of the above given statements is/are correct?

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

Q.137) Solution (c)

**Explanation:**

- Expenditure-reducing policies aim to reduce demand in the economy, so spending on imports fall, Hence it helps reduce deficit. **(Hence statement 1 is correct)**
- Expenditure-switching policies aim to switch consumer spending towards **domestic goods**, and away from imports. **(Hence statement 2 is correct)**
- Reducing the growth of the supply of money in an economy can be expenditure- reducing or expenditure-switching.

Q.138) In the Balance of Payment, gifts from foreigners are considered as:

- a) Import of goods.
- b) Capital inflow.
- c) Unrequited receipts.
- d) Unrequited payments.

Q.138) Solution (c)

**Explanation:**

- **Capital inflows** are defined as net purchases (difference between purchases and sales) of domestic assets by non-residents. Capital outflows equal net purchases of foreign assets by domestic agents excluding the central bank.
- **Unrequited receipts:** These refer to those receipts and payments, which take place **without any service in return**. Receipt of unilateral transfers from rest of the world is shown on the credit side and unilateral transfers to rest of the world on the debit side. **(Hence option (c) is correct answer)**
- **Unrequited payment** means they are not made with an expectation that goods or services shall be given in return to the person making the payment.

Q.139) Which of the following institution can help a country with a negative Balance of Payment?

- a) World Bank.
- b) World Trade Organization.



- c) International Monetary Fund.
- d) Asian Development Bank.

Q.139) Solution (c)

**Explanation:**

**The International Monetary Fund (IMF)** is an organization of 190 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. It will help a country with a negative Balance of Payment. **(Hence option (c) is correct).**

Q.140) Consider the following statements regarding Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER):

1. The EXIM bank compiles and disseminates indices of NEER and REER of the Indian rupee
2. The latest series for NEER and REER indices is being constructed with the base year 2004-05.

Which of the above given statements is/are correct?

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

Q.140) Solution (b)

**Explanation:**

The **Reserve Bank** compiles and disseminates indices of NEER and REER of the Indian rupee (both trade- and export-weighted), the latest series is constructed with the **base year 2004-05. (Hence statement 1 is incorrect and statement 2 is correct)**