



60 DAY RAPID REVISION (RARE) SERIES Prelims 2025


UPSC/IAS Prelims 2025

RaRe Notes Compilations

Economy Part 1



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SYLLABUS**1. Introduction to Economics**

- Macro Economics – Poverty, Growth, Employment etc.
- Microeconomics – decisions/choices made at a company, household or an individual level
- Economy Sectors
- Classification of Economy
- Basic Characteristics of Indian Economy
- Difference between Growth and Development; indicators used to measure.
- **Example:** To measure Growth- GDP is used and for Development – HDI (Human Development Index)
- National Income Accounting – Gross National Product (GNP), Gross Domestic Product (GDP), Gross National Income (GNI), Factor cost, Market Price, Purchasing power parity (PPP), Per-Capita Income (PCI) – a general understanding on how they are calculated and what all factors go into their calculation.
- **Example:** GDP is calculated using either of the following 3 methods- production method, expenditure method, income method.
- Primary, Secondary, Tertiary Sectors – what constitutes each sector? What are their contributions to the GDP.
- **Example:** Primary sector covers agriculture and allied activities, mining. It contributes over 13% to India's GDP
- Capitalist, State, Mixed Economic System – which type of Economic system India has adopted and why?

2. Growth & Development

- Poverty – concepts like Below Poverty line (BPL), Poverty Gap, Poverty estimates by National Sample Survey Organisation (NSSO), which Institution in India decides on Poverty line- Planning Commission
- Different Committees set-up to measure poverty, methodology used – Alag committee, Lakadwala, Suresh Tendulkar Committee, NC Saxena Committee, Rangarajan Committee.
- A general understanding of how each committee differed in their measurement.
- Example: Rangarajan Committee was set-up by Planning Commission in 2012;
- Methodology used is 'Monthly Expenditure of family of five'. According to the estimates- poverty per day per person in urban area is X Rs and in rural area it is Y Rs. Why?
- Inequality – how is it measured – Gini co-efficient, Lorenz Curve; concepts like relative inequality, absolute inequality.
- Issues with employment, different types of unemployment like disguised unemployment, underemployment etc; Globalization and its impact on labour.
- Demographic Dividend, Skill Development
- Development Indicators from International organisations like HDI, MPI (Multiple Poverty Index), Millennium Development Goals etc.
- Note: Make a note of the Government Schemes, Committees related to growth, development, eradication of Poverty, Employment, Labour issues etc. like MGNREGA,
- National Rural Livelihood Mission, Bharat Nirman etc; Initiatives like 'Make in India', Innovation Council, Skill Development Initiative Scheme (SDIS)

3. Inflation & Business Cycle

- Inflation, Depression, Recession and related terms and concepts like deflation, disinflation, reflation, stagflation, Philip's curve

- Types of Inflation – based on the rate of growth of the prices– creeping, trotting, galloping, hyper-inflation
- Types of Inflation – based on the causes– Demand-pull, Cost-push, Structural, Speculation.
- Impact of Inflation on Indian Economy, different stakeholders in the economy. Is a minimum inflation necessary? If so why?
- Inflation measurements like CPI, WPI, GDP deflator: Composition or what constitutes these indicators; Their merits and demerits
- Which measurement is better indicator of inflation and why? Which index is used to measure inflation in India currently?
- Base year from which it's calculated. What is this Base year? Why does Government change the Base Year?
- What impact it has on the economic growth or inflation?
- Measures taken by RBI
- RBI and Government Monetary Policy Committee
- Role of Government and RBI in controlling inflation

4. Money & Banking System

- Indian currency system
- Broad and Narrow Money
- Money multiplier
- Digital Money
- Role and functions of RBI
- Monetary Policy/measures taken by RBI like Bank rate, repo rate, reverse repo rate, Statutory Liquidity Ratio (SLR), Cash reserve Ratio (CRR), Liquidity Adjustment Facility (LAF), Marginal Standing Facility (MSF)
- Why are these measures taken?
- What impact it has on the Supply of money, Inflation and the Economy?
- Different types of Banks and their functioning– Commercial Banks, RRB's, Development banks, NABARD, Co-operative Banks, Development Banks, Merchant Banks, Non-Banking Financial Company's (NBFC's), Regional Rural Banks (RRBs) etc.
- Functions of these Banks, to whom do they lend?
- How are these Banks regulated? Concepts like priority sector lending
- Example: NBFC's are regulated by RBI, unlike the normal banks, NBFC cannot accept demand deposits (DD); NBFCs do not form part of the payment and settlement system and cannot issue 'cheques' drawn on itself.
- White Label ATM
- Unified Payments Interface
- Banking reforms like Bank Nationalisation (1969, 1980) Basel Norms, Recapitalisation of Banks etc.
- Why were/are these reforms needed? What was/is the Purpose of these reforms
- Understand Key-Terms– Financial Inclusion, Fiscal Consolidation, Narrow Banking, Non-Performing Assets, Shadow Banks, Weak Bank, Core Banking, Bank Run, Priority Sector lending, Capital to Risk Weighted Assets (CRAR) etc., and other related concepts related to Banking – what steps have been taken by the Government and RBI in this regard.
- Steps taken by government with regard to Financial Inclusion.
- Example: Introduction of Business Correspondent model in rural areas or Woman only banks, Jan Dan Yojana, Micro-finance, Mudra Bank etc

- Recent Committee's setup with regard to Banking Reforms and its important recommendations
- Bank Board Bureau
- Micro ATMs
- Bad bank
- Payment Banks –IPPB
- Domestic Systematically Important Banks (SIBs)

5. Fiscal Policy

A. Fiscal Measures

- Fiscal policy, Finance Commission and its important provisions
- Fiscal Responsibility and Budgetary Management (FRBM) Act, other actions taken by the Finance Ministry (Government), Disinvestment of Public Sector Units (PSU's) to improve the financial health of the Economy
- What is Financial Stability? Steps taken by Government in this regard
- Financial Sector Reforms brought about by the government in these sectors - Banking, Insurance, Provident Fund (PF).
- Financial Regulators – Reserve Bank of India(RBI), Securities and Exchange Board of India(SEBI), Insurance Regulatory and Development Authority (IRDA), Pension Fund Regulatory and Development Authority (PFRDA) – powers, functions, jurisdiction issues between the regulators
- Financial Stability and Development Council – objective and functions
- Economic Reforms– concepts related to privatization and globalization, SEZ's etc.
- Sources of financial resources for Government – Tax and Non-tax revenue (Foreign aid, Disinvestment from PSU's etc), Disinvestment, Borrowings (internal and external), User Charges.

B. Budget

- Components of Budget, Revenue and Capital receipts and expenditure
- Key Terms like public debt, External debt, Internal debt, Revenue Deficit, Primary Deficit, deficit financing, fiscal consolidation Zero-based Budgeting
- Steps taken by the government to bring down the Fiscal Deficit. Example: FRBM Act.
- Deficit and Surplus Budget
- Deficit Financing
- Vote on Account

C. Taxation

- Direct, Indirect tax and other Taxes like Pigovian tax, Ad Valorem tax, Tobin Tax, Difference between a Cess and a Surcharge
- Direct Tax like Corporate Tax, Income Tax, Wealth Tax, Stock Market transactions
- Indirect Tax like Excise Tax, Customs, VAT, Service tax
- Taxation Reforms – Direct Tax Code (DTC), General Anti-Avoidance Rule (GAAR), Goods and Service Tax (GST).
- Example: With regard to GST – Purpose; advantages and disadvantages of GST; issues with regard to implementation of GST;
- Understand the basic concepts like what is Tax Base, Progressive taxation, Tax Expenditure, Tax avoidance, Tax evasion, Tax Havens, Tax elasticity, Tax Buoyancy, Laffer curve, Crowding-

out.

- Six Tax, Pigovian Tax
- Subsidies – Food, Water, Fertilizers
- Tax terrorism

D. Planning

- Institutions involved in Planning in India: A general idea on how planning has evolved over the years (since Independence)
- How planning takes place at the State and National level
- Niti Ayog- its purpose

Note: Make a note on the latest committees set-up with regard to Fiscal and Economic Reforms like Financial Sector Legislative Reforms Commission (FSLRC), Financial Action Task Force (FATF), Financial Stability and Development Council (FSDC), Nachiket mor committee etc.

6. Market – Money & Capital

- Money Market – Treasury Bills, Commercial paper, Certificate of Deposit, Call Money
- Capital Market – Government Securities (G-Secs) o Difference between Money and Capital market
- Exchange Market – NEER and REER
- Fixed Foreign Currency Market
- Float Foreign Currency Market
- A general idea about Stock-exchanges in India – BSE, NSE; Nifty (Abroad); What is SENSEX- what does it indicate?
- Regulatory Bodies – SEBI, IRDA , PFRDA – their power, functions in regulating Market, Mutual funds, Pension Fund etc.; reforms brought about by the Regulatory Bodies
- Foreign Direct Investment (FDI's) and Foreign Institutional Investors (FII's)
- On what basis are they classified as FDIs and FIIs? Differences between them
- Why are FII's called 'hot money' or 'Portfolio investment'?
- Which type of investment would be better for India?
- Other investments such as Qualified Institutional Placement (QIPs) – Angel investors, Venture Capitals, Foreign institutional investors, Mutual Funds, Public Financial institutions
- Have a Basic understanding of these terms– Primary market, Secondary market, Bull and Bear (what does it symbolize), Derivatives, Futures, Bonds, Debentures – partially and fully convertible , Participatory Notes, Hedge Funds, Blue chip shares, Market depth.
- Mechanisms to raise money in the Capital Market in India by Foreign countries- Indian Depository Receipts (IDR's); Similarly for an Indian company to raise money in the Foreign market –Global Depository Receipts (GDR's) and in America it is known as American Depository Receipts (ADR's)

Q.1) In context to Indian economy, consider the following statements regarding the Services Sector:

1. Services sector contributes more than 50 per cent to India's GDP.
2. Services sector has been the largest recipient of FDI in India in FY 2023-24.
3. Services sector accounts for more than half of India's total exports.

Which of the statements given above is/are correct?

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

Q.1) Solution (a)

Explanation:

- The services sector continues to be a significant contributor to India's growth, accounting for about 55 per cent of the total size of the economy in FY24. **Hence Statement 1 is correct.**
- Top 5 sectors receiving highest FDI Equity Inflow during FY 2023-24 are Services Sector (16%), Computer Software & Hardware (15%), Trading (6%), Telecommunications (6%) and Automobile Industry (5%). **Hence Statement 2 is correct.**
- In 2023-24, India's merchandise exports were 437.1 billion, while services exports were USD 341.1 billion. Overall exports (goods and services) reached USD 778.2 billion. So, Services sector accounts for less than half of our total exports. **Hence Statement 3 is incorrect.**

Q.2) With reference to the impacts of the economic policies pursued by the colonial government in India, consider the following statements:

1. De-Commercialization of agriculture
2. De-industrialization of textiles sector
3. Ruralisation of the population

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.2) Solution (b)**Explanation:**

- British policies led to Commercialisation of agriculture. Commercialization increased the level of sub-infeudation in the countryside and money was channelised into trade and usury. **Hence Statement 1 is incorrect.**
- With the coming of industrialization in England, there was a massive import of machine-made clothes from English factories to Indian markets. This import of large number of products manufactured by mechanical looms in England led to increase threat for the handicraft industries as the British goods were sold at a much cheaper price. This made a huge impact on the Indian handloom weaving industry leading to its virtual collapse. This process of uneven competition faced by the Indian handloom industry was later dubbed by the Indian nationalist leaders as de-industrialization. **Hence Statement 2 is correct.**
- The British enforced a one way free trade, whereby the entry of Indian commodities in British markets was restricted by high custom duties. In turn, the Industrial Revolution in Europe enabled the mass production of cheap machine-made goods, which flooded Indian markets. Unable to compete with this, Indian commodities lost both their overseas and domestic markets. This destructive process led to deindustrialisation that in turn led to the decline of many cities and a process of ruralisation of India. Many artisans, faced with diminishing returns and repressive policies abandoned their professions, moved to villages and took to agriculture. **Hence Statement 3 is correct.**

Q.3) Consider the following:

1. Huge drop in foreign exchange reserves
2. The Gulf War
3. Rising Fiscal Deficit
4. Chronic inflation

How many of the above can be considered as factors responsible for Balance of Payment crisis in India in 1991?

- a) Only one
- b) Only two
- c) Only three
- d) All four

Q.3) Solution (d)**Explanation:**

- By June 1991, India had less than \$1 billion in foreign exchange reserves, bar barely enough to cover imports for three weeks. India lacked sufficient foreign exchange reserves to conduct international trade and was about to default on its international debt obligations. Investors withdrew their funds. By June 1991, India had less than \$1 billion in foreign exchange reserves, barely enough to cover imports for three weeks. India lacked sufficient foreign exchange reserves to conduct international trade and was about to default on its international debt obligations. The average rate of inflation was 7.5 percent in 1989-90, which went up to 10 percent in the year 1990-91. In 1991-92, it crossed 13 percent. **Hence Option 1 is correct.**
- Gulf War was a conflict between Iraq and 34 other countries, led by the United States. It started with the invasion of Kuwait. This affected oil prices. India's oil import bill swelled, exports slumped, credit dried up, and investors took their money out. Large fiscal deficits, over time, had a spillover effect on the trade deficit culminating in an external payment crisis. By the end of the 1980s, India was in serious economic trouble. The Government Expenditure was more than the earnings. Hence the Fiscal Deficit was high. The Gross Fiscal deficit rose from 9 % of GDP in 1980-81 to 12.7 % of GDP in 1990-91. The Internal Debt of the Government rose due to the above reason. It rose from 35 % of GDP in 1985-86 to 53 % of GDP in 1990-91. **Hence Options 2 and 3 are correct.**
- Before economic reforms occurred, imports grew at a very high rate without matching the growth of exports. Government could not restrict imports even after imposing heavy tariffs and fixing quotas. This had resulted in huge balance of payment of crisis. Added to that, there was a consistent rise in the general price level of essential goods in the economy. **Hence Option 4 is correct.**

Q.4) The poverty in India can be best explained by which of the following statements?

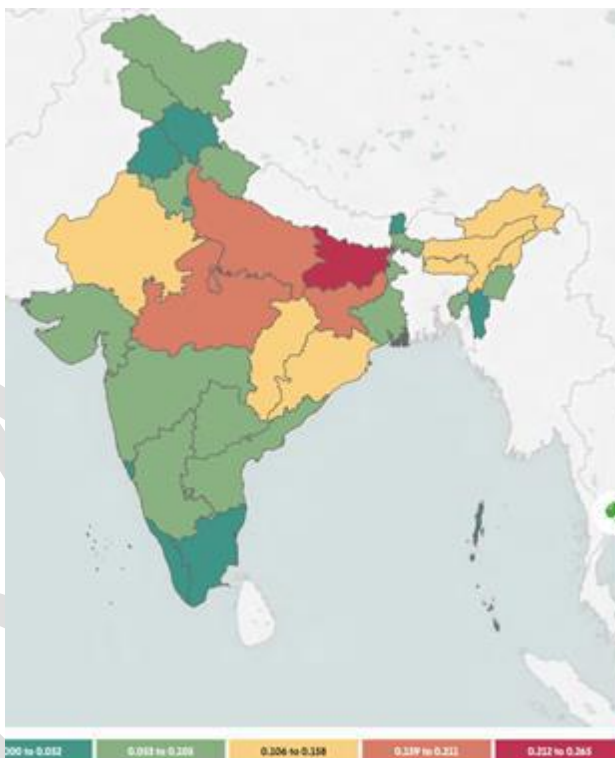
- Poverty in rural areas is lower than that in urban areas.
- Poverty is concentrated mostly in the western regions of India.
- Scheduled Castes are the poorest among all social sections in India.
- Decline in headcount poverty ratios has been steeper in rural India compared to urban India.

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

- Poverty has always been and still is higher in rural areas compared to urban areas. **The Multidimensional Poverty Index (MPI) Report for India, recently released by NITI Aayog** has found that while the overall headcount ratio of multidimensional poor in

India is 25.01%, for rural areas it is 32.75%, while for urban areas it is 8.81% of the population. **Hence Statement a is incorrect.**

- According to the MPI Index for India, released by the NITI Aayog recently, Poverty is concentrated mostly in the Eastern and North Eastern regions of India. Overall, South India is much more prosperous than North India. **Hence Statement b is incorrect.**
- Among all the social sections and vulnerable communities (SC, ST, Minorities etc.), Tribals (ST) have been found to be the poorest. Every second (50%) of tribal people in India are poor. Among other vulnerable sections, both Dalits and Muslims have a poverty headcount ratio of 33%. **Hence Statement c is incorrect.**
- A recent World Bank study has found that there has been a decline in the poverty headcount ratio in India. Poverty reduction was higher in rural areas compared to urban India as rural poverty declined from 26.3% in 2011 to 11.6% in 2019, while in urban areas the decline was from 14.2% to 6.3% during the corresponding period. Rural and urban poverty dropped by 14.7 and 7.9 percentage points during 2011-2019 according to the World Bank's working paper. **Hence Statement d is correct.**



Q.5) With reference to the measure of poverty, consider the following statements:

1. Poverty gap shows the extent to which individuals on average fall below the poverty line.
2. Intensity of poverty explains how far the living standard of the poor population is from the poverty line.

Which of the statements above is/are correct?

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

Q.5) Solution (c)**Explanation:**

- The poverty gap is the ratio by which the mean income of the poor falls below the poverty line. Poverty gap measures the intensity of poverty. **Hence statement 1 is correct.**
- The intensity of poverty makes it possible to see how far the living standard of the poor population is from the poverty line. **Hence statement 2 is correct.**

Q.6) Arrange the following events in the correct chronological order of their occurrence from earliest to latest:

1. Nationalisation of fourteen banks
2. Nationalisation of life insurance
3. Nationalisation of Airways
4. Nationalisation of general insurance

Select the correct answer using the codes given below:

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

Q.6) Solution (a)**Explanation:**

- 3- Under the Air Corporations Act, 1953, the Government nationalised nine airlines—Air India, Air Services of India, Airways (India), Bharat Airways, Deccan Airways, Himalayan Aviation, Indian National Airways, Kalinga Airlines, and Air India International—and brought them under two PSEs, Indian Airlines, and Air India International.
- 2- This was followed by nationalisation of life insurance in 1956 through the Life Insurance Corporation Act 1956, whereby 154 Indian insurers, 16 non-Indian insurers, and 75 provident societies were nationalised into Life Insurance Corporation of India (LIC).
- 1- In the banking system, the government nationalised 14 banks in 1969 through the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, followed up by a second round of bank nationalisation in 1980, through which another six banks were nationalised.
- 4- Through the General Insurance Business (Nationalisation) Act, 1972, the general insurance business of 55 Indian companies and the 52 foreign insurers was nationalised.

Q.7) The demand side of a commodity in a market can be changed by which of the following?

1. Changes in income of consumers
2. Changes in prices of factors of production
3. Changes in Prices of substitute goods
4. Changes in number of consumers in the market
5. Changes in taste and preferences of the consumers

Select the correct answer using the code given below:

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

Q.7) Solution (c)

Explanation:

- The following factors determine market demand for a commodity:
 - Tastes and Preferences of the Consumers: A good for which consumers' tastes and preferences are greater, its demand would be large and its demand curve will therefore lie at a higher level.
 - Income of the People: The greater income means the greater purchasing power. Therefore, when incomes of the people increase, they can afford to buy more. It is because of this reason that increase in income has a positive effect on the demand for a good.
 - Changes in Prices of the Related Goods: When the price of a substitute for a good fall, the demand for that good will decline and when the price of the substitute rises, the demand for that good will increase.
 - The Number of Consumers in the Market: The greater the number of consumers of a good, the greater the market demand for it.
 - Consumers' Expectations with Regard to Future Prices: If due to some reason, consumers expect that in the near future prices of the goods would rise, then in the present they would demand greater quantities of the goods so that in the future they should not have to pay higher prices. **Hence options 1, 3, 4 and 5 are correct.**
 - Changes in prices of factors of production impacts the supply side of the commodity. When the amount payable to factors of production and cost of inputs increases, the cost of production also increases. This decreases the profitability. As a result, seller reduces the supply of the commodity. **Hence option 2 is not correct.**

Q.8) Various industrial policies have been launched by India since independence. In this context, consider the following statements:

1. The Industrial Policy of 1948 laid down the foundation for a mixed economy in India.
2. The Industrial Policy Resolution 1956 was regarded as the “Economic Constitution of India”.
3. The Industrial Policy of 1980 pledged to promote export-oriented industries.

How many of the above given statements are correct?

- a) Only one
- b) Only two
- c) All three
- d) None

Q.8) Solution (c)

Explanation:

- The Government of India announced its first industrial policy resolution on 6 April, 1948. The policy resolution laid stress on the role of the state in the development of industry. The Industrial Policy of 1948 laid down the foundation of a mixed economy wherein the public sector (the state) and the private sector were to co-exist and work in their demarcated areas. **Hence Statement 1 is correct.**
- Industrial Policy Resolution (30 April, 1956) was also regarded as the “Economic Constitution of India”. Major Objectives of Industrial Policy Resolution (30 April, 1956) are as follows: improving living standards and working conditions for the mass of the people; to reduce disparities in income and wealth; to prevent private monopolies and concentration of economic power. **Hence Statement 2 is correct.**
- Industrial Policy Statement of July, 1980 was based on Industrial Policy Resolution (30 April, 1956). The major objectives are as follows: Optimum utilisation of installed capacity; Maximum production and achieving higher productivity; Higher employment generation; Promotion of export-oriented industries; Consumer protection against high prices and bad quality; Correction of regional imbalances; Strengthening of the agricultural base through agro based industries and promotion of optimum intersectoral relationship. **Hence Statement 3 is correct.**

Q.9) With reference to the Income accounting of a nation, consider the following statements:

The Gross Domestic Product:

1. accounts for income inequality within the country.
2. accounts for non-marketed activities.
3. accounts for externalities caused by economic activities.

Select the correct answer using the code given below:

- a) 1 and 2 only
- b) 2 and 3 only
- c) 1 only
- d) None

Q.9) Solution (d)

Explanation:

- Gross domestic product (GDP) is the value of the goods and services produced by a nation.
- GDP does not provide information about the distribution of income, which bears importantly on the welfare of individuals within an economy. GDP per capita is only an average. When GDP per capita rises by 5%, it could mean that GDP for everyone in the society has risen by 5% or that the GDP of some groups has risen by more while the GDP of others has risen by less—or even declined. **Hence, Statement 1 is incorrect.**
- Another shortcoming of GDP as a measure of economic well-being is GDP's exclusion of non-market activities that create welfare for households. Because GDP uses market prices to value goods and services, it excludes the value of almost all activity that takes place outside markets. Child care provided in day-care centers is part of GDP, whereas child care by parents at home is not. **Hence, Statement 2 is incorrect.**
- Externalities refer to the benefits (or harms) a firm or an individual causes to another for which they are not paid (or penalised). Externalities do not have any market in which they can be bought and sold thus they are not part of GDP calculation. **Hence, Statement 3 is incorrect.**

Q.10) Land reforms involve the changing of laws, regulations, or customs regarding land ownership. With regards to the Land Reforms in India, consider the following statements:

1. Land reform policy was included in the First Five-Year Plan.
2. The abolition of the zamindari system was an important aspect of the land reforms.
3. Tenancy laws were uniformly implemented throughout India.

Which of the statements given above is/are correct?

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

Q.10) Solution (c)**Explanation:**

- Land reform is a form of agrarian reform involving the changing of laws, regulations, or customs regarding land ownership. Land reform may consist of a government-initiated or government-backed property redistribution, generally of agricultural land.
- Land reform policy was spelled out in the First Five-Year Plan. The plan aimed to reduce disparities in income and wealth, eliminate exploitation, and provide security to tenants, as well as achieve social transformation through equality of status and an opportunity for different sections of the population to participate in development initiatives. **Hence Statement 1 is correct.**
- From the 1950s to the 1970s, a series of land reform laws were passed – at the national level as well as in the states. The first important legislation was the abolition of the zamindari system, which removed the layer of intermediaries who stood between the cultivators and the state. Of all the land reform laws that were passed, this was probably the most effective. In most areas it succeeded in taking away the superior rights of the zamindars over the land and weakening their economic and political power. **Hence Statement 2 is correct.**

Because land is subject to state control in India and the relationship between production and land tenure varies from state to state, the national policy recommendations resulted in differing tenancy reform laws in each state. **Hence Statement 3 is incorrect.**

Q.11) Consider the following:

1. Luxury Cars
2. Electricity
3. Airline tickets
4. Rice

For how many of the above goods, the price 'elasticity of demand' is usually high?

- a) Only one
- b) Only two
- c) Only three
- d) All four

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

- Price elasticity of demand is an indicator of the impact on the demand for a product in relation to its price change. Non-essential goods have a high elasticity of demand, while essential goods or consumer staples have a low elasticity of demand. Price

Elasticity of Demand represents change in Quantity Demanded per unit change in Price.

- There are a wide range of specific products that have higher price elasticity of demand. Example: Fast foods, Airline tickets, Movie and Concert tickets, Clothing and Apparel, Luxury Cars, OTT Subscription Services etc. **Hence, points 1 and 3 are correct.**
- Necessities like staple food items (rice, lentils, flour etc.), branded medicines (Non generic) and utilities (electricity, water etc.) often have inelastic demand. Consumers tend to continue purchasing these products even if prices rise because they are essential for daily living, and viable substitutes may be limited. **Hence, points 2 and 4 are incorrect.**

Q.12) Suppose the Gross Domestic Product (GDP) of India is lower than its Gross Value Added (GVA). This can occur if:

- India's reliance on imports increases.
- inflation levels decrease in the economy.
- the government provided subsidies more than its tax revenues.
- the government collects more taxes than it spends on subsidies.

Q.12) Solution (c)

Explanation:

- The Gross Domestic Product (GDP) is a measure of the total value of goods and services produced within a country's borders. Gross Value Added (GVA) calculates the national income from the supply side by looking at the value-added in each sector of the economy. The two measures of national income are linked as follows:
- $GDP = GVA + \text{Tax revenue} - \text{Subsidies}$
- Hence, if the government earned more from taxes than it spent on subsidies, GDP will be higher than GVA. If the government provided subsidies in excess of its tax revenues the situation will lead to a lower GDP than GVA. **Hence option c is correct.**

Q.13) In the context of the Indian economy, how would you explain the term Gross Domestic Product (GDP) gap?

- Difference between real GDP and Nominal GDP
- Difference between actual GDP and potential GDP
- Difference between the GDP and Gross National Product (GNP).
- Difference between the Net national income and GDP.

Q.13) Solution (b)**Explanation:**

The GDP gap is the difference between potential GDP and actual GDP. Potential GDP is the level of output that the economy can produce when all resources are fully employed. Actual GDP is the level of output that the economy actually produces. The GDP gap is a measure of the economy's output shortfall. **Hence Option b is correct.**

Q.14) Which of the following statements are correct about the sectors of economy?

1. People engaged in secondary activities are called blue collar workers.
2. The sum of production in the three sectors gives the Gross Domestic Product of a country.
3. Service sector includes some essential services that may not directly help in the production of goods.

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.14) Solution (d)**Explanation:**

Statement 1	Statement 2	Statement 3
Correct	Correct	Correct
Secondary Sector use the goods that primary sector businesses have produced as raw material and produce the finished goods. People engaged in secondary activities are called blue collar workers.	The value of final goods and services produced in each sector during a particular year provides the total production of the sector for that year. The sum of production in the three sectors gives Gross Domestic Product of a country. GDP is the value of all final goods and services produced within a country during a particular year.	Service sector also includes some essential services that may not directly help in the production of goods. For example, we require teachers, doctors, and those who provide personal services such as washermen, barbers, cobblers, lawyers, and people to do administrative and accounting works.

Q.15) A country with a large informal sector is likely to have:

- a) A high level of economic development.
- b) A large number of small-scale industries.
- c) A well-developed social security system.
- d) A high degree of income equality.

Q.15) Solution (b)

Explanation:

All the public sector establishments and those private sector establishments which employ 10 hired workers or more are called formal sector establishments and those who work in such establishments are formal sector workers. All other enterprises and workers working in those enterprises form the informal sector. The informal economy includes mostly small scale activities in traditional sectors of the economy, but also a part of new production strategies and changing patterns of employment in the global economy. It includes various types of work and businesses that operate independently and are often characterized by low wages, limited job security, and lack of legal protection.

Q.16) Which of the following statements are correct about the service sector of the economy?

- 1. Services sector contributes over 80 per cent to India's GDP.
- 2. In terms of wages, service sector, pays more than that of agricultural sector.

Select the answer using the code given below:

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

Q.16) Solution (b)

Explanation:

Statement 1	Statement 2
Incorrect	Correct
Among all the three sectors i.e. agriculture, industry and service, it is the service sector that has	In terms of wages and salaries, service sector, pays more than that of the agricultural sector. Compared to agriculture, service sector provides more job

contributed maximum to the national income of India. Services sector contributes over 50 per cent to India's GDP.

opportunities. There is existence of large varieties of services which are provided round the year. But there are some seasonal activities in agriculture. So as people become more educated they move to service sector. So employment in service sector is increasing.

Q.17) With reference to Quaternary Sector, consider the following statements.

1. It includes companies engaged in intellectual activities and pursuits.
2. The companies within the quaternary sector had been traditionally part of the secondary sector.
3. It comprises a mixture of private and government endeavours.
4. Quaternary industry is concerned with information-based or knowledge-oriented products and services.

How many of the statements given above are correct?

- a) Only one
- b) Only two
- c) Only Three
- d) All four

Q.17) Solution (c)

Explanation:

Statement 1	Statement 2	Statement 3	Statement 3
Correct	Incorrect	Correct	Correct
The quaternary sector includes companies engaged in intellectual activities and pursuits. The quaternary sector typically includes intellectual services such as technological advancement and innovation. Research and development that leads to improvements to processes, such as	The companies and firms within the quaternary sector had been traditionally part of the tertiary sector. However, with the growth of the knowledge-based economy and technological advancements, a separate sector was created.	Like the tertiary sector, it comprises a mixture of private and government endeavours. Industries and activities in this sector include information systems and information technology (IT); research and development, including	An extension of tertiary industry that is often recognized as its own sector, quaternary industry, is concerned with information-based or knowledge-oriented products and services.

manufacturing, would fall under this sector.		technological development and scientific research; financial and strategic analysis and consulting etc.	
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Q.18) With respect to economy, Consider the following pairs:

	Type of Market	Description
1.	Monopoly	Single firm controls the entire market.
2.	Monopolistic Competition	Products may be homogenous or differentiated.
3.	Oligopoly	Small number of firms control the market.

How many of the pairs given above are correctly matched?

- a) Only one pair
- b) Only two pairs
- c) All three pair
- d) None of the pairs

Q.18) Solution (b)

Explanation:

Pair 1	Pair 2	Pair 3
Correct	Incorrect	Correct
A monopoly exists when there's a single firm that controls the entire market. This firm is the sole producer of a product, and there are no close	Monopolistic competition is a market structure referring to a large number of small firms competing against each other. However, firms in monopolistic competition sell similar but highly	An oligopoly is dominated by a few firms, resulting in limited competition. They can collaborate with or compete against each other to use their

substitutes. Because there are no alternatives, the firm has the highest level of market power.	differentiated products. The products are remarkably similar, but small differences become the basis for firms' marketing and advertising.	collective market power to drive up prices and earn more profit.
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Q.19) With reference to the marginal utility, consider the following statements:

1. Marginal Utility measures the added satisfaction that a consumer gets from consuming additional units of goods or services.
2. Negative marginal utility occurs when the consumption of an additional item increases the total utility.
3. Marginal utility decreases as consumption of good increases.

Which of the statements given above is/are correct?

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

Q.19) Solution (d)

Explanation:

Statement 1	Statement 2	Statement 3
Correct	Incorrect	Correct
Utility is a measure of pleasure or satisfaction or consumer's preference ordering over a choice set. Marginal Utility measures the added satisfaction that a consumer gets from consuming additional units of goods or services.	Positive marginal utility occurs when the consumption of an additional item increases the total utility, while negative marginal utility occurs when the consumption of an additional item decreases the total utility.	Marginal utility decreases as consumption of good increases. This illustrates the Law of Diminishing Marginal Utility which holds that the additional utility decreases with each unit added.

Q.20) Consider the following statements.

1. At the time of independence, agriculture was contributing more than 50 percent to national income.
2. The Tata Iron and Steel Company (TISCO) was set up in 1948.
3. During British rule in India, the manufacturing sector accounted for only 10% share of workforce.

Which of the statements given above is/are correct?

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

Q.20) Solution (c)**Explanation:**

Statement 1	Statement 2	Statement 3
Correct	Incorrect	Correct
At the time of independence agriculture was contributing more than 50 percent to national income. Under the British colonial rule, India was primarily an agrarian economy with about 85% of country's population living in villages and deriving their livelihood directly or indirectly from agriculture.	In India modern industries started coming up during the second half of the 19th century but their progress remained very slow. Initially these industries were confined to cotton and jute textile mills. (the cotton textile mills, mainly dominated by Indians were located in western parts of the country, namely Maharashtra and Gujarat while the jute mills dominated by foreigners were concentrated in Bengal) Subsequently the iron and steel industries began coming up in the beginning of 20th century. The Tata Iron and Steel Company (TISCO) was set up in 1907.	Occupational Structure refers to the distribution of working persons across different industries and sectors. India's pre-independence occupational structure - <ul style="list-style-type: none"> • The agriculture sector accounted for the largest share of workforce i.e. 70-75%. • The manufacturing and the service sectors accounted for only 10% and 15-20% respectively.

Q.21) Consider the following statements about the committees for Poverty Estimation in India:

1. Lakdawala Committee recommended a uniform 'national' poverty line throughout India.
2. Tendulkar Committee recommended uniform poverty line basket for rural and urban areas.
3. Rangarajan Committee estimated poverty based on expenditure on nutrition only.

How many of the above given statements are correct?

- a) Only one
- b) Only two
- c) All three
- d) None

Q.21) Solution (a)

Explanation:

- Lakdawala committee suggested that state specific poverty lines. It also suggested that poverty lines should be constructed and updated using the Consumer Price Index of Industrial Workers (CPI-IW) in urban areas and Consumer Price Index of Agricultural Labour (CPI-AL) in rural areas.
- Tendulkar committee recommended four major changes:
 - (i) a shift away from calorie consumption-based poverty estimation;
 - (ii) a uniform poverty line basket (PLB) across rural and urban India;
 - (iii) a change in the price adjustment procedure to correct spatial and temporal issues with price adjustment; and
 - (iv) incorporation of private expenditure on health and education while estimating poverty.
- Rangarajan committee estimates poverty is based on:
 - Food expenses
 - Non-food expenses
 - Behaviourally determined levels of other non-food expenses.

Q.22) Various approaches are used to measure unemployment in India. In this context, consider the following statements:

1. Under Usual Status Approach, unemployment is recorded for a person if he/she has no gainful work for a majority of time of the preceding year.
2. Weekly Status Approach records unemployment for those who did not have gainful work even for an hour or a day of the week.

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.22) Solution (c)

Explanation:

- The National Sample Survey Organization (NSSO) provides three different estimates of employment and unemployment based on different approaches / reference periods used to classify an individual's activity status.
 1. Usual Status Approach
 2. Weekly Status Approach
 3. Current daily status approach
- Usual status approach considers those people as unemployed who had no gainful work for a majority of time during the 365 days preceding the date of survey. **Hence Statement 1 is correct.**
- Weekly status approach records unemployment for those who did not have gainful work even for an hour or a day of the week, preceding the date of survey. **Hence, Statement 2 is correct.**

The third approach used by NSSO is the Current daily status approach in which unemployment is recorded for a person if he/s has no gainful work even for 1 hour in a day. It uses each day of the seven days preceding date of survey as the reference period.

Q.23) With reference to Labour force in India, which of the following statements is correct?

- a) The Labour Force Participation Rate (LFPR) has increased more in the Rural Sector compared to the Urban Sector in the last five years.
- b) The Worker Population Ratio (WPR) of males has increased more than that of females in the last five years.
- c) The female Labour Force Participation Rate has continuously increased over the last five years.
- d) Over the last five years, the Unemployment Rate (UR) of females in the Rural Sector has been higher compared to the Urban Sector.

Q.23) Solution (b)**Explanation:**

- The Periodic Labour Force Survey (PLFS), conducted by the Ministry of Statistics and Programme Implementation, is a key source of employment and unemployment data in India, publishing annual reports since 2017-18. According to the PLFS annual reports from 2018-19 to 2022-23:
 - The Labour Force Participation Rate (LFPR) in the Rural Sector increased by 2.9%, from 47.5% in 2018-19 to 50.4% in 2022-23. Meanwhile, the LFPR in the Urban Sector increased by 9.3%, from 51.5% in 2018-19 to 60.8% in 2022-23. Therefore the Urban Sector saw a higher increase in LFPR compared to the Rural Sector. **Hence, statement a is not correct.**
 - The LFPR for females increased continuously over the last five years, from 24.5% in 2018-19 to 37.0% in 2022-23 as shown in the following table. **Hence, statement b is correct.**
- The Worker Population Ratio (WPR) for males increased from 71.0% in 2018-19 to 76.0% in 2022-23, a rise of 5 percentage points. For females, the WPR increased from 23.3% in 2018-19 to 35.9% in 2022-23, a rise of 12.6 percentage points, which is more than double the increase for males. **Hence, statement c is not correct.**
- The Unemployment Rate (UR) for females in the Urban Sector decreased from 7.6% in 2018-19 to 5.4% in 2022-23, a reduction of 2.2 percentage points. In the Rural Sector, the UR for females declined from 5.0% in 2018-19 to 2.4% in 2022-23, a decrease of 2.6 percentage points. Additionally, the UR for females was consistently lower in the Rural Sector compared to the Urban Sector over these years. **Hence, statement d is not correct.**

Q.24) Consider the following pairs regarding the various types of unemployment:

Type of Unemployment	Occurs When
Frictional unemployment	People leaving their previous jobs in order to look for the better job
Structural unemployment	People losing their job due to lack of required skills
Cyclical unemployment	Too many people are employed for a job that could be done by fewer people

How many of the pairs given above are correctly matched?

- Only one
- Only two
- All three
- None

Q.24) Solution (b)**Explanation:**

- Unemployment is when a person who's actively seeking employment can't find work. There are several kinds of employment.
- Frictional unemployment is the result of people voluntarily leaving their jobs. People who've resigned from their jobs and graduates seeking their first jobs need time to find employment, leaving them unemployed in the interim. Looking for a job, seeking a replacement employee, and finding the right employee for a job take time, but frictional unemployment isn't necessarily bad. This type of unemployment usually is short term, and it's present even in a healthy economy as people leave their jobs to seek new opportunities. **Hence, Pair 1 is correct.**
- Fundamental changes in the economy and labor markets, such as evolving technology, government policies, and competition, can create structural unemployment. This means that while jobs are available, the people who could fill those roles either don't have the right skills for them or aren't in the right location. Examples would include job loss due to automation. **Hence, Pair 2 is correct.**
- The term "cyclical unemployment" refers to the variation in the number of unemployed workers during cycles of economic strength and weakness. When demand for a product or service declines, production also goes down. This creates less need for employers to hire people who are looking for jobs, causing the unemployment rate to increase. During the early stages of the COVID-19 pandemic, for example, people were confined to their homes, leading many businesses to shut down. During this economic downturn, many employees of those businesses weren't needed and were left unemployed. The financial crisis of 2008 provides is an example of cyclical unemployment. **Hence, Pair 3 is incorrect.**

Q.52) Consider the following pairs with reference to types of markets:

S. No.	Market	:	Description
1	Monopoly	:	A single company is the sole seller of the product in the entire market
2	Oligopoly	:	A small number of large companies sell differentiated or identical products.
3	Monopolistic Competition	:	A few Sellers compete among themselves in the market.
4	Perfect Competition	:	A large number of small companies compete against each other in the market.

How many pairs given above are correctly matched?

- a) Only one
- b) Only two
- c) Only three
- d) All four

Q.25) Solution (d)

Explanation:

- Market structure, in economics, refers to how different industries are classified and differentiated based on their degree and nature of competition for goods and services. It is based on the characteristics that influence the behaviour and outcomes of companies working in a specific market.
- The four types of market structures:
 - Monopoly market: A single company represents the whole industry. It has no competitor, and it is the sole seller of products in the entire market. Sole claim to ownership of resources, patent and copyright, licences issued by the government. Example: Indian Railways for interstate long route journey. **Hence, pair 1 is correctly matched.**
 - Oligopoly market: Consists of a small number of large companies that sell differentiated or identical products. Since there are few players in the market, their competitive strategies are dependent on each other. Examples: Mass Media, Big Tech, Automakers, Telecom, Entertainment and Airlines etc. **Hence, pair 2 is correctly matched.**
 - Monopolistic competition: An imperfectly competitive market with the traits of both the monopoly and competitive market. Few Sellers compete among themselves and can differentiate their goods in terms of quality and branding to look different. Example: Hotels, Clothing stores, alcohol brewers. **Hence, pair 3 is correctly matched.**

Perfect competition: When there is a large number of small companies competing against each other. They sell similar products (homogeneous), lack price influence over the commodities, and are free to enter or exit the market. Example: Supermarkets. **Hence, pair 4 is correctly matched**

Q.26) Absolute poverty and Relative poverty are the terms often referred to for the measurement of poverty levels. In this context, consider the following statements:

1. Absolute poverty occurs when people earn just enough money to afford the bare necessities of life.
2. Relative poverty occurs when people earn just enough money to maintain the average standard of living in the society they live in.

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.26) Solution (c)

Explanation:

- The poverty line refers to the limit according to the government standards below which one is classified as poor. In India, Tendulkar Committee has formulated a new poverty line in (2004-2005). According to this, uniform poverty line basket for rural and urban areas of each state has been defined.
- Absolute poverty is when household income is below a certain level. This makes it impossible for the person or family to meet basic needs of life including food, shelter, safe drinking water, education, healthcare, etc. **Hence Statement 1 is incorrect.**
- Relative poverty is the condition in which people lack the minimum amount of income needed in order to maintain the average standard of living in the society in which they live. Relative poverty is defined relative to the members of a society and, therefore, differs across countries. People are said to be impoverished if they cannot keep up with the standard of living as determined by society. **Hence Statement 2 is incorrect.**
- Relative poverty also changes over time. As the wealth of a society increases, so does the amount of income and resources that society deems necessary for proper living conditions.

Q.27) Which of the following statements correctly describes Economic Growth and Economic Development?

1. Economic Growth requires changes in income, savings and investments in an economy while Economic Development does not.
2. Increase in government spending can foster Economic Growth while reduction in income inequality may indicate Economic Development.
3. Economic Development is measured by quantitative factors such as increase in real GDP while Economic Growth does not.

Select the correct answer using the code given below:

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

Q.27) Solution (a)**Explanation:**

- Even though the terms economic development and economic growth sound similar, there is a significant difference between the two.
- Economic growth refers to an increase in the real output of goods and services in the country. In other words, the increase should be in terms of increase of output of goods and services, and not due to a mere increase in the market prices of existing goods.
- Economic development implies changes in income, savings and investment along with progressive changes in socioeconomic structure of country (institutional and technological changes). Economic development is defined as a sustained improvement in material well-being of society. Economic development is a wider concept than economic growth. **Hence Statement 1 is incorrect.**
- Economic Growth relates to a gradual increase in one of the components of Gross Domestic Product: consumption, government spending, investment, net exports. Economic Development relates to growth of human capital, decrease in inequality figures, and structural changes that improve the quality of life of the population. **Hence Statement 2 is correct.**
- Economic Growth is measured by quantitative factors such as increase in real GDP or per capita income. The qualitative measures such as HDI (Human Development Index), gender- related index, Human poverty index (HPI), infant mortality, literacy rate etc. are used to measure economic development. **Hence Statement 3 is incorrect.**

Q.28) With respect to the Capitalist and socialist economy, consider the following statements:

1. In a Capitalist economy market forces determine the prices of the product while in a Socialist economy, the government determines the prices of the product.
2. In contrast to capitalist economies, socialist economies have unequal income distribution in society.
3. Generally, the tax rates on masses in socialist economies are higher than tax rates in capitalist economies.

How many of the above given statements are correct?

- a) Only one
- b) Only two
- c) All three
- d) None

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

- Capitalist Economy and Socialist Economy are two types of economic systems prevailing in the world.
- In a capitalist economy demand and supply forces determine the pricing of products and services i.e. it is purely based on market forces. In the Socialist Economy pricing of products and services is regulated and controlled by the government in a socialist economy. **Hence, Statement 1 is correct.**
- In a capitalist economy, income distribution is uneven while in a socialist economy, income distribution is more or less equal in society. **Hence, Statement 2 is incorrect.**

Generally, the tax rates on masses in socialist economies are higher than tax rates in capitalist economies. It is mainly because socialists believe that the government is responsible for ensuring economic equality by introducing programs that benefit the poor such as free education, and subsidized healthcare systems. In a capitalist economic system, the work of managing resources is left to private enterprises, and the free market is allowed to dictate product prices. **Hence, Statement 3 is correct**

Q.29) Consider the following statements:

The Public Goods

1. are described as non-excludable.
2. exhibit a non-rivalrous nature.
3. does not incur any opportunity cost during their production.

Which of the statements above are correct?

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

Q.29) Solution (a)**Explanation:**

- Public goods can be products or services that are available to everyone in a community. They are often provided by the government and funded through taxes. Examples of public goods include town roads, parks, etc.
- Being non-excludable means that once a public good is provided, it is not feasible to exclude individuals from enjoying its benefits, regardless of whether they have contributed to its provision. Examples include public parks and national defense. **Hence Statement 1 is correct.**

- Public goods are characterized by non-rivalry. This means that when one person enjoys a public good, it doesn't diminish the availability or enjoyment of that same good for others. Examples include clean air, knowledge, etc. This non-rivalrous nature is a key feature that distinguishes public goods from private goods. Private goods, like pizza, become less available as people consume them. Public goods, on the other hand, can be enjoyed by everyone simultaneously. **Hence Statement 2 is correct.**
- The production of public goods certainly incurs an opportunity cost, as resources utilized for their provision could have been used elsewhere. Opportunity cost represents the cost of the next best alternative foregone. For public goods, this means the resources (such as labour, capital, etc.) used to provide these goods are not available for the production of other goods or services. Thus, the understanding that public goods do not incur any opportunity cost overlooks this fundamental economic principle. **Hence Statement 3 is incorrect.**

Q.30) Which of the following committees are appointed for the poverty estimation in India?

- Lakdawala Committee of 1993
- Vohra Committee of 1993
- Tendulkar Committee of 2009
- Jeevan Reddy Committee of 2004

Select the correct answer using the code given below:

- 1 and 2 only
- 1 and 3 only
- 1, 3 and 4 only
- 2 and 4 only

Q.30) Solution (b)

Explanation :

Statement 1	Statement 2	Statement 3	Statement 3
Correct	Incorrect	Correct	Incorrect
In 1993, an expert group constituted to review methodology for poverty estimation, chaired by DT Lakdawala, made the following suggestions: Consumption expenditure should be calculated based on calorie consumption as earlier; State	The Vohra Committee was set up by the P.V. Narasimha Rao Government in July 1993. The Committee was headed by the former Indian	In 2005, expert group to review methodology for poverty estimation, chaired by Suresh Tendulkar, was constituted by the Planning	In November 2004, following large-scale public protests in the north-eastern state of Manipur, the central government

specific poverty lines should be constructed and these should be updated using the Consumer Price Index of Industrial Workers (CPI-IW) in urban areas and Consumer Price Index of Agricultural Labour (CPI-AL) in rural areas; Discontinuation of 'scaling' of poverty estimates based on National Accounts Statistics.	Home Secretary N.N Vohra who submitted the Committee Report in October 1993. The Committee was set up in the aftermath of the Bombay Blasts in the same year. The Committee studied the problem of the criminalisation of politics and the nexus among criminals, politicians and bureaucrats in India.	Commission to address the three shortcomings of the Lakdawala Committee. The Committee recommended using Mixed Reference Period (MRP) based estimates, as opposed to Uniform Reference Period (URP) based estimates that were used in earlier methods for estimating poverty	appointed a five-member committee led by a former Judge of the Supreme Court BP Jeevan Reddy to review the AFSPA.
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Q.31) With reference to economy, the term "poverty trap" refers to:

- The cycle of poverty that perpetuates itself due to lack of access to education and healthcare.
- A government program designed to lift people out of poverty by providing financial assistance.
- The idea that poverty is caused by individual choices and lack of motivation.
- The phenomenon of people becoming poorer as they try to escape poverty

Q.31) Solution (a)

Explanation:

A poverty trap is a mechanism that makes it very difficult for people to escape poverty. A poverty trap is created when an economic system requires a significant amount of capital to escape poverty. When individuals lack this capital, they may also find it difficult to acquire it, creating a self-reinforcing cycle of poverty. A poverty trap is not merely the absence of economic means. It is created due to a mix of factors, such as access to education and healthcare, working together to keep an individual or family in poverty. **(Hence option a is correct)**

Q.32) Which of the following are correct about rural poverty in India?

1. High level of dependence on primitive methods of agriculture. results into rural poverty.
2. Immobility of labour lead to abysmal poverty in rural India.
3. Rapid growth of population in rural areas aggravates the poverty.

Select the answer using the code given below:

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

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

Statement 1	Statement 2	Statement 3
Correct	Correct	Correct
In India there is high level of dependence on primitive methods of agriculture. There is a surplus of labour in agriculture. Farmers are a large vote bank and use their votes to resist reallocation of land for higher-income industrial projects. About 60 per cent of the population depends on agriculture, whereas the contribution of agriculture to the GDP is below 18 per cent. The agricultural sector has remained very unproductive. There is no modernization of agriculture despite some mechanization in some regions of India.	Immobility of labour also accounts, for rural poverty. Even if higher wages are offered, labourers are not willing to leave their homes. The joint family system makes people lethargic and stay-at-home. The ruralites are mostly illiterate, ignorant, conservative, superstitious and fatalistic. Poverty is considered as God-given, something preordained. All these factors lead to abysmal poverty in rural India.	Rapid growth of population aggravates the poverty of the people. The growth of population exceeds the rate of growth in national income. Population growth not only creates difficulties in the removal of poverty but also lowers the per capita income which tends to increase poverty. The burden of this reduction in per capita income is borne heavily by the poor people. Population growth at a faster rate increases labour supply which tends to lower the wage rate.

Q.33) Which of the following are correct about cyclical unemployment?

1. It occurs when the economy is in need of low workforce.

2. It arises due to long term change in the pattern of demand that changes the basic structure of the economy.

Select the answer using the code given below:

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

Q.33) Solution (a)

Explanation

Statement 1	Statement 2
Correct	Incorrect
Cyclical or demand deficient unemployment occurs when the economy is in need of low workforce. When there is an economy-wide decline in aggregate demand for goods and services, employment declines and unemployment correspondingly increase. Cyclical unemployment mainly occurs during recession or depression.	Structural unemployment arises when the qualification of a person is not sufficient to meet his job responsibilities. It arises due to long term change in the pattern of demand that changes the basic structure of the economy.

Q.34) With reference to economy, the term "absolute poverty" refers to:

- a) Poverty measured in terms of basic needs.
- b) Poverty measured using the Gini coefficient.
- c) Poverty measured relative to the average income in a country
- d) Poverty measured using the headcount index

Q.34) Solution (a)

Explanation

Absolute poverty refers to when a person or household does not have the minimum amount of income needed to meet the minimum living requirements needed over an extended period of time. In other words, they cannot meet their basic needs. When an individual goes below this threshold their survival is threatened. The UN defines this number as \$1.90 per day. This number is a representation of regions with extreme poverty such as Sub-Saharan Africa. However, this number is subject to change from region to region. **(Hence option a is correct)**

Q.35) Which type of unemployment is caused by a mismatch between the skills of available workers and the requirements of available jobs?

- a) Cyclical unemployment
- b) Structural unemployment
- c) Frictional unemployment
- d) Seasonal unemployment

Q.35) Solution (b)

Explanation:

Structural unemployment arises when the qualification of a person is not sufficient to meet his job responsibilities. It arises due to long term change in the pattern of demand that changes the basic structure of the economy. The person is not able to learn new technologies used in the new expanding economic sectors and they thus may be rendered permanently unemployed. **(Hence option b is correct)**

Q.36) With reference to economy, the term Usual Principal Status Unemployment refers to:

- a) The number of persons who remained unemployed for a major part of the year.
- b) The number of persons who did not find even an hour of work during the survey week.
- c) The number of persons who did not find work on a day, or on some days, during the survey week.
- d) The number of persons who are unable to find work on a subsidiary basis during a year.

Q.36) Solution (a)

Explanation:

Usual Principal Status Unemployment (UPS) is measured as the number of persons who remained unemployed for a major part of the year. The persons covered by the survey may be classified into those working and/ or available for work in their principal activity, and those working and/or available for work in a subsidiary activity, that is, a sector other than their principal activity. Hence, within the usual status concept, the estimates are now derived on the usual principal status as well as the usual principal and subsidiary status basis. The usual status unemployment rate is a person rate and indicates chronic unemployment, because all those who are found usually unemployed in the reference year are counted as unemployed. **(Hence option a is correct)**

Q.37) The unemployment rate is calculated as the ratio of:

- a) Unemployed people to the total population
- b) Employed people to the total population
- c) Unemployed people to the labour force
- d) Employed people to the labour force

Q.37) Solution (c)

Explanation:

Unemployment rate is the percent of the labour force that is without work. It is calculated as below: $\text{Unemployment rate} = (\text{Unemployed Workers} / \text{Total labour force}) \times 100$. In India, the most comprehensive and reliable data on employment and unemployment are compiled by the National Sample Survey Organization (NSSO). **(Hence option c is correct)**

Q.38) With reference to types of employment, consider the following statements.

1. Casualisation of employment is a situation in which the percentage of workers hired on a temporary basis increase over time.
2. Informalisation of employment is a situation when people tend to find less employment in the formal sector of the economy.

Which of the following statements given above are incorrect?

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

Q.38) Solution (c)

Explanation:

Statement 1	Statement 2
Correct	Correct
Casualisation is a term used to describe a situation in which the percentage of workers hired on a temporary basis increase over time. People start working as casual labourers due to a lack of chances in	Informalisation of employment refers to a situation when people tend to find employment more in the informal sector of the economy, and less in the formal sector of the economy. Workers transitioning from

the organised sector. Furthermore, the freedom in terms of working conditions, as well as the lack of particular enforcement of labour laws, encourages businesses to hire more casual workers.

permanent employment to casual and fixed term contracts, outsourcing, and employment through labour brokers are all examples of informalisation. Many individuals who have previously worked in a formal job will most likely re-enter the workforce as an atypical employee.

Q.39) Which of the following statements are correct about Mahatma Gandhi National Rural Employment Guarantee Act?

1. It is an Indian labour law that aims to guarantee the 'right to work'.
2. The involvement of contractors in implementation is banned under the Act.
3. The Act will be applicable to areas notified by the respective state governments.

Select the answer using the code given below:

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

Q.39) Solution (a)

Explanation:

Statement 1	Statement 2	Statement 3
Correct	Correct	Incorrect
National Rural Employment Guarantee Act 2005, later renamed as the "Mahatma Gandhi National Rural Employment Guarantee Act", MGNREGA), is an Indian labour law and social security measure that aims to guarantee the 'right to work'. It aims to enhance livelihood security in rural areas by providing at least	MGNREGA is to be implemented mainly by gram panchayats (GPs). The involvement of contractors is banned. Labour-intensive tasks like creating infrastructure for water harvesting, drought relief, and flood control are preferred.	The Government of India passed the Mahatma Gandhi National Rural Employment Guarantee Act, 2005 in September, 2005. The Act gives legal guarantee of a hundred days of wage employment in a financial year to adult members of a rural household who demand employment and are willing to do unskilled manual work. The Act will be applicable to areas notified by the Central Government. The objective of

100 days of wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work.		the Act is to enhance the livelihood security of the people in the rural areas by generating wage employment through works that develop the infrastructure base of that area.
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Q.40) Which of the following statements are correct about National Rural Livelihood Mission?

1. The implementation responsibility of the Mission is vested with State Rural Livelihood Missions.
2. Under the mission, one member from each rural poor household would be brought under the Self-Help Group network.
3. The mission supports development of skills for rural youth.

Select the answer using the code given below:

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

Q.40) Solution (d)

Explanation:

Statement 1	Statement 2	Statement 3
Correct	Correct	Correct
The implementation responsibility of the Mission is vested with State Rural Livelihood Missions (Special Purpose Vehicles). At the district level, a District Mission Management Unit (DMMU) is responsible for planning and implementation, but under the overall control of the district administration. At the block level, a Block Mission Management Unit	Under the scheme, one member (preferably a woman) from each rural poor household would be brought under the Self-Help Group (SHG) network. Women SHG groups would have bank-linkage arrangements. SHGs would be federated at village level and higher levels to provide space, voice and resources and to reduce dependence on external agencies.	The Mission also supports development of skills for rural youth and their placement, training and self-employment through rural self-employment institutes (RSETIs), innovations, infrastructure creation and market support.

implements the Mission activities. The Mission is implemented in a phased but intensive manner, taking up certain number of blocks in each year.		
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Q.41) Recession refers to a significant decline in economic activity that spread across the economy and lasts for more than a few months. During a recession, which of the following are most likely to occur in an economy?

1. Rise in the prices of gold
2. Rise in Short-term interest rates
3. Rise in Unemployment rates
4. Rise in Credit availability

Select the correct answer using the code given below:

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

Q.41) Solution (b)

Explanation:

- Recession is a term used to signify a slowdown in general economic activity. In macroeconomics, recessions are officially recognized after two consecutive quarters of negative GDP growth rates. Effects of a Recession:
 - Riskier assets like stocks and high-yield bonds tend to lose value in a recession, while gold appreciates. **Hence, statement 1 is correct.**
 - Short-term interest rates tend to fall. **Hence, statement 2 is not correct.**
 - As businesses seek to cut costs, unemployment rates increase. **Hence, statement 3 is correct.**
 - Credit availability tightens. **Hence, statement 4 is incorrect.**

- An inverted yield curve occurs when short-term debt instruments have higher yields than long-term instruments. An inverted yield curve is unusual; it reflects bond investors' expectations for a decline in longer-term interest rates, typically associated with recessions.

Q.42) What of the following has the highest weightage in Consumer Price Index (CPI) in India?

- a) Fuel and Light
- b) Education and Healthcare
- c) Food and Beverages
- d) Housing

Q.42) Solution (c)

Explanation:

- CPI is released by The National Statistical Office (CSO). It releases the list of items and their weightages using the Modified Mixed Reference Period (MMRP). Under this method, for food items and certain other items, data on expenditures incurred are collected during the last seven days. For durable goods, clothing, and footwear, data on expenditure incurred are collected during the last 365 days. For certain other items such as fuel and light, miscellaneous goods and services, the reference period is 30 days. This method is understood to give a more accurate reflection of consumption patterns.
- Housing (Rural and Urban) has a combined weightage of 10.67%. Health and Education come under the Miscellaneous category with 5.89% and 4.46% weightage. Food and Beverages (Rural and URBAN) combined have the weightage of 45.86%. Transport and communication (Rural and Urban) combined have a weightage of 8.59%. Fuel and light has 6.84%. **Hence Option c is correct.**

Q.43) Inflation refers to the increase in prices of goods over a given period of time. In this context, an economy can face Cost Push Inflation if:

1. There is an appreciation in local currency
2. There is an increase in nominal wages
3. There is an increase in rate of taxes
4. There is an increase in global oil prices

Which of the statements given above are correct?

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

Q.43) Solution (b)**Explanation:**

- Inflation refers to an increase in the price of goods and services in the economy over a period of time. It may be caused by a number of factors that are classified into two categories - Demand Pull Factors and Cost Push Factors.
- Cost Push Factors are those reasons that cause inflation by increasing the cost of production of goods and services in an economy. In order to protect their profit margins, the producers increase the sale price of their product/ service, thus causing inflation in the economy.
- Appreciation of local currency would mean that the value of the Rupee (in case of India) has increased vis-a-vis other currencies, thus making imports cheaper. As the imports (including raw materials for various goods) become cheaper, the price of products will go down not up (no inflation). So, this option is incorrect as it does not contribute to cost-push inflation. **Hence Statement 1 is incorrect.**
- Labour is one of the four Factors of Production (Land, Labour, Capital & Entrepreneurship). So, if the wages of the labour involved in production of a good/ service increases, so will the cost of production. In order to maintain their profit margin, firms will increase the sale price of the good/ service, leading to cost-push inflation. **Hence Statement 2 is correct.**
- Higher Taxes would make raw materials costlier for manufacturers, which they would pass on to the consumers in the form of increased sale prices, in order to protect their profit margins. This would again lead to cost-push inflation. **Hence Statement 3 is correct.**
- Higher global oil prices have a cascading effect on raw material costs in an import dependent economy like India. Since the cost of importing the oil would be high, it would get passed along the entire value chain, as increased cost of transportation of raw materials and thus increased cost of production, which would be passed on to customers in the form of higher sale prices leading to cost-push inflation. **Hence Statement 4 is correct.**

Q.44) Consider the following items:

1. Food Items
2. Fuel and Power
3. Minerals
4. Health and Education

How many of the above given items are included in the calculation of both Consumer price index (CPI) and Wholesale price index (WPI) in India?

- a) Only one
- b) Only two
- c) Only three
- d) All four

Q.44) Solution (b)**Explanation:**

- Consumer Price Index (CPI) inflation also known as Retail inflation, tracks the change in retail prices of goods and services which households purchase for their daily consumption. CPI is calculated (base year is 2012) for a fixed basket of goods and services. The National Statistical Office (NSO), Ministry of Statistics and Programme Implementation (MoSPI), compiles CPI for All India and States for Rural, Urban, Combined sectors and releases it every month. The RBI currently uses CPI as a key measure of inflation to set monetary and credit policy.
- Wholesale price index (WPI) measures the changes in the prices of goods sold and traded in bulk. It is calculated and published by the Office of Economic Advisor, Department of Industrial Policy and Promotion in the Ministry of Commerce and Industry. WPI is calculated with base year 2011-12 by taking a weighted average of the prices of a basket of 697 goods comprising:
 - Primary Articles (Weight 22.62%)
 - Fuel and Power (Weight 13.15%)
 - Manufactured Products (Weight 64.23%)
- Both CPI and WPI include (with different weightage) items like food, fuel and power, manufactured products etc. **Hence, points 1 and 2 are correct.**
- Difference between WPI and CPI inflation:
 - WPI includes primary articles such as minerals and basic metals. CPI does not include it. **Hence, point 3 is incorrect.**

WPI is restricted to only goods, while CPI is for both goods and services like health, education and housing etc. **Hence, point 4 is incorrect.**

Q.45) Which of the following statements correctly explains the difference between the 'Core inflation' and the 'Headline inflation'?

- Unlike headline inflation, food and fuel items are included in the calculation of Core inflation.
- Core inflation is less volatile than Headline inflation.
- Compared to developed economies, Headline inflation is not much relevant for developing economies.
- None of the statements given in (a), (b) or (c) is correct.

Q.45) Solution (b)**Explanation:**

- Core inflation excludes food and fuel items from headline inflation. Headline inflation refers to the change in value of all goods in the basket. Headline inflation reflects the prices of essential consumption goods. Inflation in these prices hurts people in lower-

income groups more as they spend a higher proportion of their incomes on food and fuel items. **Hence, Statement a is incorrect.**

- Core inflation is less volatile than headline inflation because the prices of fuel and food items in headline inflation tend to fluctuate and create 'noise' in inflation computation. **Hence, Statement b is correct.**
- Headline inflation is more relevant for developing economies than developed economies. In a developed economy, food & fuel account for 10-15% of the household consumption basket and in developing economies it forms 30-40% of the basket. **Hence Statement c is incorrect.**

Q.46) With reference to various types of inflation, which of the following pairs are correctly matched?

Terms	Definition
1. Reflation	It is a fiscal or monetary policy to curb the effects of deflation.
2. Disinflation	It refers to the drop in general price levels in an economy.
3. Skewflation	It occurs when some sectors are facing huge inflation, some none and some deflation.
4. Stagflation	It refers to an economy that is experiencing a simultaneous increase in inflation and stagnation of economic output.

How many of the above given pairs are correctly matched?

- a) Only one
- b) Only two
- c) Only three
- d) All four

Q.46) Solution (c)

Explanation:

- Reflation is a fiscal or monetary policy designed to expand output, stimulate spending, and curb the effects of deflation, which usually occurs after a period of economic uncertainty or a recession. Reflation is a policy that is enacted after a period of economic slowdown or contraction. Reflation aims to stop deflation, the general decline in prices for goods and services that occurs when inflation falls below 0%. It is a long-term shift, often characterized by a prolonged reacceleration in economic prosperity that strives to reduce any excess capacity in the labor market. **Hence Pair 1 is correct.**

- Disinflation occurs when price inflation slows down temporarily. This term is commonly used to describe a period of slowing inflation. Unlike deflation, this is not harmful to the economy because the inflation rate is reduced marginally over a short-term period. Deflation is the economic term used to describe the drop in prices for goods and services, where the inflation rate falls below 0%. **Hence Pair 2 is incorrect.**
- Skewflation means the skewness of inflation among different sectors of the economy in this phenomenon some sectors are facing huge inflation, some none and some deflation. **Hence Pair 3 is correct.**
- Stagflation refers to an economy that is experiencing a simultaneous increase in inflation and stagnation of economic output. Stagflation was first recognized during the 1970s when many developed economies experienced rapid inflation and high unemployment as a result of an oil shock. Stagflation is characterized by slow economic growth and relatively high unemployment or economic stagnation which is at the same time accompanied by rising prices (i.e. inflation). Stagflation can be alternatively defined as a period of inflation combined with a decline in the gross domestic product (GDP). **Hence Pair 4 is correct.**

Q.47) The term 'Shrinkflation', seen in the news sometimes, refers to:

- Increase in the price of a product due to its unavailability.
- Increase in the price of a good due to increase in prices of its raw materials.
- Decrease in the quantity of a product without altering its price.
- Decrease in the price of a product due to a rise in the price of its substitute goods.

Q.47) Solution (c)

Explanation:

Shrinkflation refers to the practice of reducing the quantity of a product without altering its price. For instance, reducing the weight of chips in a packet without altering its price would count as shrinkflation. Shrinkflation is related more to reducing the quantity of product while keeping the same price. **Hence option c is correct.**

Q.48) The "Goldilocks Scenario" for an economy can be best explained as:

- an economic situation where the economy is experiencing very low employment growth rates.
- an economic condition characterized by severe contraction in the economy.
- an economy receiving very high investments from the outside world.
- an economic condition characterized by moderate economic growth, low inflation rate, and low unemployment rate.

Q.48) Solution (d)**Explanation:**

- The Goldilocks scenario in an economy is a term stolen from a line from the popular children's story Goldilocks and the Three Bears. Consequently, the 'Goldilocks scenario' can be understood to describe an ideal state for an economic system. In this perfect state, there is full employment, economic stability, and stable growth. **Hence option d is correct.**

Q.49) Suppose an economy is experiencing very high inflation rates. Under this scenario, consider the following:

1. Decreasing the repo rate
2. Reducing tax rates
3. Decreasing public expenditure
4. Reducing the import duty

How many of the above actions can the Government or the Central Bank take to check inflation?

- a) Only one
- b) Only two
- c) Only three
- d) All four

Q.49) Solution (b)**Explanation:**

- Inflation is the increase in the price of goods and services in an economy. It translates to reducing the purchasing power of a currency.
- Remedies to tackle inflation:
 - Hike in repo rate discourages the banks to borrow thus decreases the loanable funds with them. It reduces money supply in the market and results in lesser inflation. **Hence, point 1 is incorrect.**
 - Increasing the tax rates leads to less money with individuals which decreases individual demand and a drop in the economy's money supply. It reduces inflation. **Hence, point 2 is incorrect.**
 - Decreasing the overall government expenditure and transfer payments reduces the money supply in the market and leaves less in-hand money which reduces demand and results in decreased inflation. **Hence, point 3 is correct.**
 - The government announces a reduction in the import duty on critical raw materials for production and inputs for the steel and plastic industry which

results in the reduced cost of production, thereby causing stability in the prices of the final goods and controlling cost push inflation. **Hence, point 4 is correct.**

Q.50) Which of the following statements are correct regarding inflation targeting in India?

1. The inflation target is set by the Government of India, in consultation with the Reserve Bank of India (RBI).
2. Inflation targeting places price stability as the primary objective of the monetary policy.
3. If the RBI fails to meet the inflation target, then the Government must form a new monetary policy committee.
4. The monetary policy committee determines the policy interest rate required to achieve the inflation target.

Select the correct answer using the code given below:

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

Q.50) Solution (c)

Explanation:

- The RBI Act provides for the inflation target to be set by the Government of India, in consultation with the Reserve Bank, once in every five years. Accordingly, the Central Government has notified 4 per cent Consumer Price Index (CPI) inflation as the target until the fiscal year 2025-26 with the upper tolerance limit of 6 per cent and the lower tolerance limit of 2 per cent. **Hence Statement 1 is correct.**
- India formally adopted flexible inflation targeting (FIT) in June 2016 to place price stability, defined in terms of a target CPI inflation, as the primary objective of the monetary policy. In May 2016, the Reserve Bank of India (RBI) Act, 1934 was amended to provide a statutory basis for the implementation of the flexible inflation targeting framework. **Hence Statement 2 is correct.**
- If RBI fails to meet the target, RBI will have to explain the reason for its failure to meet as well as give a timeframe within which it will achieve it. **Hence Statement 3 is incorrect.**
- The amended RBI Act, 1934 provides for an empowered six-member monetary policy committee (MPC) to be constituted by the Central Government by notification in the Official Gazette. The MPC determines the policy interest rate required to achieve the inflation target. **Hence Statement 4 is correct.**

Q.51) With reference to inflation in an economy, consider the following:

1. Increase in the Current Account Deficit.
2. Increase in the savings rates
3. Increase in the real interest rates.

How many of the above are the short-term impact of rising inflation in an economy?

- a) Only one
- b) Only two
- c) All three
- d) None

Q.51) Solution (b)

Explanation:

- Inflation refers to a continuous rise in the general price level of goods and services in an economy over a period of time. Inflation leads to decline in the value of money over a period of time.
- High inflation leads to increase in the Current Account Deficit. This is due to cheaper imports availability as compared to expensive domestic goods. Further, exports also fall due to increase in price of domestic goods. **Hence Statement 1 is correct.**
- During Inflation, holding money does not remain an intelligent economic decision. That is why people visit banks more frequently and try to hold least money with themselves and put maximum with the banks in their saving accounts. This is also known as the shoe leather cost of inflation. It means that saving rate increases. But this happens as a short-term effect of inflation. **Hence Statement 2 is correct.**
- In the long-run, higher inflation depletes the saving rate in an economy.
- Real Interest rate is the nominal rate of interest minus Inflation. So, real interest rate falls by the same percentage with which inflation rises. This means lenders suffer and borrowers benefit out of inflation. **Hence Statement 3 is incorrect.**

Q.52) The Phillips curve illustrates the relationship between:

- a) Inflation and employment.
- b) Inflation and unemployment.
- c) GDP growth and unemployment.
- d) GDP growth and interest rates.

Q.52) Solution (b)**Explanation**

Phillips curve represent the relationship between the rate of unemployment and the inflation. The Phillips curve originated out of analysis comparing money wage growth with unemployment. The findings of A.W. Phillips in The Relationship between Unemployment and the Rate of Change of Money Wages in the United Kingdom 1861–1957 suggested there was an inverse correlation between the rate of change in money wages and unemployment. For example, a rise in unemployment was associated with declining wage growth and vice versa. **(Hence option b is correct)**

Q.53) Which of the following is a inflation based on Time of Occurrence?

1. Suppressed Inflation
2. War-Time Inflation
3. Open inflation
4. Peace-Time Inflation

Select the correct answer using the code given below:

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

Q.53) Solution (b)**Explanation**

Statement 1	Statement 2	Statement 3	Statement 4
Incorrect	Correct	Incorrect	Correct
When government prevents price rise through price controls, rationing, etc., it is known as Suppressed Inflation. It is also referred as Repressed Inflation. However, when government	War-Time Inflation is a inflation on the basis of Time of Occurrence. Inflation that takes place during the period of a war-like situation is known as War-Time inflation. During a war, scare productive resources are all diverted and prioritized to produce military goods and	When government does not attempt to restrict inflation, it is known as Open Inflation. In a free market economy, where prices are allowed to take	When prices rise during a normal period of peace, it is known as Peace-Time Inflation. It is due to huge government expenditure or spending on capital projects of a long gestation

controls are removed, suppressed inflation becomes Open Inflation. Suppressed Inflation leads to corruption, black marketing, artificial scarcity, etc. Therefore, this inflation is based on government reaction.	equipment's. This overall result in very limited supply or extreme shortage (low availability) of resources (raw materials) to produce essential commodities.	its own course, open inflation occurs. Therefore, this inflation is based on government reaction.	(development) period. This inflation is based on the time of occurrence.
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Q.54) Which of the following statements are correct about inflation?

1. If creeping inflation persist for a longer period of time, then it is become secular Inflation.
2. When the rate of rising prices is more than the Creeping Inflation, it is known as hyperinflation.
3. Running inflation occurs when prices rise by more than 10% per annum.

Select the correct answer using the code given below:

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

Q.54) Solution (b)**Explanation**

Statement 1	Statement 2	Statement 3
Correct	Incorrect	Correct
If creeping inflation persist (continues to increase) for a longer period of time then it is often called as Chronic or Secular Inflation. Chronic Creeping Inflation can be	When the rate of rising prices is more than the Creeping Inflation, it is known as Walking Inflation. When prices rise by more than 3% but	A rapid acceleration in the rate of rising prices is referred as Running Inflation. When prices rise by more than 10% per annum, running inflation occurs. Though economists

either continuous (which remains consistent without any downward movement) or intermittent (which occurs at regular intervals).	less than 10% per annum (i.e., between 3% and 10% per annum), it is called as Walking Inflation.	have not suggested a fixed range for measuring running inflation, we may consider price rise between 10% to 20% per annum (double digit inflation rate) as a running inflation.
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Q.55) Which of the following can be the causes of demand inflation?

1. Business monopoly
2. Increase in black money
3. Increased Government spending
4. Increased money supply

Select the correct answer using the code given below:

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

Q.55) Solution (d)

Explanation

Statement 1	Statement 2	Statement 3	Statement 4
Incorrect	Correct	Correct	Correct
Business monopoly is the cause of cost push inflation. When a company has monopoly over a particular product, it can decide the quantity and price of product, which can lead to increase of prices	Black money is the excess of money any person possesses over their actual and legit income. When people possess more black money, their spending on commodities increases and hence demand increases pulling up the prices. Also, black money is the only cause which cannot be tackled by monetary measures.	Increased Government spending led to demand inflation as more money spent on people which increases money in economy. This led to the increase in prices of goods. Ex: Pension schemes, MGNREGA, etc.	When there is more money, people start to demand more and prices rise up. This can happen by increased wages, increased savings, more disposable income, etc.

Q.56) With reference to economy, the term Menu costs refer to:

- a) The costs associated with changing prices.
- b) The costs associated with producing goods and services.
- c) The costs associated with inflation.
- d) The costs associated with deflation.

Q.56) Solution (a)

Explanation

Menu costs are a type of transaction cost incurred by firms when they change their prices. Menu costs are one microeconomic explanation offered by New Keynesian economists for macroeconomic price-stickiness, which may cause an economy to fail to adjust to changing macroeconomic conditions. The main takeaway from menu costs is that some prices are sticky. That is, firms are hesitant to change their prices until there is a sufficient disparity between the firm's current price and the equilibrium market price to justify the expense of incurring the menu cost. **(Hence option a is correct)**

Q.57) Which of the following statements is an appropriate description of disinflation?

- a) It is a temporary slowing of the pace of price inflation.
- b) It is a sudden fall in the value of a currency against other currencies.
- c) It is a decrease in the general price level over a period of time.
- d) It is a persistent recession in both the financial and real sectors of economy.

Q.57) Solution (a)

Explanation

Disinflation is a temporary slowing of the pace of price inflation. The term is used to describe occasions when the inflation rate has reduced marginally over the short term. Unlike inflation and deflation, which refer to the direction of prices, disinflation refers to the rate of change in the rate of inflation. A healthy amount of disinflation is necessary since it prevents the economy from overheating. **(Hence option a is correct)**

Q.58) Which of the following statements are correct about Bottleneck Inflation?

1. Bottleneck Inflation is caused by disruption in the supply of input goods and services.
2. The Central Banks brings strict Monetary Policy by increasing the interest rate to reduce the bottleneck inflation.
3. Commodity substitution is one of the ways to fight bottlenecks inflation.

Select the correct answer using the code given below:

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

Q.58) Solution (d)

Explanation

Statement 1	Statement 2	Statement 3
Correct	Correct	Correct
Bottlenecks are the constraints in the economy that reduces the economic activity by constraining the raw material supply to produce goods and services along the value chain and demand of the goods remains same. The severity of these constraints depends partly on whether bottlenecks affect items that are upstream or downstream.	With demand outstripping the supply there is an upward trend in the prices of goods and services. The Central Banks come with the strict Monetary Policy by increasing the interest rate to reduce inflation.	Commodity substitution is one of the best ways to fight bottlenecks inflation. o E.g., Rising natural gas prices have already seen some electricity firms increase coal power generation.

Q.59) Which of the following statements are incorrect about Headline Inflation?

- a) It refers to the change in value of all goods in the basket.
- b) Headline inflation is less volatile than core inflation.
- c) The inflation rate expressed in Wholesale Price Index usually denotes the headline inflation.
- d) Headline inflation is not adjusted to remove highly volatile figures.

Q.59) Solution (b)

Explanation

Statement 1	Statement 2	Statement 3	Statement 4
Correct	Incorrect	Correct	Correct

<p>Headline inflation refers to the change in value of all goods in the basket. It includes price rise in food, fuel and other commodities. Most central banks use headline inflation or a similar measure as their target variable. The reason being headline inflation is a broad measure that closely represents the basket of goods and services consumed by most households.</p>	<p>Core inflation excludes food and fuel items from headline inflation. Since the prices of fuel and food items tend to fluctuate and create 'noise' in inflation computation, core inflation is less volatile than headline inflation. In a developed economy, food & fuel account for 10-15% of the household consumption basket and in developing economies it forms 30-40% of the basket.</p>	<p>The inflation rate expressed in Wholesale Price Index (WPI) usually denotes the headline inflation. Though the CPI values are often higher the, WPI values traditionally make headlines. The WPI is considered as the headline inflation measure because of its availability at high frequency (weekly), until recently, national coverage and availability of disaggregated data which facilitate better analysis of inflation.</p>	<p>Headline inflation is not adjusted to remove highly volatile figures, including those that can shift regardless of economic conditions. Headline inflation is often closely related to shifts in the cost of living, which provides useful information to consumers within the marketplace. The headline figure is not adjusted for seasonality or for the often-volatile elements of food and energy prices, which are removed in the core Consumer Price Index (CPI).</p>
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Q.60) Consider the following statements.

1. Inflationary gaps occur when aggregate demand is higher than the projected demand.
2. Deflationary gap is the difference between the full employment level of output and actual output.
3. Deflationary gap causes increase in wages and price level whereas Inflationary gap causes decrease in wages and price level in the economy.

How many of the above statements are correct?

- a) Only one
- b) Only two
- c) Only three
- d) None

Q.60) Solution (b)**Explanation**

Statement 1	Statement 2	Statement 3
Correct	Correct	Incorrect
An inflationary gap is a macroeconomic concept that measures the difference between the current level of real gross domestic product (GDP) and the GDP that would exist if an economy was operating at full employment. Inflationary gaps occur when aggregate demand is higher than the projected demand, which can be caused by rise in aggregate demand and fall in aggregate supply.	Deflationary gap is the difference between the full employment level of output and actual output. For example, in a recession, the deflationary gap may be quite substantial, indicative of the high rates of unemployment and underused resources. A deflationary gap is also known as a negative output gap.	Inflationary gap causes inflation and increases wages and price level in the economy. Deflationary gap causes deflation and decreases wages and price level in the economy.

Q.61) Which of the following statements are correct about the legal tender money?

1. Legal tender laws prohibit the use of anything other than existing legal tender in the economy as money.
2. The RBI Act of 1943 grants the Central Bank the sole authority to issue banknotes.
3. In India, coins are only legal tender in limited quantities.
4. Coins can be issued up to the denomination of ₹500 under The Coinage Act, 2011.

Select the answer using the code given below:

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

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

Statement 1	Statement 2	Statement 3	Statement 4
Correct	Correct	Correct	Incorrect
The coins issued by Government of India under Section 6 of The Coinage Act, 2011, shall be legal tender in payment or on account provided that a coin has not been defaced and has not lost weight so as to be less than such weight as may be prescribed in its case. Legal tender laws effectively prohibit the use of anything other than existing legal tender in the economy as money. By law, the legal denomination of a country's currency must be accepted as a medium of exchange and payment for a money debt.	The RBI Act of 1934, which grants the Central Bank the sole authority to issue banknotes, states that "every banknote shall be legal tender in payment for the amount expressed therein in any place in India. The acceptance or rejection of legal tender status is significant because paper money derives all of its value from the government's acceptance of it.	Limited Legal Tender Money 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.	Coins can be issued up to the denomination of ₹1000 under The Coinage Act, 2011. Different designs of ₹10 coins are currently in circulation. All coins of ₹10 denomination minted from time to time by the Government of India (with/without the Rupee symbol) are legal tender.

Q.62) With reference to economy, consider the following statements.

1. In India, bank notes are printed at four currency presses fully owned by the Government of India.
2. The Central Government cannot put into circulation any rupees, except through the Bank.

Select the answer using the code given below:

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

d) Neither 1 nor 2

Q.62) Solution (b)

Explanation:

Statement 1	Statement 2
Incorrect	Correct
Bank notes are printed at four currency presses, two of which are owned by the Government of India through its Corporation, Security Printing and Minting Corporation of India Ltd. (SPMCIL) and two are owned by the Reserve Bank, through its wholly owned subsidiary, Bharatiya Reserve Bank Note. Mudran Private Ltd. (BRBNMPL). The currency presses of SPMCIL are at Nasik (Western India) and Dewas (Central India). The two presses of BRBNMPL are at Mysuru (Southern India) and Salboni (Eastern India).	As per the Section 38 of the Reserve Bank of India Act, 1934, the Central Government shall undertake not to put into circulation any rupees, except through the Bank, and the Bank shall undertake not to dispose of rupee coin otherwise than for the purposes of circulation. The coins are issued for circulation only through the Reserve Bank in terms of Section 38 of the RBI Act.

Q.63) Which of the following statements are correct about the currency production in India?

1. The Government of India is responsible for the designing and minting of coins.
2. The highest denomination notes ever printed by the Reserve Bank of India was the ₹10000 note in 1938.
3. In India, two or more banknotes can have same serial number.

Select the answer using the code given below:

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

Q.63) Solution (d)**Explanation:**

Statement 1	Statement 2	Statement 3
Correct	Correct	Correct
In respect of coins, the role of RBI is limited to distribution of coins that are supplied by Government of India. The Government of India is responsible for the designing and minting of coins in various denominations as per the Coinage Act, 2011.	The highest denomination note ever printed by the Reserve Bank of India was the ₹10000 note in 1938 which was demonetized in January 1946. The ₹10000 was again introduced in 1954. These notes were demonetized in 1978.	It is possible to have two or more banknotes with the same serial number, but they would either have a different Inset Letter or year of printing or signature of a different Governor of RBI. An Inset Letter is an alphabet printed on the Number Panel of the banknote. There can be notes without any inset letter also.

Q.64) With reference to Indian money, consider the following statements.

1. The currency in circulation is the total value of the Reserve Bank of India's currency that has ever been issued.
2. Central bank money is designated as M0 in money supply data.
3. High-powered money does not include the reserves held by commercial banks as part of the Cash Reserve Ratio requirement.

How many of the above statements are correct?

- a) Only one
- b) Only two
- c) Only three
- d) None

Q.64) Solution (a)**Explanation:**

Statement 1	Statement 2	Statement 3
Incorrect	Correct	Incorrect
The currency in circulation is the total value of the Reserve	Central Bank Money (M0) refers to a central	High-powered money, also known as monetary base, refers

Bank of India's currency (coins and paper currency) that has ever been issued minus the amount that has been withdrawn. The following items make up cash in circulation (public money): currency notes and coins with the public, cash in hand with banks. It is a significant liability on a central bank's balance sheet.	bank's liabilities, such as currency and depository accounts. Commercial Bank Money (M1 and M3) refers to commercial banks' obligations, such as current and savings accounts. M0 is the term given to reserve money under the new system.	to the total monetary liabilities of the central bank in a country. It includes currency in circulation, which comprises all the currency notes held by the public and used for transactions. High-powered money also includes the reserves held by commercial banks with the central bank (RBI) as part of the Cash Reserve Ratio (CRR) requirement.
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Q.65) Which of the following occurs due to increased money supply in economy?

1. Need for labour rises
2. Increase in interest rates
3. Results in inflation
4. More money in the hands of consumers.

Select the correct option using the code given below:

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

Q.65) Solution (d)

Explanation:

Statement 1	Statement 2	Statement 3	Statement 4
Correct	Incorrect	Correct	Correct
Due to increase in money supply, businesses respond by expanding production and ordering more raw materials. The need for labour rises as company activity rises	A decrease in the money supply often increases interest rates. This hinders borrowing and spending reducing investments and disposable income in	An increase in the money supply often lowers interest rates. Increased disposable income increases the demand for commodities and results in inflation.	An increase in the money supply often lowers interest rates. This stimulates spending by generating more investment and putting more

generating employment.	the hands of consumers.		money in the hands of consumers.
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Q.66) Which of the following is not a component of the money aggregate M2?

- a) Currency with the Public
- b) Current Deposits with the Banking System
- c) Certificates of Deposits issued by Banks
- d) Term Deposits of residents with a contractual maturity of over one year with the Banking System

Q.66) Solution (d)

Explanation:

- M2 is made up of Currency with the public, Current Deposits with the Banking System, Savings Deposits with the Banking System, Certificates of Deposits issued by Banks, Residents' Term Deposits with the Banking System with a contractual maturity up to and including one year, and 'Other' Deposits with RBI. **(Hence option a, b and c are correct)**
- Term Deposits of residents with a contractual maturity of over one year with the Banking System is a component of M3 (Broad money). **(Hence option d is incorrect)**

Q.67) Who among the following was served as the chairman of the working Group on Money Supply, constituted 1998 for new monetary aggregates?

- a) Yaga Venugopal Reddy
- b) Jitendra Gopal Borpujari
- c) Romesh Chunder Dutt
- d) Jay Bhattacharya

Q.67) Solution (a)

Explanation:

The RBI has started publishing a set of new monetary aggregates following the recommendations of the Working Group on Money Supply: Analytics and Methodology of Compilation which submitted its report in June 1998. Yaga Venugopal Reddy served as the chairman of this working group. The Working Group recommended compilation of four monetary aggregates on the basis of the balance sheet of the banking sector in conformity with the norms of progressive liquidity: M0 (monetary base), M1 (narrow money), M2 and M3 (broad money). **(Hence option a is correct)**

Q.68) Which of the following statements are correct about the recent updates on Merchant Discount Rate by Government of India?

1. Abolished the burden of Merchant Discount Rate during transactions of digital payments from customers and merchants.
2. Payments through UPI and RuPay debit cards do not attract any Merchant Discount Rate.

Select the answer using the code given below:

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

Q.68) Solution (c)

Explanation:

Statement 1	Statement 2
Correct	Correct
The Indian Government made significant decisions on Merchant Discount Rate on 1st January 2020. It abolished the burden of MDR during transactions of digital payments from customers and merchants. Mandates offering low-cost digital payment options to customers for businesses with an annual turnover of over Rs. 50 crores.	Currently, UPI payments do not attract merchant discount rates (MDRs), while for debit cards, MDR is capped at 0.9 per cent for transactions, except for RuPay debit card, which attracts zero MDR.

Q.69) Which of the following statements are correct about Bharat Interface for Money?

1. It was developed by Reserve Bank of India in 2016.
2. The user can request money through the app from a UPI ID.
3. It is a digital payment app that works for all Indian bank accounts.
4. It is not interoperable with other Unified Payment Interface applications.

Select the correct option using the code given below:

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

Q.69) Solution (c)**Explanation:**

Statement 1	Statement 2	Statement 3	Statement 4
Incorrect	Correct	Correct	Incorrect
Pioneered and developed by National Payments Corporation of India (NPCI), BHIM has been launched in 2016 to bring in Financial Inclusion to the nation and digitally empowered society.	One can make direct bank payments to anyone on UPI using their UPI ID or scanning their QR with the BHIM app. One can also request money through the app from a UPI ID.	Bharat Interface for Money is a digital payment app that works for all Indian bank accounts. BHIM makes payments through bank-to-bank transfers, unlike wallet apps.	BHIM is interoperable with other Unified Payment Interface (UPI) applications, and bank accounts.

Q.70) Which of the following statement is incorrect about Unified Payments Interface?

- a) It is the Mobile First digital payments platform launched in India.
- b) It is currently the largest of the systems operated by the Reserve Bank of India.
- c) India's UPI is now connected to Singapore's PayNow.
- d) UPI is a digital platform whereas BHIM is a separate mobile wallet app.

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

Statement 1	Statement 2	Statement 3	Statement 4
Correct	Incorrect	Correct	Correct
Unified Payments Interface (UPI) is a common platform through which a person can transfer money from his bank account to any other bank account in the	UPI is currently the largest of the systems operated by the National Payments Corporation of India (NPCI), which also includes the National Automated Clearing House (NACH), the	India's UPI will be connected to Singapore's PayNow. The cross-border payment tie-up between Singapore's PayNow and India's Unified Payments Interface, the first international payment	UPI is a platform whereas BHIM is a separate mobile wallet app like Paytm, PhonePe, etc. If a person has bank accounts with the different banks then the

country instantly using nothing but his/her UPI ID. It was launched in 2016 as Mobile First digital payments platform.	Immediate Payment Service (IMPS), the Aadhaar-enabled Payment System (AePS), the Bharat Bill Payment System (BBPS), and RuPay.	systems link to use scalable cloud-based infrastructure, is currently clocking close to 3,000 transactions a month, benefiting the Indian diaspora through a sharp reduction in remittance costs.	person will have to use different UPI apps and VPA (Virtual Payment Address).
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Q.71) With reference to Business Correspondent, consider the following statements.

1. These are retail agents engaged by banks for providing banking services at locations other than a bank branch.
2. Banks are not responsible for any acts of omission of the Business Correspondents.
3. The Business Correspondent model allows banks to provide door-step delivery of cash in and cash out' transactions.

How many of the above statements are correct?

- a) Only one
- b) Only two
- c) Only three
- d) None

Q.71) Solution (b)

Explanation:

Statement 1	Statement 2	Statement 3
Correct	Incorrect	Correct
The RBI has allowed banks to appoint entities and individuals as agents for providing basic banking services in remote areas where they can't practically start a branch. These agents are called business correspondents.	Banks are required to take full responsibility for the acts of omission and commission of the BCs that they engage and have, therefore, to ensure thorough due diligence and additional safeguards for minimizing the agency risk.	The Business Correspondent model allows banks to provide door-step delivery of services, especially 'cash in – cash out' transactions at a location much closer to the rural population, thus addressing the last-mile problem. As per the RBI guidelines the products provided by BCs are: Small Savings Accounts, Fixed Deposit and

		Recurring Deposit with low minimum deposits, Remittance to any BC customer, Micro Credit and General Insurance.
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Q.72) Which of the following statements is correct about the Banking Ombudsman?

1. The Banking Ombudsman is appointed by the Reserve Bank of India for a tenure of five years.
2. RBI introduced an Ombudsman Scheme for Non-Banking Financial Companies in 2018.
3. The decision of the Banking Ombudsman is binding on the parties.

Select the answer using the code given below:

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

Q.72) Solution (b)

Explanation:

Statement 1	Statement 2	Statement 3
Incorrect	Correct	Incorrect
The Banking Ombudsman is a senior official in the rank of Chief General Manager or General Manager appointed by the Reserve Bank of India to redress customer complaints against deficiency in certain banking services. The tenure of a banking ombudsman is for a period not exceeding 3 years.	In 2018, RBI introduced an Ombudsman Scheme for Non-Banking Financial Companies (NBFC's) to redress customer complaints against NBFCs for deficiency in certain services covered under the grounds of complaint specified under Clause 8 of the Scheme.	The appeal lays before an appellate authority i.e. the Deputy Governor in charge of the Department of the Reserve Bank implementing the Scheme. The ombudsman is required to send an annual report to the RBI governor containing general review of the activities of his office during the preceding financial year and other information required by the central bank.

Q.73) The RuPay, the first-of-its-kind global Card payment network of India was launched by:

- a) Reserve Bank of India
- b) National Payments Corporation of India
- c) Indian Banks Association
- d) India Post Payments Bank

Q.73) Solution (b)

Explanation:

RuPay is a product of National Payments Corporation of India (NPCI), the umbrella organisation that powers retail payments in the country. The provision under the Payment and Settlement Systems Act, 2007, empowered the Reserve Bank of India (RBI) and Indian Banks' Association (IBA) to create a secure electronic payment and settlement system in India. The nature of NPCI's initiatives and objectives includes it under the "Not for Profit Company" under the provisions of Section 25 of the Companies Act 1956 and more recently under the Section 8 of the Companies Act 2013. **(Hence option b is correct)**

Q.74) What is the primary benefit of Core Banking Solutions (CBS) for customers?

- a) Higher interest rates on savings account
- b) Lower transaction fees
- c) Ability to access bank accounts from any branch
- d) Exclusive access to premium banking services

Q.74) Solution (c)

Explanation:

Core Banking Solutions (CBS) can be defined as a solution that enables banks to offer a multitude of customer-centric services on a 24x7 basis from a single location, supporting retail as well as corporate banking activities. The centralisation thus makes a "one-stop" shop for financial services a reality. Using CBS, customers can access their accounts from any branch, anywhere, irrespective of where they have physically opened their accounts. **(Hence option c is correct)**

Q.75) If the reserve requirement is increased, what happens to the money multiplier?

- a) It increases
- b) It decreases
- c) It remains unchanged

d) It becomes negative

Q.75) Solution (b)

Explanation:

A money multiplier is a method of demonstrating the maximum amount of broad money that commercial banks could create for a given fixed amount of base money and reserve ratio. Money multiplier (m) is the inverse of the reserve requirement which means if the reserve requirement is increased, then the money multiplier will increase. **(Hence option b is correct)**

Q.76) With reference to Developmental Banks in India, consider the following statements:

1. The Industrial Development Bank of India was originally established as a subsidiary of the Reserve Bank of India.
2. The National Bank for Agriculture and Rural Development focuses exclusively on the credit needs of rural areas and agriculture.
3. The Small Industries Development Bank of India provides financial assistance to both small and medium enterprises in India.

How many of the statements given above are correct?

- a) Only one
- b) Only two
- c) All three
- d) None

Q.76) Solution (b)

Explanation:

- IDBI was established in 1964 as a subsidiary of RBI to provide financial assistance for industrial development in India. In 1976, it was made an independent financial institution. **(Statement 1 is correct)**
- NABARD's primary focus is on agriculture and rural development, but it also supports infrastructure development, microfinance, and cottage industries in rural areas. It does not focus exclusively on agriculture. **(Statement 2 is incorrect)**
- SIDBI is focused on promoting, financing, and developing micro, small, and medium enterprises (MSMEs). It provides a wide range of financial products and services to this sector. **(Statement 3 is correct)**

Q.77) With reference to the classification of banks in India, consider the following statements:

1. Payments Banks are allowed to accept demand deposits and provide loans to their customers.
2. Regional Rural Banks (RRBs) have been established to primarily serve rural areas and focus on providing banking services to weaker sections of society.

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.77) Solution (b)

Explanation:

- Payments Banks are allowed to accept demand deposits (up to a certain limit, currently ₹2 lakh per individual), provide remittance services, and issue debit cards, but they are not allowed to provide loans or issue credit cards. The primary function of Payments Banks is to enhance financial inclusion by offering basic banking service. **(Statement 1 is incorrect)**
- RRBs were established with the objective of providing banking services, such as credit and savings, to rural areas, specifically to small and marginal farmers, agricultural laborers, artisans, and other economically weaker sections. They play a crucial role in financial inclusion in rural areas. **(Statement 2 is correct)**

Q.78) Which of the following statements is correct about Domestic Systemically Important Banks (D-SIBs) in India?

- a) D-SIBs are identified by the Ministry of Finance based on their profitability and asset size.
- b) All banks whose assets exceed 1% of GDP are automatically classified as D-SIBs.
- c) Currently, only State Bank of India (SBI), ICICI Bank, and HDFC Bank are classified as D-SIBs.
- d) D-SIBs do not have to maintain additional capital beyond regulatory norms.

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

- D-SIBs are identified by the Reserve Bank of India (RBI), based on the bank's size, interconnectedness, substitutability, and complexity, not by the Central Government. The RBI uses specific criteria to assess the systemic importance of banks. **(Option (a) is incorrect)**
- The D-SIB framework requires a detailed evaluation based on the systemic importance scores (SISs), not merely based on a bank's asset size relative to GDP. The 1% of GDP criterion is only a guideline for assessing systemic importance, but does not automatically classify a bank as a D-SIB. **(Option (b) is incorrect)**
- As of the latest review, SBI, ICICI Bank, and HDFC Bank continue to be classified as D-SIBs by the RBI. No new banks have been added to this list recently. **(Option (c) is correct)**
- D-SIBs are required to maintain additional capital buffers beyond the minimum regulatory requirements. This additional Common Equity Tier 1 (CET1) capital varies based on the bank's placement in different "buckets" of systemic importance, as per the RBI's D-SIB framework. **(Option (d) is incorrect)**

Q.79) With reference to monetary policy tools used by the Reserve Bank of India (RBI), consider the following statements:

1. When liquidity in the banking system is tight, RBI is likely to conduct a reverse repo operation.
2. If inflationary pressures are rising, RBI is likely to increase the repo rate.
3. If the rupee is appreciating too fast, RBI is likely to buy foreign currency.

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.79) Solution (b)**Explanation:**

- A reverse repo is a tool used by RBI to absorb excess liquidity from the banking system. When liquidity is tight, RBI is more likely to inject liquidity through repo operations rather than reverse repo. **(Statement 1 is incorrect)**
- To control rising inflation, the RBI may increase the repo rate. This action makes borrowing more expensive, thus reducing demand and helping to control inflation. **(Statement 2 is correct)**

- When the rupee appreciates too quickly, the RBI may intervene by buying foreign currency, primarily U.S. dollars, to curb excessive rupee strength. This helps maintain export competitiveness. **(Statement 3 is correct)**

Q.80) Consider the following statements about scheduled banks:

1. All banks which are included in the Second Schedule to the Reserve Bank of India Act, 1934 are Scheduled Banks.
2. Cooperative banks are not eligible for scheduled bank status.
3. Number of Payment Banks have received Scheduled status from RBI in the recent past.

Identify the correct statements:

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

Q.80) Solution (b)

Explanation:

- Scheduled Banks are those that are listed under the Second Schedule of the Reserve Bank of India Act, 1934. They meet certain criteria laid down by RBI, including a minimum paid-up capital and reserves, and they must also comply with RBI's regulations. Being in this schedule provides them access to certain facilities, such as borrowing from the RBI for day-to-day liquidity needs. **(Statement 1 is correct)**
- Cooperative banks can be eligible for scheduled status if they meet the criteria outlined by the Reserve Bank of India. In fact, some state cooperative banks and urban cooperative banks have been granted the status of scheduled banks. An example is the State Cooperative Bank of India, which has scheduled status. **(Statement 2 is incorrect)**
- Recently, certain payment banks like Airtel Payment Bank and Paytm Payment Bank have been granted scheduled bank status. This enables them to participate in government-operated payment schemes and enhances their ability to serve customers. **(Statement 3 is correct)**

Q.81) Which of the following best defines "Effective Revenue Deficit"?

- a) It is the difference between incoming imports and outgoing exports in an annual financial year.
- b) It is the difference between fiscal deficit and interest payments made by the government on loans borrowed.
- c) It is the difference between the total revenue earned and the total expenditure made by the government in a year.

- d) It is the difference between revenue deficit and grants-in-aid given for the creation of capital assets.

Q.81) Solution (d)

Statement Analysis:

- Effective Revenue Deficit is the difference between revenue deficit and grants for the creation of capital assets.
- Effective Revenue Deficit = Revenue Deficit - Grants in aid for capital assets. **Hence option d is correct.**
- The concept of effective revenue deficit has been suggested by the Rengarajan Committee on Public Expenditure. It is aimed to deduct the money used out of borrowing to finance capital expenditure.
- It was introduced in the Union Budget 2011-12 and was later on given statutory status by an amendment to the Fiscal Responsibility and Budget Management (FRBM) Act by the Finance Act of 2012.

Q.82) With reference to the Mahalanobis Model of Development, consider the following statements:

1. It emphasized rapid industrialization with a focus on heavy industries and capital goods.
2. The Mahalanobis model was employed in the Fifth Five-Year Plan which laid the blueprint for industrialization in India.

Which of the above statements is/are correct?

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

Q.82) Solution (a)

Statement Analysis:

- The second five-year plan targeted the Industrial growth of the country and was implemented in the period from April 1956 to March 1961. This plan was also known as the Mahalanobis Plan as it was the brainchild of Statistician Prashant Chandra Mahalanobis.
- The strategy of growth of this model emphasized rapid industrialization with a focus on heavy industries and capital goods. **Hence statement 1 is correct.**
- The fundamental assumptions in the Mahalanobis model are as follows:

- the saving-investment equilibrium is maintained
- the production processes in respective sectors are always operated under the full capacity situation.
- The Mahalanobis model was employed in the Second Five Year Plan. The model laid the blueprint for industrialization and development in India. **Hence statement 2 is incorrect.**

Q.83) Consider the following:

1. Disinvestment proceeds
2. Foreign government grants
3. Loans received from international organizations
4. Loan recoveries from States and Union Territories

How many of the above constitute Capital Receipts of the Government of India?

- a) Only one
- b) Only two
- c) Only three
- d) All four

Q.83) Solution (c)

Statement Analysis:

- The Capital Budget is an account of the assets as well as liabilities of the central government, which takes into consideration changes in capital.
- It consists of capital receipts and capital expenditure of the government.

The main items of Capital Receipts are:

- Loans raised by the government from the public are called market borrowings
- Borrowings by the government from the Reserve Bank of India and commercial banks through the sale of treasury bills
- Loans received from foreign governments and international organizations
- Recoveries of loans granted by the central government
- Small savings (Post-Office Savings Accounts, National Savings Certificates, etc), provident funds
- Net receipts obtained from the sale of shares/Disinvestment in Public Sector Undertakings (PSUs)

Hence option c is correct.

Q.84) Which of the following statements is true regarding the Rolling Plan?

- a) It was a financial stabilisation programme implemented from 1966 to 1971.
- b) It was part of the Five-Year Plan and aimed to reduce poverty.

- c) It aimed to increase foreign investment in the country during the 1991 reform.
- d) It involved the assessment of the plans every year and then new plans were made for next year.

Q.84) Solution (d)**Statement Analysis:**

Rolling Plan in India was started in 1978. It was a concept coined by Gunnar Myrdal. A rolling plan is one in which the effectiveness of the plan is evaluated annually and a new plan is prepared based on this evaluation the following year. As a result, both the allocation and the targets are modified throughout this plan. The main advantage of the rolling plans is that they are flexible. **Hence option d is correct.**

Q.85) Consider the following statements:

1. The Lorenz Curve represents the wealth distribution of the nation.
2. The Gini Coefficient can be represented graphically through the Lorenz curve.

Which of the above statements is/are incorrect?

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

Q.85) Solution (d)**Statement Analysis:**

Here the question is asking for an incorrect option.

- The Lorenz curve is the graphical representation of wealth distribution developed by American economist Max Lorenz in 1905. **Hence statement 1 is correct.**
- On the graph, a straight diagonal line represents perfect equality of wealth distribution; the Lorenz curve lies beneath it, showing the reality of wealth distribution.
- The Gini Coefficient is often represented graphically through the Lorenz curve, which shows income (or wealth) distribution by plotting the population percentile by income on the horizontal axis and cumulative income on the vertical axis. **Hence statement 2 is correct.**
- The Gini coefficient is equal to the area below the line of perfect equality minus the area below the Lorenz curve, divided by the area below the line of perfect equality.

Q.86) The National Planning Committee (NPC) was set up to work out concrete programmes for the development of the Indian economy in October 1938. Who among the following was the Chairperson of the NPC?

- a) Sardar Vallabhbhai Patel
- b) Subhash Chandra Bose
- c) Jawaharlal Nehru
- d) Mahatma Gandhi

Q.86) Solution (c)

Statement Analysis:

The National Planning Committee (NPC) was formed in October 1938 on the initiative of the then Indian National Congress President Subhash C. Bose. It was set up under the Chairmanship of Jawaharlal Nehru to work out concrete programmes for development encompassing all major areas of the economy. **Hence option c is correct.**

Q.87) With reference to Imperative Planning, consider the following statements:

1. Under this approach, the government has complete control over economic operations.
2. In the case of imperative planning, the market mechanism is replaced by a common economic plan.
3. The private sector is neither tightly monitored nor directed to meet the plan's aims and priorities.

Select the correct answer using the codes below:

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

Q.87) Solution (a)

Statement Analysis:

- The Central Planning Authority decides on every aspect of the economy in Imperative Planning.
- The aims stated and the processes specified to attain them must be strictly followed. This sort of planning is primarily used in socialist economies.
- In imperative planning, the government has complete control over all economic operations. **Hence statement 1 is correct.**

- The government has complete control over the production factors. Even the private sector is required to follow the government's strict policies and choices.
- In the case of imperative planning, the market mechanism is replaced by a common plan. **Hence statement 2 is correct.**
- In imperative planning, all the decisions and planning are done by the government, and the private sector is tightly monitored and controlled. **Hence statement 3 is incorrect.**
- There is no role of market mechanism in imperative planning.

Q.88) Consider the following statements regarding the Gandhian Plan:

1. It was propounded by Acharya Vinoba Bhave.
2. It articulated a centralised economic structure for India.
3. It emphasized agriculture and cottage industries.

How many of the statement/s is/are correct?

- a) Only one
- b) Only two
- c) All three
- d) None

Q.88) Solution (a)

Statement Analysis:

- Sriman Narayan Agarwal formulated The Gandhian Plan in 1944 by espousing the spirit of Gandhian economic thinking. **Hence statement 1 is incorrect.**
- The plan articulated a decentralised economic structure for India with 'self-contained villages'. **Hence statement 2 is incorrect.**
- The plan laid more emphasis on agriculture. Even if he referred to industrialization, it was to the level of promoting cottage and village-level industries. **Hence statement 3 is correct.**

Q.89) With reference to the planning in India, consider the following statements:

1. Instead of having a Five-Year Plan, we had three consecutive Annual Plans during 1966-69.
2. The Sixth Five Year Plan for the period 1978-83 was launched as a Rolling Plan.

Which of the above statements is/are correct?

- a) 1 only
- b) 2 only

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

Q.89) Solution (c)**Statement Analysis:**

- The plans which are formulated by the central government and financed by it for implementation at the national level are known as Central Plans.
- The period of the three consecutive Annual Plans was 1966-69. **Hence statement 1 is correct.**
- Though the Fourth Plan was ready for implementation in 1966 because of the weak financial situation the government decided to go for an Annual Plan for 1966-67.
- Due to the same reasons the government went for another two such plans in the forthcoming years.
- Some economists as well as the opposition in the Parliament called this period a discontinuity in the planning process, as the Plans were supposed to be for a period of five years. They named it a period of "Plan Holiday", i.e., the planning was on a holiday.
- The Fifth Five Year Plan (1974-79) was cut short by a year ahead of its terminal year, i.e., by fiscal 1977-78, in place of the decided 1978-79.
- A fresh plan, the Sixth Plan for the period 1978-83 was launched by the new government which called it the Rolling Plan. **Hence statement 2 is correct.**

Q.90) In the context of Indian Economy, consider the following statements about the Bombay Plan:

1. It gave a call for agrarian reforms by abolishing zamindari.
2. It advocated for the government to refrain from intervening in the economy.
3. It advised future governments to protect indigenous industries.
4. It proposed a comprehensive framework for mass education and vocational education.

How many of the above statement/s is/are correct?

- a) Only one
- b) Only two
- c) Only three
- d) All four

Q.90) Solution (c)**Statement Analysis:**

- In January 1944, a group of businessmen and technocrats launched the Bombay Plan as an economic plan for India. It was published by a group of Indian entrepreneurs, and it strongly endorsed state economic involvement and planning.

- The Bombay Plan called for abolishing the Zamindari system, which it felt led to absentee landlordism. **Hence statement 1 is correct.**
- It also laid great stress on cooperative farming.
- It advocated that the shares of agriculture, industry, and services in the total production be changed from 53, 17, and 22 percent, respectively, to 40, 35, and 20 percent.
- The Bombay Plan envisaged a major role for the state in the economy and the need for a central planning authority. **Hence statement 2 is incorrect.**
- The Bombay Plan's central principle was that the economy could not grow without government participation and regulation.
- The Plan recommended that the future government defend indigenous companies against foreign competition in local markets, based on the idea that young Indian industries would be unable to compete in a free-market economy. **Hence statement 3 is correct.**
- The plan offers a comprehensive program of mass education, including primary, secondary vocational, and university schooling. **Hence statement 4 is correct.**
- It also made provision for adult education scientific training and research.

Q.91) With respect to Tax to GDP Ratio, consider the following statements:

1. The Tax to GDP ratio in India has consistently increased in the past decade.
2. A high Tax to GDP ratio shows strong tax buoyancy in the economy.

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

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

Q.91) Solution (b)

Statement Analysis:

- A Tax-to-GDP Ratio is a measure of a nation's tax revenue relative to the size of its economy as measured by gross domestic product (GDP).
- The Tax to GDP ratio in India has not consistently increased in the last few years.
- Gross tax-to-GDP which was 11% in FY19, fell to 9.9% in FY20 and marginally improved to 10.2% in FY21 (partly due to decline in GDP) and is around 11% in FY22. **Hence statement 1 is incorrect.**
- A higher Tax-to-GDP Ratio means that an economy's tax buoyancy is strong as the share of tax revenue rises in sync with the rise in the country's GDP. **Hence statement 2 is correct.**

- A lower Tax-to-GDP Ratio constrains the government from spending on infrastructure and puts pressure on the government to meet its fiscal deficit targets.

Q.92) With reference to the Goods and Services Tax (GST), consider the following statements:

1. Recently, the union excise duty on petroleum products has been subsumed under GST.
2. Under the present system of GST, the same tax rate is applied to all goods.
3. The recommendations made by the GST Council in relation to tax rates are binding upon the state governments.

How many of the above given statement/s is/are incorrect?

- a) Only one
- b) Only two
- c) All three
- d) None

Q.92) Solution (c)

Statement Analysis:

Here the question is asking for an incorrect answer.

- The Goods and Service Tax (GST) is primarily devised to maintain a uniform indirect tax structure across the country and as such it subsumed almost all indirect taxes previously levied.
- It aims to eliminate the cascading effect of central and state taxes that were levied previously.
- Petroleum products like petrol and diesel, so far, are not subsumed under the GST (Goods and Services Tax) regime. **Hence statement 1 is incorrect.**
- Currently, fuels like petrol, diesel, and natural gas are covered under VAT (Value-Added Tax), central excise duty, and central sales tax.
- The Goods and Services Tax (GST) system does not propose the same tax rate for all products. The GST system has different slabs - 5%, 12%, 18%, and 28% that apply to different Goods and Services. **Hence statement 2 is incorrect.**
- Items of need are taxed at a lower rate while items of luxury are taxed in the higher bracket.
- The recommendations given by the GST Council are not binding upon states. **Hence statement 3 is incorrect.**
- Recently the Supreme Court held that Article 246A of the Constitution gives both parliament and state legislatures a power to legislate on GST. The Supreme Court has observed that recommendations of the Council as the product of a collaborative dialogue between the union and states and as such it is not binding upon states.

Q.93) In the context of the Indian Economy, which of the following best describes the term Tax Buoyancy?

- a) The change in tax revenue in response to changes in tax rates.
- b) The change in tax revenue in response to changes in the tax base.
- c) The change in tax revenue in response to changes in administrative efficiency.
- d) The change in tax revenue in response to changes in Gross Domestic Product (GDP).

Q.93) Solution (d)

Statement Analysis:

- Tax buoyancy refers to the responsiveness of tax revenue growth to changes in Gross Domestic Product (GDP) or the national income of the country. **Hence option d is correct.**
- A tax buoyancy greater than 1 signifies that tax revenues grow at a faster rate than the growth in national income.
- Tax Buoyancy = Change in tax revenue/ Change in GDP

Q.94) Counter Vailing Duty (CVD) is often imposed on imports to offset the impact of

- a) Predatory pricing
- b) Dumping
- c) Export subsidies
- d) Low-cost financing

Q.94) Solution (c)

Statement Analysis

Counter Vailing Duty (CVD) is a tariff imposed on imported commodities to compensate for subsidies given to producers of these goods in the exporting country. It is a specific form of duty that the government imposes to protect domestic producers by countering the negative impact of export subsidies. **Hence option c is correct.**

Q.95) Which of the following is not an example of Pigouvian Tax?

- a) Tobacco Tax
- b) Basic Custom Duty
- c) Tax on Plastic Bags
- d) Carbon Emission Tax

Q.95) Solution (b)**Statement Analysis:**

- A Pigouvian Tax is a tax on a market transaction that creates a negative externality. It is a tax imposed on additional costs that are borne by individuals not directly involved in a transaction. Tobacco Tax, Tax on Plastic Bags, and Carbon Emission Tax are examples of Pigouvian Tax because they create negative externality for society.
- Basic Custom Duty is not Pigouvian tax as it does not create a negative externality on the society. **Hence option b is correct.**

Q.96) With reference to the Budget, consider the following statements:

1. Revenue Receipts mean all the income which does not increase the liability for the government.
2. Capital Receipts include all revenue and non-revenue receipts of the government.

Which of the above statements is/are correct?

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

Q.96) Solution (a)**Statement Analysis:**

- The constitution of India has provided for the Annual Financial Statement, which is to be presented in the Parliament before the commencement of every new fiscal year. It is popularly called the Union Budget.
- Revenue receipts mean every form of money generation which do not increase the financial liabilities of the government, i.e., the tax incomes, non-tax incomes along foreign grants. **Hence statement 1 is correct.**
- Capital receipts include non-revenue receipts for the government.
- Every form of money generation which is not income or earnings for a firm or a government (i.e., money raised via borrowings) is considered a non-revenue source if they increase financial liabilities.
- All non-revenue receipts of a government are known as capital receipts. Such receipts are for investment purposes and are supposed to be spent on plan development by the government. **Hence statement 2 is incorrect.**

Q.97) How many of the following are part of the Revenue Expenditure of the Government?

1. Expenditure on Social Services
2. Grants given by the Government to foreign countries
3. Loan Repayments by the Government
4. Loan Disbursals by the Government
5. Subsidies given by the Government

Select the correct answer using the option below:

- a) Only two
- b) Only three
- c) Only four
- d) All five

Q.96) Solution (b)

Statement Analysis:

Revenue expenditures are either used in running a productive process or running a government. A broad category of things that fall under such expenditures in India are:

- Interest payment by the government on internal and external loans; Expenditures on social services (includes all social sector expenditures such as education, health care, social security, poverty alleviation, etc.) and general services (tax collection, etc.).
- Salaries, Pension, and Provident Fund paid by the government-to-government employees.
- Grants are given by the government to Indian states and foreign countries.
- Subsidies are forwarded to all sectors by the government.
- Defence expenditures by the government.
- Postal Deficits of the government.
- Law and order expenditures (i.e., police & paramilitary).

Capital Expenditure includes:

- Loan Disbursals by the Government. The loans forwarded by the government might be internal or external.
- Loan Repayments by the Government consist of only the capital part of the loan repayment as the element of interest on loans are shown as a part of the revenue expenditure.
- Plan Expenditure of the Government consists of all the expenditures incurred by the government to finance the planned development of India as well as the central government's financial support to the states for their plan requirements.
- Capital Expenditures on Defence by the Government
- General Services also need huge capital expenditure by the government - railways, postal department, water supply, education, rural extension, etc.

Hence option b is correct.

Q.97) Consider the following pairs:

Cut Motion	Purpose
1. Token Cut	It intends to reduce the demand by RS. 100
2. Economy Cut	It intends to reduce the demand by a specified amount
3. Policy Cut	It intends to reduce the demand to Re. 1

How many of the above-given pair/s is/are correctly matched?

- a) One pair
- b) Two pairs
- c) Three pairs
- d) None

Q.97) Solution (c)

Statement Analysis:

A cut motion is a special power vested in members of the Lok Sabha to oppose a demand being discussed for specific allocation by the government in the Finance Bill as part of the Demand for Grants.

Cut Motion	Purpose
1. Token Cut	It intends to reduce the demand by RS. 100
2. Economy Cut	It intends to reduce the demand by a specified amount
3. Policy Cut	It intends to reduce the demand to Re. 1

Hence option c is correct.

Q.98) Consider the following statements regarding the differences between the Planning Commission and the NITI Aayog:

- 1. Unlike the Planning Commission, the NITI Aayog has participation from the states.
- 2. Unlike the Planning Commission, the NITI Aayog does not have the power to allocate funds to states.
- 3. Unlike the Planning Commission, the NITI Aayog is a statutory body established by an Act of the Parliament.

How many of the given statement/s is/are correct?

- a) Only one
- b) Only two
- c) All three
- d) None

Q.98) Solution (b)**Statement Analysis:**

- The Indian government established the NITI Aayog (National Institution for Transforming India), a policy think tank, on January 1, 2015. It has a "15-year road map" and a "7-year vision, strategy, and action plan" among its efforts.
- The Planning Commission was established on March 15, 1950, and it was dissolved on August 17, 2014. The Planning Commission was in charge of creating India's Five-Year Plans.
- The erstwhile Planning Commission did not have any participation from the states.
- NITI Aayog has participation from the States. The Governing Council of NITI Aayog comprises the Prime Minister, the Chief Ministers of all the States, the Chief Ministers of Union Territories with Legislatures (i.e., Delhi, Puducherry and Jammu) and Lt. Governors of Union Territories without Legislature. **Hence statement 1 is correct.**
- The Planning Commission had the authority to allocate funding to state governments and several central government ministries for a variety of national and state-level programs and projects.
- The NITI Aayog has not been granted the authority to allocate funds. **Hence statement 2 is correct.**
- The Planning Commission was set up by a Resolution of the Government of India in March 1950.
- The NITI Aayog was set up by a Cabinet Resolution of the Government of India in January 2015. **Hence statement 3 is incorrect.**

Q.99) Which of the following statement is true with respect to Surcharge and Cess?

- a) Revenue collected from the surcharge is shared with states whereas proceeds from the cess are not shared with states.
- b) Cess is described under the Constitution whereas surcharge is not mentioned in the constitution.
- c) All the proceeds from the cess go to the Consolidated Fund of India, whereas the proceeds from the surcharge go to a special purpose fund.
- d) Cess is imposed for a specific purpose whereas, in the case of surcharge, there is no need to stipulate the purpose at the time of levy.

Q.99) Solution (d)**Statement Analysis:**

- A surcharge is a tax on tax imposed for the purposes of the union. Cess is generally used when the levy is for some special administrative expense that the name (health cess, education cess, road cess, etc.) indicates.

- The revenues collected from both these sources are at the exclusive disposal of the union government. It is not necessary for the Centre to share these revenues with the states.
- A surcharge is discussed under Articles 270 and 271 of the Constitution. A surcharge is stated to be "an increase" in any of the duties and taxes referred to in Articles 269 and 270.
- A cess is described under Article 270 of the Constitution. Article 270(1) states All taxes and duties referred to in the Union List, except the duties and taxes referred to in Articles 268, 269, and 269A respectively, surcharge on taxes and duties referred to in Article 271, and any cess levied for specific purposes under any law made by Parliament shall be levied and collected by the Government of India and shall be distributed between the Union and the States in the manner provided in clause (2).
- Cess can be divided into two sub-categories: cess taxes and cess fees.
 - The funds from a cess tax are to be credited into the Consolidated Fund of India. Once credited to the Consolidated Fund of India, proceeds of a cess tax can be withdrawn only when the Parliament passes suitable appropriation legislation.
 - The funds from cess fees are to be credited to a special fund instituted for the said purpose and not to the Consolidated Fund of India. Proceeds from the surcharge go to the Consolidated Fund of India.
- A cess may be in the nature of a tax or a fee but it is imposed for a specific purpose, as pre-determined in the charging legislation.
- Cesses are named after the identified purpose; the purpose itself must be certain and for the public good. For example, Education cess.
- Unlike a cess, in the case of a surcharge, there is no need to stipulate the purpose at the time of levy and it is the discretion of the Union to utilize the proceeds of the surcharges for whichever purpose it deems fit. **Hence option d is correct.**

Q.100) With reference to Non-Tax Revenue Receipts of the Union Government, consider the following statements:

1. It creates no financial liabilities for the union government.
2. Recovery of loans by the union government falls under the category of non-tax revenue receipts.
3. In terms of value, it has increased steadily in the last five years.

Select the correct answer using the codes below:

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

Q.100) Solution (b)**Statement Analysis:**

- Every receiving or accrual of money to a government by revenue and non-revenue sources is a receipt. The revenue receipts of a government are of two kinds and they are Tax Revenue Receipts and Non-tax Revenue Receipts.
- It is true that Non-Tax revenue receipts create no financial liabilities for the union government meaning such revenues need not to be paid back by the Government eg. dividends from Public Sector Undertakings (PSUs). Whereas debt creating capital receipts creates financial liabilities e.g., external commercial borrowings. **Hence statement 1 is correct.**
- Interests received by the government out of all loans forwarded by it belong to Non-tax revenue receipts. However, the recovery of loans forwarded by the Union Government belongs to non-debt-creating capital receipts. Also, grants that the Union Governments receive are the non-tax revenue receipts. **Hence statement 2 is incorrect.**
- Non-tax revenue receipts in terms of value have not steadily increased in the last five years. For instance, it dropped from the Financial year 2020 (3.27 lakh crores) to 2021 (2.08 lakh crores). **Hence statement 3 is incorrect.**

Q.101) With reference to C. Subramania Bharati, consider the following statements:

1. He was also known as Mahakavi Bharathiyar.
2. He edited the Tamil weekly India and the English newspaper Bala Bharatham.
3. He translated Vedic hymns, Patanjali's Yoga Sutra and Bhagavat Gita into Tamil.

Which of the above statements are correct?

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

Q.101) Which of the following statements about Government Securities (G-Secs) are correct?

- a) Government securities are issued only by the Central Government of India.
- b) G-Secs can be both short-term and long-term instruments.
- c) Treasury Bills (T-Bills) are issued with maturities ranging from 1 to 5 years.
- d) G-Secs are risk-free instruments with no possibility of default.

Q.101) Solution (b)**Explanation:**

- While the Central Government of India issues Government Securities (G-Secs), State Governments also issue similar securities known as State Development Loans (SDLs). These securities are instruments to finance government borrowing but are not limited to the central government. **(Option (a) is incorrect)**
- Government securities are issued in both short-term and long-term categories. Short-term securities include Treasury Bills (T-Bills) with maturities of less than one year (e.g., 91 days, 182 days, and 364 days), while long-term securities, such as dated government securities, can have maturities of 5 to 40 years. **(Option (b) is correct)**
- Treasury Bills (T-Bills) are short-term instruments issued with maturities of up to one year, specifically 91 days, 182 days, and 364 days. Instruments with maturities longer than one year are called dated securities, not T-Bills. **(Option (c) is incorrect)**
- Government securities, especially those issued by stable governments like India, are considered low-risk instruments due to the government's ability to repay its debt. However, they are not entirely risk-free. Factors like inflation, interest rate changes, and, in rare cases, sovereign default can affect the returns. Though India's G-Secs are considered virtually risk-free, global examples of sovereign defaults show that such risk does exist, even if minimal. **(Option (d) is incorrect)**

Q.102) Consider the following statements:

1. A rise in global interest rates can lead to increased borrowing costs for Indian firms with existing External Commercial Borrowings.
2. Currency appreciation can reduce the repayment burden for firms with foreign currency-denominated debt.
3. Higher foreign inflows can lead to domestic currency depreciation, increasing currency risk for borrowers of foreign funds.

Which of the statements given above is/are correct?

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

Q.102) Solution (a)**Explanation:**

- When global interest rates rise, particularly in key economies like the US, the cost of servicing foreign debt rises for firms that have borrowed under External Commercial

Borrowings (ECBs). This increases the interest payments for Indian companies, leading to higher financial pressure. **(Statement 1 is correct)**

- Currency appreciation means that the value of the Indian Rupee increases relative to the foreign currency. For firms with ECBs in foreign currencies (such as USD), repayment of loans becomes cheaper when converted to rupees, thereby reducing the repayment burden. **(Statement 2 is correct)**
- Typically, higher foreign inflows strengthen the domestic currency (appreciation) rather than lead to depreciation. Currency depreciation increases the repayment burden of foreign-denominated debt, but higher foreign inflows would not directly cause this depreciation. **(Statement 3 is incorrect)**

Q.103) Consider the following statements:

Statement-I: Quantitative tightening makes many central banks reduce their balance sheets by selling off government bonds.

Statement-II: Quantitative tightening is generally undertaken when central banks aim to combat inflation and normalize monetary policy after quantitative easing.

Which one of the following is correct in respect of the above statements?

- Both Statement-I and Statement-II are correct and Statement-II is the correct explanation for Statement-I
- Both Statement-I and Statement-II are correct and Statement-II is not the correct explanation for Statement-I
- Statement-I is correct Statement-II is incorrect
- Statement-I is incorrect but Statement-II is correct

Q.103) Solution (a)

Explanation:

- In the aftermath of the COVID-19 pandemic, central banks, such as the U.S. Federal Reserve and the European Central Bank, which had previously expanded their balance sheets by purchasing government bonds (quantitative easing), have now begun reducing them through quantitative tightening. This involves selling the bonds back into the market or letting them mature without reinvestment to reduce the money supply. **(Statement 1 is correct)**
- Central banks typically engage in quantitative tightening to counter the inflationary effects of quantitative easing, where they had previously injected large amounts of liquidity into the economy by purchasing government securities. As inflation rises and economic recovery takes hold, central banks use tightening to reduce excess liquidity and stabilize prices, bringing monetary policy back to normal. **(Statement 2 is correct)**
- Statement-I describes a factual action that many central banks are take, while Statement-II explains the rationale behind this action, making it the correct explanation for Statement-I.

Q.104) Which of the following statements with reference to the credit ratings are correct?

1. Credit rating agencies in India must be registered with the Reserve Bank of India (RBI).
2. CRISIL is an Indian credit rating agency that is majority-owned by an international entity.
3. CARE Ratings specializes only in rating corporate bonds and not government securities.

Select the correct answer using the code given below:

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

Q.104) Solution (b)

Explanation:

- Credit rating agencies (CRAs) in India are regulated by SEBI under the SEBI (Credit Rating Agencies) Regulations, 1999. SEBI ensures that CRAs follow standards for transparency, accountability, and conflict of interest management. **(Statement 1 is incorrect)**
- CRISIL (Credit Rating Information Services of India Limited) is an Indian credit rating agency, and a majority stake in CRISIL is owned by S&P Global, a U.S.-based financial services company. CRISIL is one of the largest rating agencies in India. **(Statement 2 is correct)**
- CARE Ratings (Credit Analysis & Research Ltd) provides ratings for a wide range of securities including corporate bonds, government securities, and other debt instruments. It is not limited to only corporate bonds. **(Statement 3 is incorrect)**

Q.105) With reference to the concept of "Legal Tender," consider the following statements:

1. Coins issued by the Government of India have limited legal tender status.
2. Cryptocurrencies are recognized as legal tender in some countries, including India.
3. Currency notes issued by the Reserve Bank of India are unlimited legal tender.
4. Legal tender status can be revoked or altered by legislative action.

Which of the statements given above are correct?

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

Q.105) Solution (d)**Explanation:**

- Coins in India can only be used for transactions up to a certain limit, making them limited legal tender. For example, coins up to ₹1,000 in denominations of ₹1, ₹2, ₹5, and ₹10 are considered legal tender for that amount. The Coinage Act, 2011 governs the issuance and legal tender status of coins in India. **(Statement 1 is correct)**
- Cryptocurrencies are not legal tender in India, though they are recognized as such in countries like El Salvador. In fact, the Reserve Bank of India (RBI) has clarified that cryptocurrencies do not have legal tender status in India. The Supreme Court, while lifting the ban on cryptocurrency trading in 2020, did not give it legal tender status. **(Statement 2 is incorrect)**
- RBI-issued notes are unlimited legal tender in India and can be used for settling any amount of debt. The RBI governs the issuance of currency notes in India under the Reserve Bank of India Act, 1934. **(Statement 3 is correct)**
- The government can change or revoke the legal tender status of any currency or coin through legislation, as seen during India's demonetization in 2016. The legal basis for this comes under the Reserve Bank of India Act, which gives the government the authority to declare notes as no longer legal tender. **(Statement 4 is correct)**

Q.106) With reference to the 'Deposit Insurance and Credit Guarantee Corporation (DICGC)', consider the following statements?

1. The DICGC insures all bank deposits, such as savings, fixed, current, and recurring deposits.
2. The maximum amount insured by the DICGC is ₹5 lakh for each depositor per bank.
3. DICGC is a wholly-owned subsidiary of the Reserve Bank of India (RBI).

Which of the above statements is/are correct?

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

Q.106) Solution (d)**Explanation:**

- The Deposit Insurance and Credit Guarantee Corporation (DICGC) provides insurance cover to deposits such as savings, fixed deposits, current accounts, and recurring deposits in commercial banks, regional rural banks (RRBs), and cooperative banks. However, some deposits like those of the central or state governments, foreign

governments, or any interbank deposits are excluded from insurance coverage. **(Statement 1 is correct)**

- The DICGC insures each depositor up to ₹5 lakh per bank, including both the principal and interest amount. This limit was increased from ₹1 lakh to ₹5 lakh in 2020 to offer more protection to depositors. **(Statement 2 is correct)**
- The DICGC was established in 1978 as a wholly-owned subsidiary of the Reserve Bank of India to provide deposit insurance coverage and guarantee credit facilities. **(Statement 3 is correct)**

Q.107) In India, which one of the following is responsible for regulating the securities market and protecting the interests of investors?

- a) Reserve Bank of India (RBI)
- b) Insurance Regulatory and Development Authority of India (IRDAI)
- c) Securities and Exchange Board of India (SEBI)
- d) Ministry of Finance

Q.107) Solution (c)

Explanation:

- The Reserve Bank of India (RBI) is India's central bank responsible for regulating the monetary policy, managing currency, and controlling inflation, but it does not regulate the securities market. Its key roles include maintaining monetary stability, regulating banks, and ensuring liquidity in the economy.
- The IRDAI is responsible for regulating and promoting the insurance industry in India. It protects the interests of policyholders, ensures the growth of the insurance sector, and regulates insurance companies. However, it does not regulate the securities market.
- SEBI is the regulator for the securities and commodities market in India. It was established in 1992 to protect investors' interests, promote the development of the securities market, and regulate the functioning of stock exchanges, mutual funds, and other market intermediaries. **(Option (c) is correct)**
- The Ministry of Finance formulates fiscal policy, manages public finance, and oversees economic policies, but it does not directly regulate the securities market. Instead, SEBI is the regulatory body for this function.

Q.108) With reference to the Open Market Operations (OMO) of Reserve Bank of India (RBI), consider the following methods:

1. Imposing Minimum Reserve Requirements
2. Moral Suasion
3. Purchase and Sale of Government Securities
4. Change in the Margin Requirements

Which of the above is/are part of the qualitative methods used by RBI for OMO?

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

Q.108) Solution (b)

Explanation:

- The RBI employs various tools to manage the money supply and liquidity in the economy through Open Market Operations (OMO), which include both quantitative and qualitative methods. Qualitative tools are non-direct tools of monetary control that influence the credit allocation.
- Imposing minimum reserve requirements is not a method used by RBI for OMO. Minimum Reserve Requirements are part of the Statutory Liquidity Ratio (SLR) or Cash Reserve Ratio (CRR) regulations, which are quantitative measures and not qualitative methods of controlling money supply. **(Statement 1 is incorrect)**
- Moral suasion refers to the RBI's informal persuasion or guidance to banks regarding their lending and borrowing practices, rather than enforcing strict regulations. This method helps the RBI influence market behavior without direct intervention. **(Statement 2 is correct)**
- The purchase and sale of government securities are a direct tool under quantitative methods of OMO. The RBI buys or sells government securities in the open market to increase or decrease the money supply. It is not considered a qualitative method. **(Statement 3 is incorrect)**
- Changing margin requirements is a qualitative measure used to influence the amount of credit extended by banks against securities. Higher margins reduce the credit flow, while lower margins increase it, helping control speculative lending. **(Statement 4 is correct)**

Q.109) Which of the following items are considered assets in the Balance Sheet of the Reserve Bank of India (RBI)?

1. Foreign Currency Assets
2. Notes issued by RBI
3. Loans and Advances to the Government of India
4. Gold Reserves

Select the correct answer using the code given below:

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

d) All of the above

Q.109) Solution (b)

Explanation:

- In the RBI's balance sheet, assets are items that represent the economic resources the bank holds, while liabilities are its obligations.
- Foreign currency assets are a part of RBI's total assets and include its holdings of foreign currencies, which are part of the overall reserves held by the central bank. **(Statement 1 is correct)**
- Notes issued (currency in circulation) are liabilities, not assets, for the RBI. Currency is considered a liability as it represents the money that the central bank owes to the public holding it. **(Statement 2 is incorrect)**
- Loans and advances made by the RBI to the central and state governments are considered assets on the RBI's balance sheet. **(Statement 3 is correct)**
- Gold reserves held by the RBI are also a part of its assets. The central bank holds gold as part of its reserve management strategy. **(Statement 4 is correct)**

Q.110) With reference to Developmental Banks in India, consider the following statements:

4. The Industrial Development Bank of India was originally established as a subsidiary of the Reserve Bank of India.
5. The National Bank for Agriculture and Rural Development focuses exclusively on the credit needs of rural areas and agriculture.
6. The Small Industries Development Bank of India provides financial assistance to both small and medium enterprises in India.

How many of the statements given above are correct?

- e) Only one
- f) Only two
- g) All three
- h) None

Q.110) Solution (b)

Explanation:

- IDBI was established in 1964 as a subsidiary of RBI to provide financial assistance for industrial development in India. In 1976, it was made an independent financial institution. **(Statement 1 is correct)**

- NABARD's primary focus is on agriculture and rural development, but it also supports infrastructure development, microfinance, and cottage industries in rural areas. It does not focus exclusively on agriculture. **(Statement 2 is incorrect)**
- SIDBI is focused on promoting, financing, and developing micro, small, and medium enterprises (MSMEs). It provides a wide range of financial products and services to this sector. **(Statement 3 is correct)**

Q.111) With reference to monetary policy tools used by the Reserve Bank of India (RBI), consider the following statements:

4. When liquidity in the banking system is tight, RBI is likely to conduct a reverse repo operation.
5. If inflationary pressures are rising, RBI is likely to increase the repo rate.
6. If the rupee is appreciating too fast, RBI is likely to buy foreign currency.

Which of the statements given above are correct?

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

Q.111) Solution (b)

Explanation:

- A reverse repo is a tool used by RBI to absorb excess liquidity from the banking system. When liquidity is tight, RBI is more likely to inject liquidity through repo operations rather than reverse repo. **(Statement 1 is incorrect)**
- To control rising inflation, the RBI may increase the repo rate. This action makes borrowing more expensive, thus reducing demand and helping to control inflation. **(Statement 2 is correct)**
- When the rupee appreciates too quickly, the RBI may intervene by buying foreign currency, primarily U.S. dollars, to curb excessive rupee strength. This helps maintain export competitiveness. **(Statement 3 is correct)**

Q.112) Which of the following organisation has implemented National Automated Clearing House (NACH)?

- a) Securities and Exchange Board of India (SEBI)
- b) Ministry of Finance (MoF)
- c) National Payments Corporation of India (NPCI)
- d) Reserve Bank of India (RBI)

Q.112) Solution (c)**Explanation:**

- SEBI is the regulatory authority for India's securities markets. It does not manage payment systems or clearinghouses. SEBI primarily oversees stock exchanges, investment funds, and other market intermediaries.
- The Ministry of Finance is responsible for managing India's public finances, economic policies, taxation, and financial regulations. It does not directly manage clearinghouse or payment systems.
- NPCI has implemented the National Automated Clearing House (NACH) system. NACH is a centralised system for processing high-volume, low-value transactions that are repetitive in nature. It supports bulk payments such as subsidies, salaries, dividends, pensions, and utility bill payments, as well as bulk collections like telephone bills, electricity bills, and loan installments. **(Option (c) is correct)**
- While RBI is the central regulatory authority that oversees payment systems, it does not directly operate the NACH system. NPCI, which functions under the regulatory supervision of RBI, is responsible for the implementation of NACH.

Q.113) Which of the following is NOT a benefit of investing in government treasury bills?

- a) Potential for short-term gains.
- b) Liquidity due to the secondary market.
- c) High risk and high reward investment potential.
- d) Government backing, ensuring safety.

Q.113) Solution (c)**Explanations**

A government treasury bill, as previously indicated, is issued as a **short-term** fundraising tool for the government and has the **longest maturity duration** (364 days). Individuals who want to make short-term gains through **safe investments** might put their money into these products. Furthermore, such G-Secs can be **resold on the secondary market**, letting investors turn their holdings into cash in an emergency. **(Hence option c is incorrect).**

Q.114) Which of the following statements is correct about Certificate of Deposit?

1. The Certificate of Deposit are sold at a higher price than their face value.
2. Certificates of Deposit are non-volatile and provides guaranteed rate of return.
3. In Certificate of Deposit, early withdrawal prior to maturity result in a penalty.

Select the answer using the code given below:

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

Q.114) Solution (b)

Explanation

Statement 1	Statement 2	Statement 3
Incorrect	Correct	Correct
A certificate of deposit (CD) is a product offered by banks and credit unions that offers an interest rate premium in exchange for the customer agreeing to leave a lump-sum deposit untouched for a set period of time. The CDs are sold at a lower price than their face value. The difference between the issue value and the face value is the return on them.	Certificates of Deposit (CD) are a less risky and more conservative investment than stocks and bonds, with less room for growth but a non-volatile, guaranteed rate of return. Almost every bank, credit union, and brokerage firm provide a selection of Certificate of Deposits.	Certificate of Deposit (CD) are intended to entice investors to keep their money in the CD until the term ends. As a result, early withdrawal prior to maturity will usually result in a penalty. o Because you can't withdraw funds as easily as you can with a savings account, this type of asset isn't considered liquid in the same way that a savings or checking account is.

Q.115) Which of the following is not a restriction imposed by the Reserve Bank of India on Certificates of Deposit in India?

- a) Certificates of Deposit cannot be issued by non-resident Indians.
- b) Banks cannot lend money in exchange for Certificates of Deposit.
- c) Banks cannot purchase their own Certificates of Deposits before maturity.
- d) Banks must maintain statutory liquidity ratio and cash reserve ratio on the price of Certificates of Deposit.

Q.115) Solution (a)

Explanation

- Non-Resident Indians can also issue Certificates of Deposit, but only on a non-repatriable basis. **(Hence option a is incorrect)**

- Certificates of Deposit are issued in India by scheduled commercial banks and select financial institutions within the limits set by the Reserve Bank of India. Individuals, businesses, corporations, and funds, among others, receive Certificates of Deposit.
- It is important to note that banks and financial institutions cannot make loans in exchange for Certificates of Deposit. Furthermore, banks are not permitted to purchase their own Certificates of Deposit prior to the maturity of the latter. **(Hence option b and c are correct)**
- The aforementioned norms, however, may be relaxed by the RBI for a limited time. It should be noted that banks must maintain the statutory liquidity ratio and cash reserve ratio on the price of a Certificate of Deposit. **(Hence option d is correct)**

Q.116) Consider the following statements.

1. A Global Depository Receipt is a financial instrument held by a custodian bank in the home country.
2. Using Global Depository Receipt, companies can raise capital from investors in countries around the world.

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

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

Q.116) Solution (c)

Explanation

Statement 1	Statement 2
Correct	Correct
A Global Depository Receipt (GDR) is a financial instrument issued by a foreign company and held by a custodian bank in the home country. GDRs make it possible for a company (the issuer) to access investors in capital markets beyond the borders of its own country.	Using Global Depository Receipt, companies can raise capital from investors in countries around the world. GDRs can in theory be denominated in any currency, but are nearly always in U.S. dollars. Since GDRs are negotiable certificates, they trade in multiple markets and can provide arbitrage opportunities to investors.

Q.117) Which of the following statements is correct about the capital market?

1. The Indian Equity Markets and the Indian Debt markets together form the Indian Capital markets.
2. Capital markets are used to sell financial instruments excluding debt securities.
3. Capital markets are informal in nature.

Select the correct answer using the code given below:

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

Q.117) Solution (a)

Explanation

Statement 1	Statement 2	Statement 3
Correct	Incorrect	Incorrect
The capital market is the market for securities, where companies and governments can raise long-term funds. Selling stock and selling bonds are two ways to generate capital and long term funds. Thus bond markets and stock markets are considered capital markets. The capital markets consist of the primary market, where new issues are distributed to investors, and the secondary market, where existing securities are traded. The Indian Equity Markets and the Indian Debt markets together form the Indian Capital markets.	Capital markets refer to venues where funds are exchanged between suppliers and those who seek capital. Suppliers in capital markets are typically banks and investors. Those who seek capital are businesses, governments, and individuals. Capital markets are used to sell financial instruments, including equities and debt securities. These markets are divided into two categories: primary and secondary markets.	The term “capital market” is a broad one that’s used to describe the in-person and digital spaces in which various entities trade types of financial instruments. Money markets are informal in nature, whereas Capital markets are formal in nature.

Q.118) Which of the following is a derivative instrument?

- a) Equity shares
- b) Bonds
- c) Futures contracts
- d) Depository receipts

Q.118) Solution (c)

Explanation

A derivative is a securitized contract whose value is dependent upon one or more underlying assets. Its price is determined by fluctuations in that asset. A derivative can trade on an exchange or over the counter. Prices for derivatives derive from fluctuations in the underlying asset. There are four main types of derivatives: forward contracts, futures contracts, options contracts, and swap contracts. **(Hence option c is correct)**

Q.119) What is the term used to describe a stock market where prices are generally rising?

- a) Bear market
- b) Bull market
- c) Sideways market
- d) Monopoly market

Q.119) Solution (b)

Explanation

Bull market is a market condition where the stock market prices keep increasing or are expected to rise constantly. During such times, investors have high expectations about stock market performance and invest their hard-earned money in this sector. A rising consumer confidence level that consequently hikes cash flow in this sector lets firms increase their yearly turnover, which results in disbursed high profits among shareholders. Even though the term is usually used for bonds, the stock market, commodities, currencies, etc., it can also have a bull market. **(Hence option b is correct)**

Q.120) With reference to capital market, consider the following statements.

1. The secondary markets allow both buying and selling of securities through the stock exchange.
2. In primary markets, prices are influenced by the demand and supply of securities.

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

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

Q.120) Solution (a)

Explanation

Statement 1	Statement 2
Correct	Incorrect
Secondary Market refers to a market where securities are traded after being initially offered to the public in the primary market and/or listed on the Stock Exchange. In the primary market, investors can only purchase securities, while the secondary market allows both buying and selling of securities through the stock exchange.	Primary market is a market wherein corporates issue new securities for raising funds generally for long term capital requirement. In the primary market, prices are determined by the company's management. In contrast, in the secondary market, prices are influenced by the demand and supply of securities.