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1. Economy

- 1) Consider the following statements regarding National Agricultural Cooperative Marketing Federation of India Ltd (NAFED)
1. It is apex organization of marketing cooperatives for agricultural produce in India.
 2. It functions under Ministry of Agriculture.
 3. It is the nodal procurement agency for pulses.

Which of the statements given above is/are correct?

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

Solution: c)

About NAFED:

- National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED), established in 1958, is registered under the Multi State Co-operative Societies Act.
- Nafed was setup with the object to **promote Co-operative marketing of Agricultural Produce to benefit the farmers.**
- The objectives of the NAFED shall be to organize, promote and develop marketing, processing and storage of agricultural, horticultural and forest produce, distribution of agricultural machinery, implements and other inputs, undertake inter-state, import and export trade etc.
- **It functions under Ministry of Agriculture.**

The National Agricultural Cooperative Marketing Federation of India (NAFED), is the nodal procurement agency for pulses (like Food Corporation of India, or FCI, is for rice and wheat).

- 2) Consider the following statements regarding C2 (comprehensive cost) with respect to MSP.
1. 'C2' does not take into account rentals and interest forgone on owned land and machinery owned by farmers.
 2. If we implement the principle of C2, the MSP of paddy will decrease further.

Which of the above statements is/are correct?

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

Solution: d)

'C2' is a more comprehensive cost that factors in rentals and interest forgone on owned land and fixed capital assets, on top of A2+FL.

CACP reckons only A2+FL cost for return. However, C2 costs are used by CACP primarily as benchmark reference costs (opportunity costs) to see if the MSPs recommended by them at least cover these costs in some of the major producing States.

If we implement the principle of C2, the MSP of paddy will increase much higher than that of wheat.

- 3) Consider the following statements regarding WTO's Agreement on Agriculture.
1. It entered into force with the establishment of the WTO in 1995.
 2. It is aimed to remove trade barriers and to promote transparent market access and integration of global markets.
 3. The WTO's Agriculture Committee oversees implementation of the Agreement and provides a forum for members to address related concerns.

Which of the above statements is/are correct?

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

Solution: d)

WTO's Agreement on Agriculture:

The **Agreement on Agriculture (AoA)** is an international treaty of the World Trade Organization. It was negotiated during the Uruguay Round of the General Agreement on Tariffs and Trade, and **entered into force with the establishment of the WTO on January 1, 1995.**

It is aimed to remove trade barriers and to promote transparent market access and integration of global markets.

The WTO's Agriculture Committee oversees implementation of the Agreement and provides a forum for members to address related concerns.

4) Consider the following statements.

1. Pulses constitute the highest number of commodities for which **minimum support prices (MSPs)** are guaranteed.
2. The value of milk and milk products is more than that of all cereals and pulses combined.
3. The marketed surplus ratio for pulses is higher than paddy and wheat.

Which of the above statements is/are correct?

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

Solution: c)

The MSP is now applicable on 23 farm commodities: **7 cereals** (paddy, wheat, maize, bajra, jowar, ragi and barley), **5 pulses** (chana, arhar, moong, urad and masur), **7 oilseeds** (groundnut, soyabean, rapeseed-mustard, sesamum, sunflower, nigerseed and safflower) and **4 commercial crops** (sugarcane, cotton, copra and raw jute).

The **marketed surplus ratio** for different crops is estimated to range from below 50% for ragi and 65-70% for bajra (pearl-millet) and jowar (sorghum) to 75% for wheat, 80% for paddy, 85% for sugarcane, **90% for most pulses**, and 95%-plus for cotton, jute, soyabean and sunflower.

The value of milk and milk products alone is more than that of all cereals and pulses combined.

5) Animal Husbandry Infrastructure Development Fund (AHIDF) can be used to

1. Help increase milk and meat processing capacity and product diversification
2. Make available quality milk and meat products for the domestic consumer.
3. Make available quality animal feed to the cattle and poultry to provide balanced ration at affordable prices.

Select the correct answer code:

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

Solution: d)

As a part of the Atma Nirbhar Bharat Abhiyan stimulus package, a ` 15000 crores Animal Husbandry Infrastructure Development Fund (AHIDF) has been set up.

OBJECTIVES:

- **To help increasing of milk and meat processing capacity and product diversification** thereby providing greater access for unorganized rural milk and meat producers to organized milk and meat market.
- To make available increased price realization for the producer.
- **To make available quality milk and meat products for the domestic consumer.**
- To fulfill the objective of protein enriched quality food requirement of the growing population of the country and prevent malnutrition in one of the highest malnourished children population in the world.
- Develop entrepreneurship and generate employment.
- To promote exports and increase the export contribution in the milk and meat sector.
- **To make available quality concentrated animals feed to the cattle, buffalo, sheep, goat, pig and poultry to provide balanced ration at affordable prices.**

6) Which of the following is/are the components used to derive Personal Income (PI)?

1. Net interest payments made by households
2. Corporate tax
3. Transfer payments to the households from the government
4. National Income

Select the correct answer code:

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

Solution: d)

Personal income refers to all income collectively received by all individuals or households in a country. Personal income includes compensation from a number of sources, including salaries, wages, and bonuses received from employment or self-employment, dividends and distributions received from investments, rental receipts from real estate investments, and profit sharing from businesses.

Personal Income (PI) = National Income – Undistributed profits – Net interest payments made by households – Corporate tax + Transfer payments to the households from the government and firms.

7) Consider the following statements regarding Gross Domestic product (GDP).

1. If the GDP of the country is rising, the welfare will rise as a consequence.
2. Many activities in an economy are not evaluated in monetary terms and hence, they are not included

in calculating GDP.

Which of the above statements is/are correct?

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

Solution: b)

GDP is the sum total of value of goods and services created within the geographical boundary of a country in a particular year. We may be tempted to treat higher level of GDP of a country as an index of greater well-being of the people of that country. But there are reasons why this may not be correct.

- **If the GDP of the country is rising, the welfare may not rise as a consequence.** This is because the rise in GDP may be concentrated in the hands of very few individuals or firms.
- **Many activities in an economy are not evaluated in monetary terms.** For example, the domestic services women perform at home are not paid for. The exchanges which take place in the informal

sector without the help of money are called barter exchanges. **But since money is not being used here, these exchanges are not registered as part of economic activity.**

- 8) Which of the following is the correct relation between Factor Price and Market Price?
- Market Price = Factor Price - Indirect Taxes – Subsidies
 - Factor Price = Market Price + Indirect Taxes – Subsidies
 - Market Price = Factor Price + Indirect Taxes – Subsidies
 - Factor Price = Market Price + Indirect Taxes + Subsidies

Solution: c)

Factor Price is total cost of all factors of production (such as labour, capital, land etc) used in producing goods or services. It is the price of the commodity from the producer's side.

When a commodity is produced, it is sold in the market.

Market Price – It is the price at which a product is sold in the market. It includes the cost of production in the form of wages, rent, interest, input prices, profit etc. It also includes the taxes imposed by the government. It excludes Government subsidy.

Thus, relationship between Factor price and Market price is
Market Price = Factor Price + Indirect Taxes – Subsidies

- 9) Consider the following statements.

- GDP can be measured by adding private consumption expenditure, government expenditure, investments made in the economy and net exports.
- GDP measures the monetary value of both intermediate and final goods and services.
- India's GDP shrank more than 7% in 2020-21 (in real terms adjusted for inflation), which is the worst performance of the Indian economy in any year since Independence.

Which of the above statements is/are correct?

- 1, 2
- 1, 3
- 1 only
- 1, 2, 3

Solution: b)

The International Monetary Fund states **“GDP measures the monetary value of final goods and services—that is, those that are bought by the final user—produced in a country in a given period of time (say a quarter or a year)”**.

It is important to note that **GDP maps the “final” goods and services, not the intermediate ones.**

India's gross domestic product (GDP) shrank 7.3% to ₹135.13 trillion in 2020-21 (in real terms adjusted for inflation). It was at ₹145.69 trillion in 2019-20. GDP is a measure of the economic size of a country, and inflation is the rate of price rise.

This is the **worst performance of the Indian economy in any year since Independence**. The last time the Indian economy contracted was in 1979-80. The GDP had contracted by 5.2% that year, when global oil prices had gone through the roof.

One way of measuring GDP is by adding private consumption expenditure, with government expenditure, investments made in the economy and net exports (or the difference between exports and imports).

- 10) Consider the following statements regarding Gross value added (GVA) and Gross domestic product (GDP).
- Gross value added is a measure of total output and income in the economy.
 - GVA is sector specific while GDP is calculated by summation of GVA of all sectors of economy with taxes added and subsidies are deducted.

3. While GVA gives a picture of the state of economic activity from the consumers' side or demand perspective, the GDP gives the picture from the producers' side or supply side.

Which of the above statements is/are correct?

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

Solution: a)

What is gross value added?

Put simply, it is a **measure of total output and income in the economy**. It provides the rupee value for the amount of goods and services produced in an economy after deducting the cost of inputs and raw materials that have gone into the production of those goods and services. It also gives sector-specific picture like what is the growth in an area, industry or sector of an economy.

GVA is sector specific while GDP is calculated by summation of GVA of all sectors of economy with taxes added and subsidies are deducted.

While **GVA gives a picture of the state of economic activity from the producers' side or supply side**, the GDP gives the picture from the consumers' side or demand perspective. **Both measures need not match because of the difference in treatment of net taxes.**

A sector-wise breakdown provided by the GVA measure can better help the policymakers to decide which sectors need incentives/stimulus or vice versa.

11) Consider the following statements regarding Personal Income (PI).

- 1. Personal Disposable Income is not the income over which the households have complete say.
- 2. Personal Income is the part of the aggregate income which completely belongs to the households.

Which of the above statements is/are correct?

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

Solution: d)

PI is not the income over which the households have complete say. They have to pay taxes from PI. If we deduct the Personal Tax Payments (income tax, for example) and Non-tax Payments (such as fines) from PI, we obtain what is known as the Personal Disposable Income. Thus **Personal Disposable Income (PDI) = PI – Personal tax payments – Non-tax payments.**

Personal Disposable Income is the part of the aggregate income which belongs to the households. They may decide to consume a part of it, and save the rest.

12) Consider the following statements.

- 1. GDPs evaluated at current market price is not the right metric to compare the GDP figures of different countries.
- 2. Nominal GDP is calculated in a way such that the goods and services are evaluated at some constant set of prices.
- 3. If the Real GDP changes, we can be sure that it is the volume of production which is undergoing changes.

Which of the above statements is/are correct?

- a) 1, 2
- b) 2, 3

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

Solution: c)

In order to compare the GDP figures (and other macroeconomic variables) of different countries or to compare the GDP figures of the same country at different points of time, we cannot rely on GDPs evaluated at current market prices. For comparison we take the help of real GDP. **Real GDP is calculated in a way such that the goods and services are evaluated at some constant set of prices (or constant prices).**

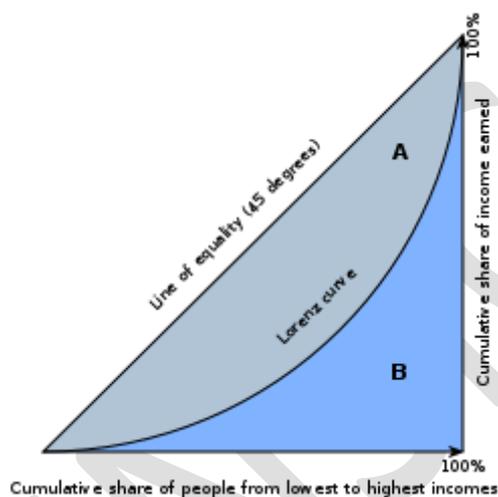
Since these prices remain fixed, **if the Real GDP changes, we can be sure that it is the volume of production which is undergoing changes.** Nominal GDP, on the other hand, is simply the value of GDP at the current prevailing prices.

- 13) Which of the following shows the graphical representation of income inequality or wealth inequality?
- Laffer Curve
 - Lorenz Curve
 - Engel's Law
 - Phillips curve

Solution: b)

A Lorenz curve is a graphical representation of income inequality or wealth inequality developed by American economist Max Lorenz in 1905.

- A Lorenz curve is a graphical representation of the distribution of income or wealth within a population.



- 14) Which of the following is/are the major traits of Recovery phase business cycle?
- An upturn in aggregate (total) demand.
 - Unemployment rate starts declining.
 - New investments become attractive
 - Inflation moves upward making borrowing cheaper for investors.

Select the correct answer code:

- 1, 2, 3
- 1, 3, 4
- 2, 3, 4
- 1, 2, 3, 4

Solution: d)

An economy tries to come out of the low production phase to survive. The low production phase might be depression, recession or slowdown. Governments take many new fiscal and monetary measures to boost demand and production and ultimately a recovery in an economy is managed. The business cycle of recovery may show the following **major** economy traits:

- (i) an upturn in aggregate (total) demand which has to be accompanied by increase in the level of production;**
- (ii) production process expands and new investments become attractive;**
- (iii) as demand goes upward, inflation also moves upward making borrowing cheaper for investors;**
- (iv) with an upturn in production, new employment avenues are created and unemployment rate starts declining; etc.**

15) Consider the following statements regarding GDP deflator.

1. This is the ratio between GDP at Constant Prices and GDP at Current Prices.
2. If GDP at Current Prices is equal to the GDP at Constant Prices, GDP deflator will be 1, implying no change in price level.

Which of the above statements is/are incorrect?

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

Solution: a)

GDP deflator:

This is the ratio between GDP at Current Prices and GDP at Constant Prices.

If GDP at Current Prices is equal to the GDP at Constant Prices, GDP deflator will be 1, implying no change in price level. If GDP deflator is found to be 2, it implies rise in price level by a factor of 2, and if GDP deflator is found to be 4, it implies a rise in price level by a factor of 4.

GDP deflator is acclaimed as a better measure of price behaviour because it covers all goods and services produced in the country.

16) Consider the following statements

1. The Laffer Curve is an economic concept that states that inflation and unemployment have a stable and inverse relationship.
2. The Phillips curve is an economic concept developed to show the relationship between tax rates and the amount of tax revenue collected by governments.

Which of the above statements is/are correct?

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

Solution: d)

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

- Higher inflation is associated with lower unemployment and vice versa.

The Laffer Curve is a theory developed by supply-side economist Arthur Laffer to show the relationship between tax rates and the amount of tax revenue collected by governments. The curve is used to illustrate Laffer's argument that sometimes-cutting tax rates can increase total tax revenue.

17) Consider the following statements regarding Factor Income.

1. Factor income is the flow of income that is derived from the factors of production.

2. The factor income of all normal residents of a country is referred to as the national income.

3. It can be used to expose disparities in income distribution.

Which of the above statements is/are correct?

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

Solution: d)

Factor income is the flow of income that is derived from the factors of production—the general inputs required to produce goods and services.

Factor income on the use of land is called rent, income generated from labor is called wages, and income generated from capital is called profit. **The factor income of all normal residents of a country is referred to as the national income**, while factor income and current transfers together are referred to as private income.

- Factor income is most commonly used in macroeconomic analysis, helping governments to determine the difference between gross domestic product (GDP) and gross national product (GNP).
- **It can also be used to expose disparities in income distribution.**

18) With respect to economic recovery, 'U-shaped recovery' denotes

- a) Economy quickly recoups lost ground and gets back to the normal growth trend.
- b) Growth falls and rises, but falls again before recovering yet again.
- c) Economy, after falling, struggles and muddles around a low growth rate for some time, before rising gradually to usual levels.
- d) Economy quickly rises like a phoenix after a crash and it more than makes up for lost ground.

Solution: c)

A U-shaped recovery is a scenario in which the economy, after falling, struggles and muddles around a low growth rate for some time, before rising gradually to usual levels.

In V-shaped recovery the economy quickly recoups lost ground and gets back to the normal growth trend-line.

The Z-shaped recovery is the most-optimistic scenario in which the economy quickly rises like a phoenix after a crash.

19) Which of the following measures is/are examples of expansionary fiscal policy?

- 1. Tax rebate to companies
- 2. Decreasing the subsidies
- 3. Providing loans at higher interest rates

Select the correct answer code:

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

Solution: a)

Expansionary fiscal policy is a form of fiscal policy that **involves decreasing taxes, increasing government expenditures** or both, in order to fight recessionary pressures.

Tax rebate to companies increase the profit to companies. This further helps in reducing the prices of goods and services. Thus, increase the demand in the economy.

Increasing the subsidies decreases the out of pocket expenditure. Thus, increases the spending capacity.

Providing loans at higher interest rate decreases the demand for the loans. Thus, it decreases the liquidity in the market and leads to decreases the spending capacity.

20) In context of the Indian economy, which of the following measures can be used to aggravate inflation?

1. Increasing repo rate
2. Increasing Statutory Liquidity Ratio
3. Decreasing Cash Reserve Ratio

Select the correct answer code:

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

Solution: c)

Inflation is the rate of increase in prices over a given period of time. Inflation is typically a broad measure, such as the overall increase in prices or the increase in the cost of living in a country. But it can also be more narrowly calculated—for certain goods, such as food, or for services.

Increasing SLR and Increasing repo rate leads to lessened money supply in the market, thus leading to decreased inflation in the market.

21) If the total size of the economy is growing year after year, it implies that

1. Gross Capital formation in the economy must be increasing year after year.
2. GDP growth rate must be increasing steadily year after year.

Which of the above statements is/are correct?

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

Solution: d)

GDP at market prices calculates total value of goods and services produced within a year at market prices. If it increases, it means entrepreneurs have decided to produce more goods and services. This can happen even without an increase in actual investment, with the same machinery and labour.

If the size of economy grows proportionately larger each year, while the growth rate is positive, it may not necessarily be increasing.

22) Consider the following statements regarding Off-budget borrowing.

1. Off-budget borrowings are loans taken by any public institution on the directions of the central government.
2. Off-budget financing is not part of the calculation of the fiscal indicators and does not have any fiscal implications.
3. Public sector banks can fund off-budget expenses.

Which of the above statements is/are correct?

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

Solution: c)

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

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

Comptroller and Auditor General report of 2019 points out, this route of financing puts major sources of funds outside the control of Parliament. "Such off-budget financing is **not part of the calculation of the fiscal indicators despite fiscal implications,**" said the report.

Public sector banks are also used to fund off-budget expenses.

23) A share repurchase or buyback is a decision by a company to purchase its own stock from the market. Such a move may lead to

1. It is often undertaken when the company's shares are undervalued.
2. It reduces the number of outstanding shares of the company.
3. It tends to increase the price of remaining shares.

Select the correct answer code:

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

Solution: d)

What is a share buyback?

A share repurchase or buyback is a decision by a company to purchase its own stock from the market. Such a move **reduces the number of outstanding shares of the company and tend to push up their price** and is often undertaken when management considers the **company's shares undervalued**.

It is also a key way to **transfer surplus earnings to shareholders** and tends to lead to an increase in share prices.

24) Suppose a small factory owner actually needs only two workers to carry out his business, but if his entire family of five members are involved in running the business, then this situation is known as

- a) Disguised unemployment
- b) Frictional unemployment
- c) Cyclic unemployment
- d) Structural unemployment

Solution: a)

Disguised Unemployment is a kind of **unemployment** in which there are people who are visibly employed but are actually **unemployed**. This situation is also known as hidden **Unemployment**. In such a situation more people are engaged in a work than required.

25) The actual liabilities of the Union government include which of the following

1. Loans taken for the recapitalisation of banks
2. Borrowings by PSUs
3. Capital expenditures of various Ministries.

Select the correct answer code:

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

Solution: a)

In addition to the **borrowings by PSUs**, the actual liabilities of the government would include **loans taken for the recapitalisation of banks**.

Capital expenditure creates assets for the government and causes reduction in liabilities for the government.

26) Consider the following statements.

1. Bonds are papers bearing the promise of a future stream of monetary returns over a certain period of time.

2. The speculative demand for money is directly related to the rate of interest.

Which of the above statements is/are correct?

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

Solution: a)

Typically, bonds are papers bearing the promise of a future stream of monetary returns over a certain period of time. These papers are issued by governments or firms for borrowing money from the public and they are tradable in the market.

When the interest rate is very high everyone expects it to fall in future and hence anticipates capital gains from bond-holding. Hence people convert their money into bonds. Thus, speculative demand for money is low. When interest rate comes down, more and more people expect it to rise in the future and anticipate capital loss. Thus, they convert their bonds into money giving rise to a high speculative demand for money. Hence **speculative demand for money is inversely related to the rate of interest**.

27) Consider the following statements regarding Money supply.

1. The total stock of money in circulation among the public at a particular point of time is called money supply.

2. M1 and M2 are known as broad money.

3. M1 is most liquid and M4 is least liquid of all.

Which of the above statements is/are correct?

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

Solution: c)

Money supply, like money demand, is a stock variable. **The total stock of money in circulation among the public at a particular point of time is called money supply.** RBI publishes figures for four alternative measures of money supply, viz. M1, M2, M3 and M4. They are defined as follows

$M1 = CU + DD$

$M2 = M1 + \text{Savings deposits with Post Office savings banks}$

$M3 = M1 + \text{Net time deposits of commercial banks}$

$M4 = M3 + \text{Total deposits with Post Office savings organizations (excluding National Savings Certificates)}$

Where, CU is currency (notes plus coins) held by the public and DD is net demand deposits held by commercial banks. The word 'net' implies that only deposits of the public held by the banks are to be included in money supply. The interbank deposits, which a commercial bank holds in other commercial banks, are not to be regarded as part of money supply.

M1 and M2 are known as narrow money.

M3 and M4 are known as broad money. These measures are in decreasing order of liquidity. **M1 is most liquid** and easiest for transactions whereas **M4 is least liquid** of all. M3 is the most commonly used measure of money supply. It is also known as aggregate monetary resources.

28) When a government issues bonds, the money which flows from the public to the government or the money in the economy in general is called

- a) Heated currency
- b) Dear currency
- c) Hot currency
- d) Cheap currency

Solution: b)

Hot currency

Hot currency is a term of the forex market and is a temporary name for any hard currency. Due to certain reasons, if a hard currency is exiting an economy at a fast pace for the time, the hard currency is known to be hot.

Heated currency

A term used in the forex market to denote the domestic currency which is under enough pressure (heat) of depreciation due to a hard currency's high tendency of exiting the economy (since it has become hot). It is also known as currency under heat or under hammering.

Cheap currency

A term first used by the economist J. M. Keynes (1930s). If a government starts re-purchasing its bonds before their maturities (at full-maturity prices) the money which flows into the economy is known as the cheap currency, also called cheap money.

Dear currency

This term was popularized by economists in early 1930s to show the opposite of the cheap currency. **when a government issues bonds, the money which flows from the public to the government or the money in the economy in general is called dear currency, also called as dear money.** In the banking industry, it means a period of comparatively higher/costlier interest rates regime.

29) Arrange the following in the chronological order of their establishment.

1. State Bank of India
2. Industrial Development Bank of India (IDBI)
3. Life insurance Corporation of India
4. Air India

Select the correct answer code:

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

Solution: a)

Air India was started by JRD Tata as Tata Airlines in **1932**.

State Bank of India was incorporated on **01 July 1955**. The Government of India nationalized the Imperial Bank of India in the year 1955 with the Reserve Bank of India taking a 60% stake and name was changed to State Bank of India.

The **Life Insurance Corporation of India** was established on September 1, **1956**, when the Parliament of India passed the Life Insurance of India Act that nationalized the insurance industry in India.

India had set up extremely successful DFIs such as Industrial Finance Corporation of India (IFCI) in 1948, **Industrial Development Bank of India (IDBI) in 1964** and Industrial Credit and Investment Corporation of India (ICICI) in 1955.

30) Hard currency is usually preferred because

1. It is seen as politically and economically stable.
2. It is widely accepted around the world as a form of payment for goods and services.
3. It is not likely to depreciate or appreciate suddenly.

Select the correct answer code:

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

Solution: c)

Hard currency refers to money that is issued by a nation that is seen as **politically and economically stable**. Hard currencies are widely accepted around the world as a form of payment for goods and services and may be preferred over the domestic currency.

A hard currency is expected to **remain relatively stable** through a short period of time, and to be highly liquid in the forex or foreign exchange (FX) market. The most tradable currencies in the world are the U.S. dollar (USD), European euro (EUR), Japanese yen (JPY), British pound (GBP). All of these currencies have the confidence of international investors and businesses because they are **not generally prone to dramatic depreciation or appreciation**.

31) Consider the following statements regarding e-kuber.

1. e-Kuber is the Core Banking Solution of Reserve Bank of India.
2. It gives high degree of access to commercial banks to their current account with the RBI.
3. Auction of Government securities is done through e-kuber system.

Which of the above statements is/are correct?

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

Solution: d)

e-Kuber is the Core Banking Solution of Reserve Bank of India. **E-Kuber provides the provision of a single current account for each bank across the country, with decentralised access to this account from anywhere-anytime using portal based services** in a safe manner.

Auction of Government securities is done through e-kuber system. Sovereign Gold Bonds are available for subscription at the branches of scheduled commercial banks and designated post offices through RBI's e-kuber system.

32) Consider the following statements regarding Open Market Operations

1. Open Market Operations refers to buying and selling of bonds issued by the Government in the open market.
2. Selling of a bond by RBI leads to increases in the total amount of reserves in the economy and thus increases the money supply.

Which of the above statements is/are correct?

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

Solution: a)

Open Market Operations refers to buying and selling of bonds issued by the Government in the open market. This purchase and sale is entrusted to the Central bank on behalf of the Government. Selling of a bond by RBI (to private individuals or institutions) leads to reduction in quantity of reserves and hence the money supply.

33) The Financial Stability Report by RBI looks at which of the following aspects?

- 1. Do Indian banks (both public and private) have enough capital to run their operations.
- 2. Are the levels of bad loans (or non-performing assets) within manageable limits.
- 3. Are different sectors of the economy able to get credit for economic activity.

Select the correct answer code:

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

Solution: d)

The FSR looks at questions like **do Indian banks (both public and private) have enough capital to run their operations? Are the levels of bad loans (or non-performing assets) within manageable limits? Are different sectors of the economy able to get credit (or new loans) for economic activity** such as starting a new business or buying a new house or car?

34) Consider the following statements.

- 1. Reserve Bank of India (RBI) is vested with the responsibility of conducting monetary policy and it is explicitly mandated under the Reserve Bank of India Act, 1934.
- 2. The Financial Market Committee (FMC) determines the policy interest rate required to achieve the inflation target.
- 3. Accommodative monetary policy is when central banks reduce the money supply to control inflation.

Which of the above statements is/are correct?

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

Solution: a)

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

The Monetary Policy Committee (MPC) constituted by the Central Government under Section 45ZB determines the policy interest rate required to achieve the inflation target.

Accommodative monetary policy, also known as loose credit or easy monetary policy, occurs when a central bank attempts to expand the overall money supply to boost the economy when growth is slowing.

35) Reserve Bank of India lends money through Repo operation, by keeping Government securities as collateral to

- 1. Commercial Banks
- 2. Payment Banks

3. Non-Banking Financial Companies

Select the correct answer code:

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

Solution: c)

Repo rate is the rate at which the central bank of a country (Reserve Bank of India in case of India) lends money to **commercial banks** in the event of any shortfall of funds. Repo rate is used by monetary authorities to control inflation.

36) Consider the following statements regarding Cash Management Bills (CMBs).

1. Cash Management Bills are long-term bills.
2. The bills are issued by the RBI on behalf of the Government of India.
3. Investment in CMBs is recognized as an eligible investment in Government securities by banks for SLR purpose.

Which of the above statements is/are correct?

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

Solution: c)

- Cash Management Bills (CMBs) are **short term bills issued by central government to meet its immediate cash needs**.
- The bills are **issued by the RBI on behalf of the government**. Hence the **CMBs are short-term money market instruments that help the government to meet its temporary cash flow mismatches**.
- CMBs are **eligible as SLR securities**. Investment in CMBs is also recognized as an eligible investment in Government securities by banks for SLR purpose under Section 24 of the Banking Regulation Act, 1949.

37) Consider the following statements regarding Foreign Portfolio Investment (FPI)

1. RBI stipulates the criteria for Foreign Portfolio Investment.
2. Any equity investment by non-residents which is less than or equal to 10% of capital in a company is portfolio investment.
3. FPIs can invest in unlisted shares.

Which of the above statements is/are correct?

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

Solution: b)

Foreign Portfolio Investment (FPI) is investment by non-residents in Indian securities including shares, government bonds, corporate bonds, convertible securities, infrastructure securities etc. The class of investors who make investment in these securities are known as Foreign Portfolio Investors.

SEBI stipulates the criteria for Foreign Portfolio Investment. Any equity investment by non-residents which is less than or equal to 10% of capital in a company is portfolio investment. While above this the investment will be counted as Foreign Direct Investment (FDI).

As per SEBI regulations, **FPIs are not allowed to invest in unlisted shares** and investment in unlisted entities will be treated as FDI.

38) Which of the following is/are the qualitative methods of credit control in India?

1. Regulation of Consumer Credit
2. Discount Rate Policy
3. Rationing of Credit
4. Variable Reserve Ratio

Select the correct answer code:

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

Solution: b)

Qualitative instruments are also known as selective instruments of the RBI's monetary policy. These instruments are used for discriminating between various uses of credit; for example, they can be used for favouring export over import or essential over non-essential credit supply.

Following are some qualitative method of credit control used by the RBI:

- **Rationing of Credit:** RBI fixes a credit amount to be granted for commercial banks. For certain purposes, the upper credit limit can be fixed, and banks have to stick to that limit. This helps in lowering the bank's credit exposure to unwanted sectors.
- **Regulation of Consumer Credit:** Here, features like instalment amount, down payment, loan duration, etc., are all fixed in advance, which helps to check the credit and inflation in the country.
- **Change in Marginal Requirement:** This instrument is used to encourage the credit supply for the necessary sectors and avoid it for the unnecessary sectors. That can be done by increasing the marginal of unnecessary sectors and reducing the marginal of other needy sectors.
- **Moral Suasion:** Moral suasion refers to the suggestions to commercial banks from the RBI that helps in restraining credits in the inflationary period. RBI implies pressure on the Indian banking system without taking any strict action for compliance with rules.

39) Which of the followings entities is/are allowed to participate in "call money market"?

1. Scheduled Commercial Banks
2. Payment Banks
3. Regional Rural Banks
4. Co-operative Banks

Select the correct answer code:

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

Solution: d)

The call money market (CMM) the market where overnight (one day) loans can be availed by banks to meet liquidity. Banks who seeks to avail liquidity approaches the call market as borrowers and the ones who have excess liquidity participate there as lenders.

Banks can access CMM to meet their reserve requirements (CRR and SLR) or to cover a sudden shortfall in cash on any particular day.

Participants in the call money market are banks and related entities specified by the RBI.

Scheduled Commercial Banks (including Small Finance Banks), Payment Banks and Regional Rural Banks, Co-operative Banks and Primary Dealers participate in CMM.

40) Consider the following statements

1. Reserve Bank of India keeps the cash reserve of all the scheduled banks.
2. Issue of new currency note is the right of Reserve Bank of India and Government of India.
3. Reserve Bank of India acts as a banker to governments.

Which of the above statements is/are correct?

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

Solution: b)

RBI is the apex regulatory body of Indian Bank System. **It keeps the cash reserves of all scheduled banks and hence it is known as Reserve Bank.**

The Reserve Bank is the nation's sole note issuing authority. The Government of India is the issuing authority of coins and supplies coins to the Reserve Bank on demand. The Reserve Bank puts the coins into circulation on behalf of the Central Government.

RBI acts as a banker to governments both the centre and state. It keeps deposits of governments and lends to governments.

41) Which of the following are the quantitative methods of credit control in India?

1. Open market operations
2. Liquidity Adjustment Facility (LAF)
3. Marginal Standing Facility
4. Discount Rate Policy

Select the correct answer code:

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

Solution: d)

Quantitative methods aim at controlling the cost and quantity of credit. It does not discriminate between different sectors and end use of credit.

Quantitative methods are:

- Discount Rate Policy
- Open market operations
- Variable Reserve Ratio
- Liquidity Adjustment Facility (LAF)
- Marginal Standing Facility.

42) Consider the following statements regarding negative rate policy, sometimes seen in news.

1. Under the policy, financial institutions are required to pay interest for parking excess reserves with the central bank.
2. The policy is suited for nations economically suffering from persistent inflation or hyperinflation due to excess liquidity in the system.

Which of the above statements is/are correct?

- a) 1 only
- b) 2 only

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

Solution: a)

- Under the policy, financial institutions are required to pay interest for parking excess reserves with the central bank.
- This extraordinary monetary policy tool is **used to strongly encourage borrowing, spending, and investment** rather than hoarding cash, which will lose value to negative deposit rates.
- Officially set negative rates have been seen in practice following the 2008 financial crisis in several jurisdictions such as in parts of Europe and in Japan.

43) The provision of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) shall apply to

1. All Scheduled Commercial Banks (SCBs)
2. Small Finance Banks (SFBs)
3. Payments Banks
4. Local Area Banks (LABs)

Select the correct answer code:

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

Solution: d)

The provisions of **Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)** shall apply to **all Scheduled Commercial Banks (SCBs)** (including Regional Rural Banks), **Small Finance Banks (SFBs)**, **Payments Banks**, **Local Area Banks (LABs)**, Primary (Urban) Co-operative Banks (UCBs), State Co-operative Banks (StCBs) and District Central Co-operative Banks (DCCBs) unless stated to the contrary.

44) Consider the following statements regarding the Marginal Standing Facility (MSF).

1. MSF functions as the last resort for banks to borrow short-term funds over and above that available under the Liquidity Adjustment Facility Window (LAF).
2. MSF is an extraordinary rate at which banks can borrow money from the central bank by a much cheaper route than repo rate.

Which of the above statements is/are incorrect?

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

Solution: b)

Marginal standing facility (MSF) is a window for banks to borrow from the Reserve Bank of India in an emergency situation when inter-bank liquidity dries up completely.

Banks borrow from the central bank by pledging government securities at a **rate higher than the repo rate** under liquidity adjustment facility or LAF in short.

Under MSF, banks can borrow funds up to one percentage of their net demand and time liabilities (NDTL).

45) Consider the following statements regarding Repo market.

1. Repo is a money market instrument, which enables collateralised short term borrowing and lending through sale/purchase operations in debt instruments.
2. The repo market is regulated by the Reserve Bank of India.

3. In the event of inflation, the repo rate is reduced as this reduces liquidity in the system.

Which of the above statements is/are correct?

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

Solution: b)

Repo is a money market instrument, which enables collateralised short term borrowing and lending through sale/purchase operations in debt instruments. Under a repo transaction, a holder of securities sells them to an investor with an agreement to repurchase at a predetermined date and rate.

In the event of inflation, central banks increase repo rate as this acts as a disincentive for banks to borrow from the central bank. This ultimately reduces the money supply in the economy and thus helps in arresting inflation.

46) Consider the following statements regarding Local Area Banks.

1. The Local Area Banks (LABs) are small private banks which would provide financial intermediation services primarily in rural and semi-urban areas.
2. The promoters of the bank may comprise of private individuals, corporate entities, trusts and societies.
3. LABs are not required to observe the priority sector lending targets.

Which of the above statements is/are correct?

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

Solution: b)

The Local Area Banks (LABs) are small private banks, conceived as low cost structures which would provide efficient and competitive financial intermediation services in a limited area of operation, i.e., **primarily in rural and semi-urban areas.**

LABs were created following an announcement made by the then Finance Minister in the Union Budget in August 1996.

The promoters of the bank may comprise of private individuals, corporate entities, trusts and societies.

Since LABs are being set up in district towns, their activities are focused on the local customers with lending primarily to agriculture and allied activities, small scale industries, agro-industrial activities, trading activities and the non-farm sector. **LABs are also required to observe the priority sector lending targets.**

47) Consider the following statements regarding Non-Banking Financial Company (NBFC).

1. It should be a company registered under Banking Regulation Act, 1949.
2. It is engaged in the business of loans and advances, acquisition of shares or debentures issued by Government or local authority.
3. It's one of the principal business is to provide services such as sale/purchase/construction of immovable property.

Which of the above statements is/are correct?

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

Solution: b)

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

48) Non-Banking Financial Companies (NBFCs) are doing functions similar to banks. What is difference between banks & NBFCs?

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

Select the correct answer code:

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

Solution: d)

NBFCs lend and make investments and hence their activities are akin to that of banks; however there are a few differences as given below:

- i. **NBFC cannot accept demand deposits;**
- ii. **NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;**
- iii. **deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.**

49) Consider the following statements regarding Urban cooperative banks (UCBs).

1. Over 90 per cent of their loan size is less than ₹5 lakh.
2. They are mainly present in North and North-Western States.
3. They are under the direct supervision of the Reserve Bank of India (RBI).

Which of the above statements is/are correct?

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

Solution: b)

The market share of UCBs is very small (about 3 per cent) because **over 90 per cent of their loan ticket size is less than ₹5 lakh**, and historically they are well spread out only in a few States. **The States where UCBs have a good presence are: Maharashtra, Gujarat, Karnataka, Tamil Nadu and Kerala.**

The BR Act, 1949, is an Act meant for banking companies. The Act was amended in 1965 to bring cooperative banks under RBI regulation. The control of the RBI was partial and it shared the control with the registrar of cooperative societies of States.

The recent Banking Regulation (Amendment) Act 2020 enables the RBI to get all the powers, including those hitherto exclusively with the registrar of cooperative societies.

50) Consider the following statements regarding Ever-greening of Loans.

1. Ever-greening loans is lending a new loan to a borrower on the verge of default, near the repayment date of an existing loan, to facilitate its repayment.
2. Banks are required to disclose them like they disclose the restructurings of loans.

Which of the above statements is/are correct?

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

Solution: a)

Ever-greening loans is lending a new loan to a borrower on the verge of default, near the repayment date of an existing loan, to facilitate its repayment (Tantri, 2020). Such transactions go undetected as banks are not required to disclose them, unlike restructurings that warrant disclosures.

51) Consider the following statements.

1. Real GDP is the GDP derived after adding the effect of inflation.
2. The difference between the real and nominal GDP shows the levels of inflation in the year.

Which of the above statements is/are correct?

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

Solution: b)

Real GDP, which is the GDP after taking away the effect of inflation, is a derived metric. All Budget calculations start with the nominal GDP.

Real GDP = Nominal GDP – Inflation Rate

However, from the perspective of the common people, real GDP is what matters. **The difference between the real and nominal GDP shows the levels of inflation in the year.**

52) India's external debt stock can increase because of an increase in

1. Foreign Direct Investment
2. External Commercial Borrowings
3. Non-resident Indian Deposits

Select the correct answer code:

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

Solution: b)

External debt can be mainly classified into Long term and Short-term debts.

Long-Term debt is further classified into (a) Multilateral Debt (b) Bilateral Debt (c) 'IMF' signifying SDR allocations to India by the IMF (c) Export Credit (d) (External) Commercial Borrowings (e) NRI Deposits and (d) Rupee Debt.

Short Term Debt is classified into (a) Trade Credits (of up to 6 months and above 6 months and up to 1 year) (b) Foreign Institutional Investors' (FII) Investment in Government Treasury-Bills and Corporate Securities (c) Investment in Treasury-bills by foreign Central Banks and International Institutions etc.

FDI does not lead to any debt on the country.

53) When the Reserve Bank of India increases the repo rate by 50 basis points, which of the following likely to happen?

- a) India's GDP growth rate increases drastically
- b) Foreign Institutional Investors may bring more capital into our country
- c) It may drastically reduce the liquidity to the banking system.
- d) Scheduled Commercial Banks may increase their lending rates

Solution: d)

Increase in repo rate by RBI would largely lead to increase in lending rates of banks.

54) A progressive and a regressive taxation system is differentiated on the basis of

- a) Potential for revenue collection
- b) Equity in taxation
- c) Impact of taxation on industrial growth
- d) Sustainability and robustness of taxation system

Solution: b)

A progressive tax is defined as a tax whose rate increases as the payer's income increases. That is, individuals who earn high incomes have a greater proportion of their incomes taken to pay the tax.

A regressive tax, on the other hand, is one whose rate increases as the payer's income decreases.

Particular taxes can also be classified as regressive or progressive.

For e.g. consumption taxes are called as regressive, as rich spend less (and hence pay less taxes) on consumption goods as a proportion of their income.

55) Consider the following statements regarding Reserve Money.

1. Reserve money consists of vault cash in banks and deposits of commercial banks with RBI.
2. Banks use this reserve to meet the demand for cash by account holders.

Which of the above statements is/are incorrect?

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

Solution: d)

Banks hold a part of the money people keep in their bank deposits as reserve money and loan out the rest to various investment projects. **Reserve money consists of two things – vault cash in banks and deposits of commercial banks with RBI.** Banks use this reserve to meet the demand for cash by account holders.

56) Consider the following statements regarding GDP deflator.

1. The GDP deflator is basically a measure of inflation.
2. It helps show the extent to which the increase in gross domestic product has happened on account of higher prices rather than increase in output.
3. It covers only those goods and services directly consumed by households.

Which of the above statements is/are correct?

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

Solution: b)

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

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

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

57) Which of the following has the highest weightage under Consumer Price Index urban?

- a) Fuel and Light
- b) Food and beverages
- c) Clothing and footwear
- d) Housing

Solution: b)

In India, the most important category in the consumer price index is Food and beverages which has highest weight in CPI rural and CPI urban.

58) Consider the following statements.

1. Unemployment rate helps in giving a measure of those who are willing to take on jobs but are not employed.
2. Labour participation rate helps measure the section of the population that is willing to take on jobs.

Which of the above statements is/are incorrect?

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

Solution: d)

The labour participation rate (LPR) for April 2021, at 40%, remained lower than the levels seen before last year's lockdown. **Labour participation helps measure the section of the population that is willing to take on jobs. Unemployment is a subset, which helps in giving a measure of those who are willing to take on jobs but are not employed.**

59) Which of the following is/are the major traits of Recession?

1. General fall in demand
2. Unemployment rate falls
3. Inflation remains lower or/and shows further signs of falling down

Select the correct answer code:

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

Solution: c)

Major traits of recession, to a great extent, are similar to that of 'depression'—may be summed up as follows:

- (i) **there is a general fall in demand as economic activities takes a downturn;**
- (ii) **inflation remains lower or/and shows further signs of falling down;**
- (iii) **employment rate falls/unemployment rate grows;**
- (iv) **Industries resort to 'price cuts' to sustain their business.**

60) Which of the following are the effects of Inflation?

1. Erodes Purchasing Power
2. Lowers the cost of borrowing
3. Reduces unemployment

Select the correct answer code:

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

Solution: d)

Inflation, the steady rise of prices for goods and services over a period, has many effects, good and bad. Inflation erodes purchasing power or how much of something can be purchased with currency.

Because inflation erodes the value of cash, it encourages consumers to spend and stock up on items that are slower to lose value.

It lowers the cost of borrowing and reduces unemployment.

61) The FRBM Act contain an 'escape clause' under which Centre can exceed the annual fiscal deficit target on which of the following grounds?

1. National security
2. Structural Reforms
3. Collapse of agriculture
4. Decline in real output growth of a quarter by at least three percentage points below the average of the previous four quarters.

Select the correct answer code:

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

Solution: c)

How does a relaxation of the FRBM work?

The law does contain what is commonly referred to as an 'escape clause'. Under Section 4(2) of the Act, the Centre can exceed the annual fiscal deficit target citing grounds that include **national security, war, national calamity, collapse of agriculture, structural reforms and decline in real output growth of a quarter by at least three percentage points below the average of the previous four quarters.**

62) Gross Domestic Capital Formation (GDCF), often seen in the Budget and Economic Surveys, essentially refers to

- a) Creation of Infrastructure or durable economic assets
- b) Capitalization of the Banking sector
- c) Direct Retail Investment in consumer goods sector
- d) Money circulation in public hands

Solution: a)

Capital formation means creation of physical assets and non- physical capital consisting of public health efficiency, visible and no visible capital.

Gross domestic capital formation is the addition to the capital stock within the domestic territory of a country during a year.

Gross domestic capital formation includes all expenses made by household, business people and Govt, adding new durable goods to the fixed capital stock of a country.

These assets are in the form of infrastructure such as buildings, roads canals, bridges, means of transport, machinery and other equipments.

63) With reference to Union Budget, which of the following is/are covered under Capital receipts?

1. Disinvestment
2. Revenue from Income tax
3. Funds from Public Provident Fund
4. Interest and dividend on government investment

Select the correct answer code:

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

Solution: a)

Government receipts which either (i) create liabilities (e.g. borrowing) or (ii) reduce assets (e.g. disinvestment) are called capital receipts. Thus when govt. raises funds either by incurring a liability or by disposing off its assets, it is called a capital receipt.

Two examples of Capital Receipts which create liability are **Borrowing and raising of funds from Public Provident Fund and Small savings deposits.**

Two examples of Capital Receipts which reduce assets are **Disinvestment and Recovery of Loans.** Disinvestment by government means selling a part or whole of its shares of public sector undertakings. Funds raised from disinvestment reduce government assets

64) Consider the following statements regarding Revenue receipts.

1. Revenue receipts neither create any liability nor cause any reduction in the assets of the government.
2. Revenue receipts lead to reduction in the government's assets.
3. They are regular and recurring in nature.

Which of the above statements is/are correct?

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

Solution: a)

Revenue receipts can be defined as those receipts which neither create any liability nor cause any reduction in the assets of the government. **They are regular and recurring in nature and the government receives them in the normal course of activities.**

Revenue receipts include the proceeds from taxes and other duties levied by the Centre; the interest and dividend it receives on its investments; and the fees and charges the government receives for its services.

Simply put, **revenue receipts must satisfy two basic conditions:**

- **No liability: Revenue receipts do not create any liability for the government.** For example, taxes received by the government, unlike borrowings, do not create any liabilities for it.
- **No asset reduction: Revenue receipts do not lead to any reduction in the government's assets.** So, the government cannot show its earnings from sale of stake in a public-sector undertaking as revenue receipts because the stake sale resulted in reduction of its assets.

For the government, there are two sources of revenue receipts — tax revenues and non-tax revenues

65) Consider the following statements.

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1. Tax revenue is charged on income earned by an individual or an entity and on the value of transaction of goods and services.

2. Non-tax revenue includes interest charged on loans advanced by the government for various purposes.

Which of the above statements is/are incorrect?

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

Solution: d)

Tax revenue is charged on income earned by an individual or an entity (direct tax) and on the value of transaction of goods and services (indirect tax). On the other hand, **non-tax revenue is charged against services provided by the government.** It also includes interest charged on loans advanced by the government for various purposes.

66) Consider the following statements regarding the Importance of Fiscal Policy in India.

- 1. Fiscal policy plays a key role in elevating the rate of capital formation both in the public and private sectors.
- 2. Fiscal policy helps in providing stimulus to elevate the savings rate.
- 3. It aims to minimise the imbalance in the dispersal of income and wealth.

Which of the above statements is/are correct?

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

Solution: d)

Importance of Fiscal Policy in India:

- In a country like India, **fiscal policy plays a key role in elevating the rate of capital formation both in the public and private sectors.**
- Through taxation, the fiscal policy helps mobilise considerable amount of resources for financing its numerous projects.
- **Fiscal policy also helps in providing stimulus to elevate the savings rate.**
- The fiscal policy gives adequate incentives to the private sector to expand its activities.
- **Fiscal policy aims to minimise the imbalance in the dispersal of income and wealth.**

67) Consider the following statements.

- 1. Counter-cyclical fiscal policy becomes critical during an economic crisis.
- 2. Counter-cyclical fiscal policy is the one wherein fiscal policy reinforces the business cycle by being expansionary (increase spending/reduce taxes) during good times and contractionary (reduce spending/increase taxes) during recessions.
- 3. Pro-cyclical fiscal policy stabilizes the business cycle by being contractionary in good times and expansionary during recessions.

Which of the above statements is/are correct?

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

Solution: a)

While counter-cyclical fiscal policy is necessary to smooth out economic cycles, it becomes critical during an economic crisis.

Relevance of Counter-cyclical Fiscal Policy:

Indian Kings used to build palaces during famines and droughts to provide employment and improve the economic fortunes of the private sector. Economic theory, in effect, makes the same recommendation: in a recessionary year, Government must spend more than during expansionary times. Such **counter-cyclical fiscal policy stabilizes the business cycle by being contractionary (reduce spending/increase taxes) in good times and expansionary (increase spending/reduce taxes) in bad times. On the other hand, a pro-cyclical fiscal policy is the one wherein fiscal policy reinforces the business cycle by being expansionary during good times and contractionary during recessions.**

68) The Fiscal Policy intends to

1. Control the price level of the country
2. Achieve full employment, or near full employment
3. Maintain the economy's growth rate

Select the correct answer code:

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

Solution: d)

Main objectives of Fiscal Policy in India:

- **Economic growth:** Fiscal policy helps maintain the economy's growth rate so that certain economic goals can be achieved.
- **Price stability:** It controls the price level of the country so that when the inflation is too high, prices can be regulated.
- **Full employment:** It aims to achieve full employment, or near full employment, as a tool to recover from low economic activity.

69) Which of the following forms part of Capital Receipts?

1. Sale of shares in Public Sector Undertakings (PSUs)
2. Recovery of loans
3. Fresh loans given by Government.

Select the correct answer code:

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

Solution: b)

Fresh loans given by Government forms the part of Capital expenditure.

Capital Receipts: The government also receives money by way of loans or from the sale of its assets. Loans will have to be returned to the agencies from which they have been borrowed. Thus they create liability. **Sale of government assets, like sale of shares in Public Sector Undertakings (PSUs)** which is referred to as PSU disinvestment, reduce the total amount of financial assets of the government. All those receipts of the government which create liability or reduce financial assets are termed as capital receipts. **When government takes fresh loans, it will mean that in future these loans will have to be returned and interest will have to be paid on these loans.**

70) Which of the following measures is/are examples of expansionary fiscal policy?

1. Tax rebate to companies
2. Increasing the subsidies
3. Providing loans at higher interest rates

Select the correct answer code:

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

Solution: b)

Expansionary fiscal policy is a form of fiscal policy that **involves decreasing taxes, increasing government expenditures** or both, in order to fight recessionary pressures.

Increasing the subsidies decreases the out of pocket expenditure. Thus, increases the spending capacity.

Tax rebate to companies increase the profit to companies. This further helps in reducing the prices of goods and services. Thus, increase the demand in the economy.

Providing loans at higher interest rate decreases the demand for the loans. Thus, it decreases the liquidity in the market and leads to decreases the spending capacity.

71) Which of the following are Non-tax revenue receipts?

1. Profits and dividends
2. Disinvestment proceeds
3. Fees, Penalties and Fines
4. Grants
5. Interests received

Select the correct answer code:

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

Solution: b)

Non-tax revenue receipts:

This includes all money earned by the government from sources other than taxes. In India they are:

(i) **Profits and dividends** which the government gets from its public sector undertakings (PSUs).

(ii) **Interests received by the government** out of all loans forwarded by it, be it inside the country (i.e., internal lending) or outside the country (i.e., external lending). It means this income might be in both domestic and foreign currencies.

(iii) Fiscal services also generate incomes for the government, i.e., currency printing, stamp printing, coinage and medals minting, etc.

(iv) General Services also earn money for the government as the power distribution, irrigation, banking, insurance, community services, etc.

(v) **Fees, Penalties and Fines received by the government.**

(vi) **Grants which the governments receive**— it is always external in the case of the Central Government and internal in the case of state governments.

72) Consider the following statements regarding cess and surcharge.

1. A cess imposed by the central government is a tax on tax, levied by the government for a specific purpose.
2. Surcharge is charged on the tax already paid.
3. The Centre need not share both Cess and Surcharges with states.
4. The proceeds collected from a *surcharge* and a cess form part of the Public Account of *India*.

Which of the above statements is/are correct?

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

Solution: a)

A cess imposed by the central government is a tax on tax, levied by the government for a specific purpose. Generally, cess is expected to be levied till the time the government gets enough money for that purpose.

Surcharge is a charge on any tax, charged on the tax already paid. As the name suggests, surcharge is an additional charge or tax. The main surcharges are that on personal income tax (on high income slabs and on super rich) and on corporate income tax.

Another major feature of cess like surcharges is that the Centre need not share it with states.

The proceeds collected from a **surcharge** and a cess levied by the union form part of the **Consolidated Fund of India**.

73) Consider the following statements regarding Revenue Expenditure.

1. Revenue Expenditure is expenditure incurred for purposes other than the creation of physical or financial assets of the Government.
2. Interest payments on debt incurred by the government and repayment of debt forms the part of Revenue Expenditure.

Which of the above statements is/are correct?

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

Solution: a)

Revenue Expenditure is expenditure incurred for purposes other than the creation of physical or financial assets of the central government. It relates to those expenses incurred for the normal functioning of the government departments and various services, **interest payments on debt incurred by the government**, and grants given to state governments and other parties (even though some of the grants may be meant for creation of assets).

74) Consider the following statements regarding Transfer payments.

1. They consist of remittances, gifts and grants.
2. They could be given by the government or by private citizens living abroad.
3. They also include payments made by the government to its employees.

Which of the above statements is/are correct?

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

Solution: b)

In macroeconomics and finance, a **transfer payment is a redistribution of income and wealth by means of the government making a payment, without goods or services being received in return.**

They are the receipts which the residents of a country get for 'free', without having to provide any goods or services in return.

They consist of gifts, remittances and grants.

They could be given by the government or by private citizens living abroad.

75) Consider the following statements regarding Methods of Taxation.

1. Proportional taxation have fixed rates for every level of income or production.
2. Regressive taxation has increasing rates of tax for increasing value or volume on which the tax is being imposed.
3. Progressive taxation has decreasing rates of tax for increasing value or volume on which the tax is being imposed.

Which of the above statements is/are correct?

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

Solution: a)

Methods of Taxation

There are three methods of taxation prevalent in economies.

Progressive taxation

This method has increasing rates of tax for increasing value or volume on which the tax is being imposed.

Indian income tax is a typical example of it. The idea here is less tax on the people who earn less and higher tax on the people who earn more.

Regressive taxation

This is just opposite to the progressive method having decreasing rates of tax for increasing value or volume on which the tax is being imposed.

As a provision of promotion, some sectors might be imposed with regressive taxes. As for example, to promote the growth and development of small-scale industries, India at one time had regressive excise duty on their productions—with increasing slabs of volume they produced, the burden of tax used to go on decreasing.

Proportional taxation

Such taxes have fixed rates for every level of income or production, they are neutral from the poor or rich point of view or from the point of view of the levels of production. Usually, this is not used by the economies as an independent method of taxation.

76) Consider the following statements about Socialist economy.

1. It emphasises the collective ownership of the means of production.
2. Its only central goal is to attain economic efficiency by most optimum utilization of factors of production.

Which of the above statements is/are correct?

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

Solution: a)

Socialistic economy emphasises the collective ownership of the means of production (property and assets). It also ascribes a large role to the state in running the economy.

A socialist economy's **central goal is the welfare of its subjects** by progressive and equitable distribution of income, widespread employment, economic growth etc.

Economic efficiency is generally the goal of capitalist economies.

77) Consider the following statements regarding Cash Reserve Ratio (CRR).

1. It is the fraction of the total Net Demand and Time Liabilities (NDTL) of a Scheduled Commercial Bank in India that has to maintain as cash deposit with the RBI.
2. It applies uniformly to all banks in the country irrespective of an individual bank's financial situation or size.
3. Banks are paid interest for parking the required cash under CRR.

Which of the above statements is/are correct?

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

Solution: b)

Cash Reserve Ratio refers to the fraction of the total Net Demand and Time Liabilities (NDTL) of a Scheduled Commercial Bank held in India, that it has to maintain as cash deposit with the Reserve Bank of India (RBI).

The requirement applies uniformly to all banks in the country irrespective of an individual bank's financial situation or size. In contrast, certain countries e.g. China stipulates separate reserve requirements for 'large' and 'small' banks.

As per the RBI Act 1934, all Scheduled Commercial Banks (that includes public and private sector banks, foreign banks, regional rural banks and co-operative banks) are required to maintain a cash balance on average with the RBI on a fortnightly basis to cater to the CRR requirement.

Presently, banks are not paid any interest on behalf of the RBI for parking the required cash. If a bank fails to meet its required reserve requirements, the RBI is empowered to impose a penalty by charging a penal interest rate.

78) Consider the following statements regarding India's External Sector.

1. Despite all the disruptions caused by the Covid-19 pandemic, India's balance of payments remained in surplus since the start of Covid-19 pandemic.
2. India's foreign exchange reserves as on 31st December 2021 was more than 20 months of imports.
3. India was never in the top five position of largest foreign exchange reserves holder in the world.

Which of the above statements is/are incorrect?

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

Solution: d)

Despite all the disruptions caused by the global pandemic, India's balance of payments remained in surplus throughout the last two years. This allowed the Reserve Bank of India to keep accumulating foreign exchange reserves, which stands at US\$634 billion on 31st December 2021). **This is equivalent to 13.2 months of imports** and higher than the country's external debt. **As of end-November 2021, India was the fourth largest foreign exchange reserves holder in the world** after China, Japan, and Switzerland.

79) Which of the following are indirect taxes?

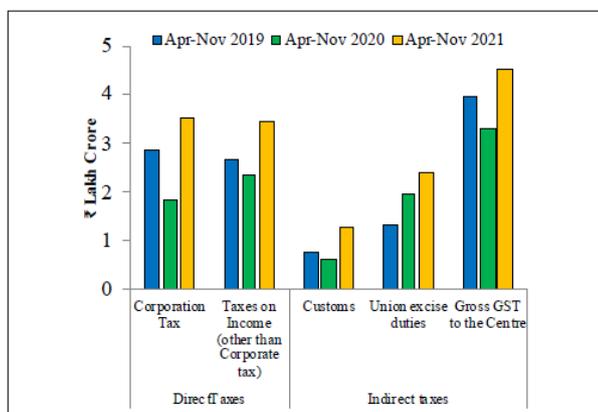
1. Union Excise duty
2. Goods and Services Tax
3. Corporation tax
4. Customs duty

Select the correct answer code:

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

Solution: c)

Figure 29: Direct and indirect tax revenue



Source: Office of CGA

80) Consider the following statements regarding Angel Investor.

1. An angel investor is a private equity investor that provides capital to companies exhibiting high growth potential in exchange for an equity stake.
2. They fund startups at the early stages.
3. Usually angel investors are found among an entrepreneur's family and friends.

Which of the above statements is/are correct?

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

Solution: c)

An angel investor (also known as a private investor, seed investor or angel funder) is a high-net-worth individual who provides financial backing for small startups or entrepreneurs, typically in exchange for ownership equity in the company. Often, angel investors are found among an entrepreneur's family and friends.

The funds that angel investors provide may be a one-time investment to help the business get off the ground or an ongoing injection to support and carry the company through its difficult early stages.

- Angel investing is often the primary source of funding for many startups who find it more appealing than other, more predatory, forms of funding.
- The support that angel investors provide startups fosters innovation which translates into economic growth.

A venture capitalist (VC) is a private equity investor that provides capital to companies exhibiting high growth potential in exchange for an equity stake.

81) Which of the following is/are included in the factor cost?

1. Subsidies on loans provided to MSMEs
2. Government Grants
3. Goods and Service Tax (GST)

Select the correct answer code:

- a) 1, 2

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

Solution: a)

Factor cost or national income by type of income is a measure of national income or output based on the cost of factors of production, instead of market prices.

Factor cost refers to the actual cost of the various factors of production includes **government grants and subsidies** but it **excludes indirect taxes**.

Since, GST is an indirect tax, it is not included in Factor cost.

82) Which of the following statements refer to Primary Deficit?

- a) The difference between Revenue Deficit and Grants for Creation of Capital Assets.
- b) It is measured as Fiscal Deficit less interest payments.
- c) Excess of revenue expenditure over revenue receipts.
- d) It is the total deficit of the government for that financial year.

Solution: b)

Fiscal Deficit is the difference between the Revenue Receipts plus Non-debt Capital Receipts (NDCR) and the total expenditure. FD is reflective of the total borrowing requirements of Government.

Revenue Deficit refers to the excess of revenue expenditure over revenue receipts.

Effective Revenue Deficit is the difference between Revenue Deficit and Grants for Creation of Capital Assets.

Primary Deficit is measured as Fiscal Deficit less interest payments.

83) Which of the following measures is/are examples of expansionary fiscal policy?

1. Increasing the rate of interest on loans
2. Increasing the Government grants
3. Increasing Tax concessions to MSMEs

Select the correct answer code:

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

Solution: c)

Expansionary fiscal policy is a form of fiscal policy that involves **decreasing taxes, increasing government expenditures** or both, in order to fight recessionary pressures.

Providing loans at higher interest rate decreases the demand for the loans. Thus, it decreases the liquidity in the market and leads to decreases the spending capacity.

Tax concessions to MSMEs help in reducing the prices of goods and services. Thus, increase the demand in the economy.

Increasing the government grants increases the spending capacity.

84) Consider the following statements regarding Gross Value Added (GVA):

1. Gross value added (GVA) is defined as the value of output less the value of intermediate consumption.
2. GVA at basic prices will include production subsidies and exclude production taxes available on the commodity.

Which of the above statements is/are incorrect?

- a) 1 only

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

Solution: b)

Gross value added (GVA) is defined as the value of output less the value of intermediate consumption. Value added represents the contribution of labour and capital to the production process.

GVA at basic prices will include production taxes and exclude production subsidies available on the commodity.

On the other hand, GVA at factor cost includes no taxes and excludes no subsidies and GDP at market prices include both production and product taxes and excludes both production and product subsidies

By formula: $GVA \text{ at factor cost} + (\text{Production taxes less Production subsidies}) = GVA \text{ at basic prices.}$

$GDP \text{ at market prices} = GVA \text{ at basic prices} + \text{Product taxes} - \text{Product subsidies}$

85) Which five-year plan was based on the Harrod-Domar model?

- a) First Five-year plan
- b) Second Five-year plan
- c) Third Five-year plan
- d) Sixth Five-year plan

Solution: a)

The First Five-year Plan was launched in 1951 which mainly focused in development of the primary sector.

It was based on the Harrod-Domar model with a few modifications.

86) Consider the following statements regarding Revenue deficit.

1. When the government incurs a revenue deficit, it implies that the government is using up the savings of the other sectors of the economy to finance a part of its consumption expenditure.
2. The situation means that the government will have to borrow to finance its investment.
3. Increase in revenue deficit can lead to lower growth in economy.

Which of the above statements is/are correct?

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

Solution: d)

Revenue Deficit: The revenue deficit refers to the excess of government's revenue expenditure over revenue receipts

Revenue deficit = Revenue expenditure – Revenue receipts

The revenue deficit includes only such transactions that affect the current income and expenditure of the government. When the government incurs a revenue deficit, it implies that the government is dissaving and is using up the savings of the other sectors of the economy to finance a part of its consumption expenditure.

This situation means that the **government will have to borrow not only to finance its investment but also its consumption requirements.** This will lead to a build-up of stock of debt and interest liabilities and force the government, eventually, to cut expenditure. Since a major part of revenue expenditure is committed expenditure, it cannot be reduced. **Often the government reduces productive capital expenditure or welfare expenditure. This would mean lower growth and adverse welfare implications.**

87) Consider the following statements.

1. Effective Revenue Deficit is the difference between Revenue Deficit and Grants for Creation of Capital Assets.

2. Primary Deficit is the difference between the Revenue Receipts plus Non-Debt Capital Receipts (NDCR) and the total expenditure.

Which of the above statements is/are correct?

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

Solution: a)

Fiscal Deficit is the difference between the Revenue Receipts plus Non-Debt Capital Receipts (NDCR) and the total expenditure.

FD is reflective of the total borrowing requirement of Government. Revenue Deficit refers to the excess of revenue expenditure over revenue receipts. **Effective Revenue Deficit is the difference between Revenue Deficit and Grants for Creation of Capital Assets.** Primary Deficit is measured as Fiscal Deficit less interest payments.

88) Which of the following are the means of Deficit financing?

- 1. External Aid
- 2. Internal Borrowing
- 3. Printing Currency
- 4. External Borrowings

Select the correct answer code:

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

Solution: d)

(i) External Aids are the best money as a means to fulfil a government's deficit requirements even if it is coming with soft interest. If they are coming without interest nothing could be better.

(ii) External Borrowings are the next best way to manage fiscal deficit with the condition that the external loans are comparatively cheaper and long-term.

(iii) Internal Borrowings come as the third preferred route of fiscal deficit management. But going for it in a huge way hampers the investment prospects of the public and the corporate sector. It has the same impact on the expenditure pattern in the economy.

(iv) Printing Currency is the last resort for the government in managing its deficit. But it has the biggest handicap that with it the government cannot go for the expenditures which are to be made in the foreign currency.

Now, it remains a matter of choice and availability of the above-given means, and which means a government adopts and in what proportion, for fulfilling its deficit requirements.

89) Consider the following statements.

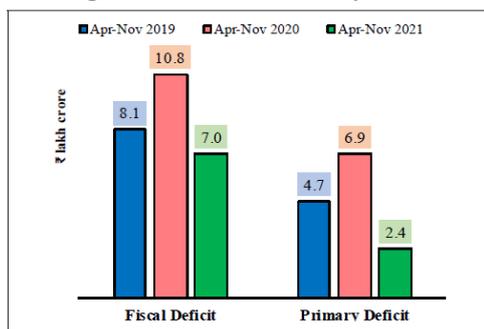
- 1. The size of Primary deficit is always higher than the Fiscal Deficit.
- 2. When the primary deficit reduces to half the value compared to the previous year, it implies that the Government has the fiscal capacity to maintain the support, and ramp up capital expenditure when required.

Which of the above statements is/are incorrect?

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

Solution: a)

Figure 30: Fiscal and Primary deficit



Source: Office of CGA

The primary deficit during the period April to November 2021 turned up at nearly half of the level it had reached during April to November 2019. **This implies that the Government has the fiscal capacity to maintain the support, and ramp up capital expenditure when required.**

90) Arrange the following deficits (In terms of % of GDP) of India from highest to lowest?

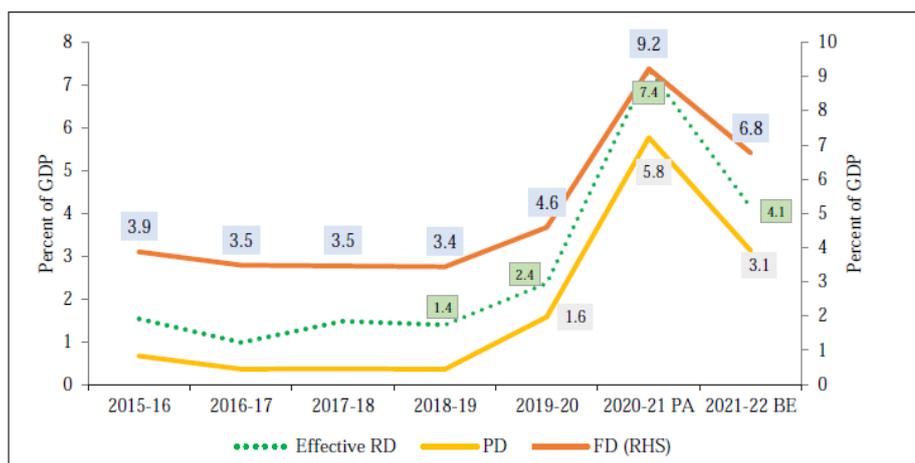
1. Fiscal Deficit
2. Effective Revenue Deficit
3. Primary Deficit

Select the correct answer code:

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

Solution: a)

Figure 13: Trends in Deficits



91) Consider the following statements regarding Imported Inflation.

1. When the general price level rises in a country because of the rise in prices of imported commodities, inflation is termed as imported.

2. The weakening of the domestic currency may lead to imported inflation in the country.

Which of the above statements is/are correct?

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

Solution: c)

When the general price level rises in a country due to the rise in prices of imported commodities, inflation is termed imported. Inflation may also rise due to **depreciation of the domestic currency, which pushes up the landed rupee cost of imported items.**

92) Which among the following is/are likely to result in current account surplus of Balance of Payments (BoP)?

1. Increase in the remittances received from abroad.
2. Steep fall in global crude oil prices
3. External commercial borrowing

Select the correct answer code:

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

Solution: b)

External Commercial borrowing is a part of Capital account.

93) Consider the following statements regarding Current account convertibility.

1. Current account convertibility means freedom to convert domestic currency into foreign currency and vice versa for trade in goods and invisibles.
2. Under current account convertibility for rupee, an exporter can sell the foreign currency he obtained from exporting a commodity at the market determined exchange rate in India.
3. There is partial Current account convertibility in India, so as to limit imports into the country.

Which of the above statements is/are correct?

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

Solution: a)

Current account convertibility means freedom to convert domestic currency into foreign currency and vice versa for trade in goods and invisibles (services, transfers or income from investment). Individuals and entities can convert currencies in the foreign exchange market.

Current account convertibility is one part of currency convertibility.

When there is current account convertibility for rupee, an exporter can sell the US Dollars (or other foreign currency) he obtained from exporting a commodity at the market determined exchange rate in India. This means that there is no exchange controls (foreign exchange controls). Similarly, when an importer buys foreign currency from India's foreign exchange market by exchanging rupee, it is current account convertibility.

In India, there is full current account convertibility since August 20, 1993.

94) The Agreement on Trade-Related Investment Measures (TRIMs), is related to

- a) Current Account Convertibility
- b) Domestic regulations a country applies to foreign investors
- c) Most-favoured Nation principle
- d) Duty free International market access to developing countries

Solution: b)

The Agreement on Trade-Related Investment Measures (TRIMs) are rules that are applicable to the domestic regulations a country applies to foreign investors, often as part of an industrial policy. The agreement, concluded

in 1994, was negotiated under the WTO's predecessor, the General Agreement on Tariffs and Trade (GATT), and came into force in 1995. The agreement was agreed upon by all members of the World Trade Organization. Trade-Related Investment Measures is one of the four principal legal agreements of the WTO trade treaty.

95) Which of the following is/are part of Balance on Invisibles under Current Account?

1. Sale of service products like shipping and tourism
2. Value of exports and imports of goods
3. Services trade, including both factor and non-factor income

Select the correct answer code:

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

Solution: b)

Balance on Current Account has two components:

- Balance of Trade or Trade Balance
- Balance on Invisibles

Balance of Trade (BOT) is the difference between the value of exports and value of imports of goods of a country in a given period of time.

Net Invisibles is the difference between the value of exports and value of imports of invisibles of a country in a given period of time. Invisibles include services, transfers and flows of income that take place between different countries. Services trade includes both factor and non-factor income. Factor income includes net international earnings on factors of production (like labour, land and capital). **Non-factor income is net sale of service products like shipping, banking, tourism, software services, etc.**

96) Which of the following are merits of flexible exchange rate system?

1. The main feature of the flexible exchange rate system is that there must be credibility that the government will be able to maintain the exchange rate at the level specified.
2. Under flexible exchange rate system, the government need not maintain large stocks of foreign exchange reserves.
3. Movements in the exchange rate automatically take care of the surpluses and deficits in the BoP.

Select the correct answer code:

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

Solution: c)

Merits and Demerits of Flexible and Fixed Exchange Rate Systems

The main feature of the fixed exchange rate system is that there must be credibility that the government will be able to maintain the exchange rate at the level specified. Often, if there is a deficit in the BoP, in a fixed exchange rate system, governments will have to intervene to take care of the gap by use of its official reserves.

The flexible exchange rate system gives the government more flexibility and they do not need to maintain large stocks of foreign exchange reserves. The major advantage of flexible exchange rates is that movements in the exchange rate automatically take care of the surpluses and deficits in the BoP. Also, countries gain independence in conducting their monetary policies, since they do not have to intervene to maintain exchange rate which are automatically taken care of by the market.

97) Which of the following are potential benefits Capital Account Convertibility?

1. Availability of large funds to supplement domestic resources and thereby promote faster economic growth.
2. Improved access to international financial markets and reduction of the cost of capital.
3. Incentive for Indians to acquire and hold international securities and assets.

Select the correct answer code:

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

Solution: d)

The RBI appointed in 1997 the Committee on Capital Account Convertibility with Mr. S. S. Tarapore as its Chairperson. The Tarapore Committee defined CAC as **“the freedom to convert local financial assets into foreign financial assets and vice versa at market-determined rates of exchange.”** CAC would permit anyone to move freely from local currency into foreign currency and back.

The potential benefits from the scheme are:

1. Availability of large funds to supplement domestic resources and thereby promote faster economic growth.
2. Improved access to international financial markets and reduction of the cost of capital.
3. Incentive for Indians to acquire and hold international securities and assets.
4. Improvement (strengthening) of the financial system in the context of global competition.

98) India’s external debt stock can increase because of an increase in

1. Foreign Direct Investment
2. External Commercial Borrowings
3. Non-resident Indian Deposits

Select the correct answer code:

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

Solution: b)

External debt can be mainly classified into Long term and Short-term debts.

Long-Term debt is further classified into (a) Multilateral Debt (b) Bilateral Debt (c) ‘IMF’ signifying SDR allocations to India by the IMF (c) Export Credit (d) **(External) Commercial Borrowings** (e) **NRI Deposits** and (d) Rupee Debt.

Short Term Debt is classified into (a) Trade Credits (of up to 6 months and above 6 months and up to 1 year) (b) Foreign Institutional Investors’ (FII) Investment in Government Treasury-Bills and Corporate Securities (c) Investment in Treasury-bills by foreign Central Banks and International Institutions etc.

FDI does not lead to any debt on the country.

99) Which of the following is not a non-tariff measure?

- a) Import licencing procedures
- b) Technical Barriers to Trade
- c) Phytosanitary restrictions
- d) All of the above are non-tariff measures.

Solution: d)

Non-tariff measure (NTMs) are defined as policy measures, other than ordinary customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both. As a result, NTMs cover a broad range of policies including traditional trade policy instruments, such as quotas or price controls.

However, they also comprise technical regulatory measures that pursue important non-trade objectives that relate to health and environmental protection, such as **Sanitary and Phytosanitary (SPS) measures and Technical Barriers to Trade (TBT)**.

- 100) Consider the following statements regarding Bound rates or Bound Tariffs.
1. Bound rate is the maximum rate of duty (tariff) that can be imposed by the importing country on an imported commodity.
 2. Bound rate agreed for any commodity at WTO is same for all the members of WTO.

Which of the above statements is/are correct?

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

Solution: a)

Bound rate is the maximum rate of duty (tariff) that can be imposed by the importing country on an imported commodity. Here, each country commits itself to a ceiling on customs duties (tariff) on a certain number of products.

These rates vary from country to country and commodity to commodity. But no country can raise duties above the bound rate it has committed, and the rate of customs duty actually applied may be lower than the bound rate.

- 101) Geographical Indication tags are typically given for
1. Agricultural products
 2. Foodstuffs
 3. Handicrafts
 4. Wines and spirit drinks
 5. Industrial products

Select the correct answer code:

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

Solution: c)

The World Intellectual Property Organisation defines a GI as “a sign used on products that have a specific geographical origin and possess qualities or a reputation that are due to that origin”.

GIs are typically used for agricultural products, foodstuffs, handicrafts, industrial products, wines and spirit drinks. Darjeeling tea, Kullu shawl, Mysore agarbathi etc are some of its examples.

Internationally, GIs are covered as an element of intellectual property rights under the Paris Convention for the Protection of Industrial Property. They are also covered under the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement.

- 102) Consider the following statements regarding Intellectual Property Rights policy 2016.
1. It is entirely in compliant with the WTO’s agreement on TRIPS
 2. It aims to remove Compulsory Licensing clause from India's Patents Act.

Which of the above statements is/are correct?

- a) 1 only
- b) 2 only

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

Solution: a)

Intellectual Property Rights Policy which is in compliance with WTO's (World Trade Organisation) agreement on TRIPS (Trade Related aspects of IPRs), aims to sustain entrepreneurship.

As per the WTO norms, a CL can be invoked by a government allowing a company to produce a patented product without the consent of the patent owner in public interest. **Under the Indian Patents Act, a CL can be issued for a drug if the medicine is deemed unaffordable, among other conditions, and the government grants permission to qualified generic drug makers to manufacture it.**

- 103) Consider the following statements regarding Patent Cooperation Treaty (PCT).
1. The Patent Cooperation Treaty (PCT) assists applicants in seeking patent protection internationally for their inventions.
 2. By filing one international patent application under the PCT, applicants can simultaneously seek protection for an invention in a large number of countries.
 3. PCT is administered by World Trade Organisation (WTO).
- Which of the above statements is/are correct?

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

Solution: b)

The Patent Cooperation Treaty (PCT) assists applicants in seeking patent protection internationally for their inventions, helps patent offices with their patent granting decisions, and facilitates public access to a wealth of technical information relating to those inventions.

By filing one international patent application under the PCT, applicants can simultaneously seek protection for an invention in a large number of countries.

PCT is administered by **WIPO**.

- 104) Consider the following statements.
1. The Intellectual Property Appellate Board is a quasi-judicial body that exercises jurisdiction over trademarks, patents and geographical indications.
 2. The Copyright Board is entrusted with the task of adjudication of disputes pertaining to publication of translations and works for certain specified purposes.
 3. The jurisdiction of the Copyright Board extends outside India also.

Which of the above statements is/are correct?

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

Solution: b)

The Intellectual Property Appellate Board, a quasi-judicial body, was constituted in September 1958. The jurisdiction of the Copyright Board extends to the whole of India. The Board is entrusted with the task of adjudication of disputes pertaining to copyright registration, assignment of copyright, grant of Licenses in respect of works withheld from public, unpublished Indian works, production and publication of translations and works for certain specified purposes. It also hears cases in other miscellaneous matters instituted before it under the Copyright Act, 1957.

- 105) Consider the following statements.
1. Trade-Related Aspects of Intellectual Property Rights (TRIPS) is founded on the principle of “product patents”.
 2. Product patents allow inventors of new drugs to have exclusive rights to produce and sell them for some years.

Which of the above statements is/are incorrect?

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

Solution: d)

Trade-Related Aspects of Intellectual Property Rights (TRIPS) regime was promoted by the World Trade Organization in 1995 for uniform global IPR rules. **TRIPS is founded on the principle of “product patents”.** **Product patents allow inventors of new drugs to have exclusive rights to produce and sell them for some years.**

- 106) In WTO terminology, subsidies in general are identified by “boxes” which are given different colours. Consider the following statements about them.
1. Amber Box: Domestic support measures considered to distort production and trade
 2. Green box: Subsidies are allowed even if they distort trade.
 3. Blue Box: No limits on subsidies or spending

Which of the above statements is/are correct?

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

Solution: c)

All domestic support measures considered to distort production and trade (with some exceptions) fall into the **amber box**, which is defined as **all domestic supports except those in the blue and green boxes**. These include measures to **support prices, or subsidies directly related to production quantities**. These supports are subject to limits: “de minimis” minimal supports are allowed. This threshold is generally 5% of the value of agricultural production for developed countries, 10% for most developing countries.

In order to qualify, **green box subsidies must not distort trade, or at most cause minimal distortion**. They have to be government-funded (not by charging consumers higher prices) and must not involve price support.

Blue Box is the “amber box with conditions” — conditions designed to reduce distortion. Any support that would normally be in the amber box, is placed in the blue box if the support also requires farmers to limit production.

- 107) Consider the following statements.
1. WTO defines countries in the “developed” and “developing” categories based on their economic size, openness and per capita income.
 2. WTO members can challenge the decision of a member to make use of provisions available to developing countries.

Which of the above statements is/are correct?

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

Solution: b)

There are no WTO definitions of “developed” and “developing” countries. Members announce for themselves whether they are “developed” or “developing” countries.

However, **other members can challenge the decision of a member to make use of provisions available to developing countries.**

What are the advantages of “developing country” status?

- Developing country status in the WTO brings certain rights.
- **Developing country status ensures special and differential treatment (S&DT) or provisions which allow them more time to implement agreements and commitments**, include measures to increase trading opportunities, safeguard their trade interests, and support to build capacity to handle disputes and implement technical standards.

108) The "Three Sisters" recognized by the World Trade Organization's (WTO) Sanitary and Phytosanitary Measures (SPS) Agreement include

1. International Plant Protection Convention (IPPC)
2. Codex Alimentarius Commission
3. World Organization for Animal Health (OIE)

Select the correct answer code:

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

Solution: d)

The **International Plant Protection Convention (IPPC)** is an intergovernmental treaty signed by over 180 countries, aiming to protecting the world's plant resources from the spread and introduction of pests, and promoting safe trade. The Convention introduced International Standards for Phytosanitary Measures (ISPMs) as its main tool to achieve its goals, making it the sole global standard setting organization for plant health. The IPPC is one of the "Three Sisters" recognized by the World Trade Organization's (WTO) Sanitary and Phytosanitary Measures (SPS) Agreement, along with the **Codex Alimentarius Commission for food safety standards** and the **World Organization for Animal Health (OIE) for animal health standards**.

109) Which of the following qualify under WTO's provision of 'Aggregate measure of support (AMS)'?

1. Direct income supports for farmers that are not related to current production levels or prices
2. Environmental protection and regional development programmes
3. Irrigation subsidies
4. Subsidies on power to farmers

Select the correct answer code:

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

Solution: a)

WTO agreement envisages two kinds of support to agriculture, viz. domestic support and export subsidies.

The domestic support is further classified into five categories: (a) **aggregate measure of support (AMS) which includes product specific and non-product specific support** (b) green box support (c) blue box support (d) de minimus support and (e) special and differential (S&D) treatment box.

Out of these, WTO agreement requires reduction only in AMS and export subsidies, whereas, support under all other heads is exempted.

AMS includes (a) **sum total of subsidies on inputs like fertilizer, water, credit, power etc** and (b) market price support measured by calculating the difference between domestic administered market price and external reference price (world price) multiplied by quantity of production eligible to get applied administered price.

Statement 1 and 2 are under the Green box.

110) Consider the following statements.

1. The World Trade Organization (WTO) does not permit the imposition of countervailing duty by its member countries.
2. Countries impose Anti-Dumping duties outside the regime of the World Trade Organization (WTO).

Which of the above statements is/are correct?

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

Solution: d)

Countervailing Duties (CVDs) are tariffs levied on imported goods to offset subsidies made to producers of these goods in the exporting country. CVDs are meant to level the playing field between domestic producers of a product and foreign producers of the same product who can afford to sell it at a lower price because of the subsidy they receive from their government.

The World Trade Organization (WTO) permits the imposition of countervailing duty by its member countries.

Countries carry out anti-dumping probes to determine whether their domestic industries have been hurt because of a surge in cheap imports.

As a counter measure, they impose duties under the multilateral regime of the World Trade Organization (WTO).

111) Which of the following can lead to Demand-Pull Inflation?

1. A growing economy
2. Increase in Forex reserves
3. Deficit financing by the government
4. Depreciation of rupee

Select the correct answer code:

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

Solution: d)

Demand-Pull Inflation

This type of inflation is caused due to an **increase in aggregate demand in the economy.**

Causes of Demand-Pull Inflation:

- **A growing economy** or increase in the supply of money – When consumers feel confident, they spend more and take on more debt. This leads to a steady increase in demand, which means higher prices.
- Asset inflation or **Increase in Forex reserves.**
- Government spending or **Deficit financing by the government** – When the government spends more freely, prices go up.

- Due to fiscal stimulus.
- Increased borrowing.
- **Depreciation of rupee.**
- Low unemployment rate.

Effects of Demand-Pull Inflation:

- Shortage in supply
- Increase in the prices of the goods (inflation).
- The overall increase in the cost of living.

- 112) Consider the following statements regarding Cash Management Bills.
1. Cash Management Bills are short-term money market instruments.
 2. They are issued by the RBI on behalf of central government.
 3. They are not eligible as SLR securities for Banks.

Which of the above statements is/are correct?

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

Solution: b)

Cash Management Bills (CMBs) are short term bills.

The bills are **issued by the RBI on behalf of the government**. Hence the CMBs are **short-term money market instruments** that help the government to meet its temporary cash flow mismatches.

CMBs are **eligible as SLR securities**. Investment in CMBs is also recognized as an eligible investment in Government securities by banks for SLR purpose under Section 24 of the Banking Regulation Act, 1949.

- 113) Consider the following statements regarding Ad valorem tax.
1. Ad valorem tax is a form of direct tax.
 2. It is imposed on the basis of the monetary value of the taxed item.

Which of the above statements is/are correct?

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

Solution: b)

An ad valorem tax is a tax based on the assessed value of an item, such as real estate or personal property. The most common ad valorem taxes are property taxes levied on real estate.

- 114) Which of the following measures is/are likely to increase the taxation base in India?
1. Bringing agriculture income into the purview of Income tax.
 2. Promoting cashless transactions
 3. Encouraging entrepreneurial activity

Select the correct answer code:

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

Solution: d)

- A tax base is the total amount of assets or revenue that a government can tax.

- To increase the tax base India should bring more sectors into the purview of tax regime. Thus, bringing **agriculture sector into the purview of income tax likely to increase the tax base.**
- **Encouraging entrepreneurial activity** will increase the profit of existing companies as well as encourage the mushrooming of new companies. Thus, it is likely to increase the tax base.

115) Consider the following statements.

1. IMF provides financial assistance and works with Governments to ensure responsible spending.
2. All IMF members are eligible to access IMF's concessional financial support.
3. Like other development banks, the IMF also lend for specific projects.

Which of the above statements is/are correct?

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

Solution: a)



The IMF's various lending instruments are tailored to different types of balance of payments need as well as the specific circumstances of its diverse membership. **All IMF members are eligible to access the Fund's resources in the General Resources Account (GRA) on non-concessional terms**, but the IMF also provides **concessional financial support** (currently at zero interest rates) which is better tailored to the diversity and needs of **low-income countries**.

The IMF provides financial support for balance of payments needs upon request by its member countries. **Unlike development banks, the IMF does not lend for specific projects.**

116) Which of the following institutions were established under Bretton Woods Conference?

1. International Monetary Fund (IMF)
2. World Trade Organization
3. World Bank
4. European Bank for Reconstruction and Development

Select the correct answer code:

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

Solution: b)

The Bretton Woods System: The Bretton Woods Conference held in 1944 set up the International Monetary Fund (IMF) and the World Bank.

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

117) Consider the following statements

1. The IMF oversees the stability of the world's monetary system, while the World Bank's goal is to reduce poverty by offering assistance to middle-income and low-income countries.
2. Unlike that of the size of IMF's shareholders, which depends on the size of a country's economy, the size of the World Bank's shareholders is equal.
3. World bank's loans are not used as a type of bailout, as is the case with the IMF.

Which of the above statements is/are correct?

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

Solution: c)

International Monetary Fund (IMF) vs. the World Bank:

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

World Bank assistance is typically long-term, funded by countries—mainly the world's richest that are members of the bank—through the issuing of bonds. The bank's loans are not used as a type of bailout, as is the case with the IMF, but as a fund for projects that help develop an underdeveloped or emerging market nation and make it more productive economically.

The size of the World Bank's shareholders, like that of the IMF's shareholders, depends on the size of a country's economy.

118) Consider the following statements regarding Special Drawing Right (SDR).

1. The Special Drawing Right (SDR) is an interest-bearing international reserve asset created by the IMF.
2. The value of the SDR is not set by IMF, rather it is directly determined by the market forces.
3. It cannot be held by private entities or individuals.

Which of the above statements is/are correct?

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

Solution: d)

The Special Drawing Right (SDR) is an **interest-bearing international reserve asset** created by the IMF in 1969 to supplement other reserve assets of member countries.

The SDR is based on a basket of international currencies comprising the **U.S. dollar, Japanese yen, euro, pound sterling and Chinese Renminbi**. It is not a currency, nor a claim on the IMF, but is potentially a claim on freely usable currencies of IMF members. **The value of the SDR is not directly determined by supply and demand in the market, but is set daily by the IMF** on the basis of market exchange rates between the currencies included in the SDR basket.

It can be held and used by member countries, the IMF, and certain designated official entities called "prescribed holders"—**but it cannot be held, for example, by private entities or individuals**. Its status as a reserve asset derives from the commitments of members to hold, accept, and honor obligations denominated in SDR. The SDR also serves as the unit of account of the IMF and some other international organizations.

- 119) Consider the following statements regarding International Finance Corporation (IFC).
1. It was established as the private sector arm of the International Monetary Fund (IMF).
 2. It offers investment, advisory, and asset management services to encourage private sector development in developing countries.
 3. Its shareholders are member governments that provide paid-in capital and which have the right to vote on its matters.

Which of the above statements is/are correct?

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

Solution: c)

International Finance Corporation (IFC)

- It is an international financial institution that **offers investment, advisory, and asset management services to encourage private sector development in developing countries**.
- It is a **member of the World Bank Group** and is **headquartered in Washington, D.C., United States**.
- It was **established in 1956 as the private sector arm of the World Bank Group** to advance economic development by investing in strictly **for-profit and commercial projects** that purport to reduce poverty and promote development.
- It is a **corporation whose shareholders are member governments** that provide paid-in capital and which have the right to vote on its matters.
- Since 2009, the **IFC has focused on a set of development goals** that its projects are expected to target. Its goals are to increase sustainable agriculture opportunities, improve healthcare and education, increase access to financing for microfinance and business clients, advance infrastructure, help small businesses grow revenues, and invest in climate health.
- It **offers an array of debt and equity financing services** and helps companies face their risk exposures while refraining from participating in a management capacity.

- 120) Consider the following statements regarding Reserve Tranche.
1. It is a portion of the required quota of currency each member country must provide to the International Monetary Fund (IMF) that can be utilized by the members for its own purposes.
 2. It is an emergency account that IMF members can access at any time, but agreeing to conditions or by paying a service fee.
 3. IMF Members cannot borrow beyond 100% of their reserve tranche position.

Which of the above statements is/are correct?

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

Solution: a)

A reserve tranche is a portion of the required quota of currency each member country must provide to the International Monetary Fund (IMF) that can be utilized for its own purposes—without a service fee or economic reform conditions.

The IMF is funded through its members and their quota contributions. The reserve tranche is basically an emergency account that IMF members can access at any time without agreeing to conditions or paying a service fee.

In theory, members can borrow over 100% of their quota. However, if the amount being sought by the member nation exceeds its reserve tranche position (RTP), then it becomes a credit tranche that must be repaid in three years with interest.

- 121) Consider the following statements regarding India's merchandise export.
1. In the last three years, India's merchandise export has decreased year-on-year.
 2. An increase in merchandise exports to GDP ratio has a net positive impact on *balance of payments* (BOP) position.

Which of the above statements is/are correct?

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

Solution: b)

India surpassed its ambitious export target of \$400 billion in March 2022. Merchandise exports from India crossed \$400 billion in the current financial year, 9 days ahead of schedule. This is far higher than the previous record of \$330 billion achieved in 2018-19

India's merchandise export in February 2022 was USD 33.81 billion, an **increase** of 22.36% over USD 27.63 billion in February 2021 and an increase of 21.88% over USD 27.74 billion in February 2020.

An increase in merchandise exports to GDP ratio has a net positive impact on BOP position.

- 122) Consider the following statements regarding foreign currency convertible bond (FCCB).
1. It is a type of bond that is issued in a currency other than the issuer's home currency.
 2. A convertible bond is a mix between a debt and equity instrument.
 3. Investors can convert the bond into stock.

Which of the above statements is/are correct?

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

Solution: d)

- **A foreign currency convertible bond (FCCB) is a type of bond that is issued in a currency other than the issuer's home currency.**
- Convertible bonds fall in the middle of debt and equity financial instruments, both **acting as a bond but allowing investors to convert the bond into stock.**
- These kinds of bonds are often listed by large, multinational companies with offices around the world, seeking to raise money in foreign currencies.

- 123) Which of the following organization developed the 'Harmonized System Nomenclature' (HSN) Code:

- a) World Economic Forum (WEF)
- b) World Customs Organization (WCO)
- c) World Intellectual Property Organization (WIPO)
- d) World Trade Organization (WTO)

Solution: b)

HSN stands for 'Harmonized System Nomenclature.' **The WCO (World Customs Organization)** developed it as a multipurpose international product nomenclature that first came into effect in 1988 with the vision of facilitating the classification of goods all over the World in a systematic manner.

- 124) Consider the following statements regarding Tariff rate quota (TRQ) system.
1. The TRQ is a mechanism that allows import of a set quantity of specific products.
 2. They are used on a wide range of products but most are in the agriculture sector.

Which of the above statements is/are incorrect?

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

Solution: d)

The commerce ministry's arm Directorate General of Foreign Trade (DGFT) has introduced an **online system for traders who seek tariff rate quota (TRQ) for imports**, a move aimed at promoting ease of doing business in the country.

The **TRQ is a mechanism that allows import of a set quantity of specific products**. Tariff quotas are used on a **wide range of products but most are in the agriculture sector**. Cereals, meat, fruit and vegetables, and dairy products are the most common, and sugar is also protected in most producing countries.

- 125) Which of the following was/were the policy reforms under Washington Consensus?
1. Competitive exchange rates
 2. Liberalization of inward foreign direct investment
 3. Privatization of state enterprises
 4. Fiscal discipline

Select the correct answer code:

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

Solution: d)

The term 'Washington Consensus' was coined by the US economist John Williamson (in 1989) under which he had suggested a set of policy reforms which most of the official in Washington (i.e., International Monetary Fund and World Bank) thought would be good for the crisis-driven Latin American countries of the time. The policy reforms included **ten** propositions:

- **Fiscal policy discipline**, with avoidance of large fiscal deficits relative to GDP;
- Redirection of public spending from subsidies ("especially indiscriminate subsidies") toward broad-based provision of key pro-growth, pro-poor services like primary education, primary health care and infrastructure investment;
- Tax reform, broadening the tax base and adopting moderate marginal tax rates;
- Interest rates that are market determined and positive (but moderate) in real terms;
- **Competitive exchange rates**;
- Trade liberalization: liberalization of imports, with particular emphasis on elimination of quantitative restrictions (licensing, etc.); any trade protection to be provided by low and relatively uniform tariffs;
- **Liberalization of inward foreign direct investment**;
- **Privatization of state enterprises**;
- Deregulation: abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudential oversight of financial institutions;

- Legal security for property rights.

126) Consider the following statements regarding Agriculture Infrastructure Fund.

1. Agriculture Infrastructure Fund is a medium to long term debt financing facility for investment in viable projects for post-harvest management infrastructure and community farming assets.
2. All loans under this financing facility will have interest subvention and credit guarantee.
3. Eligible beneficiaries include farmers, FPOs, SHGs and Agri-entrepreneurs.

Which of the above statements is/are correct?

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

Solution: d)

The **Agriculture Infrastructure Fund is a medium - long term debt financing facility for investment in viable projects for post-harvest management infrastructure and community farming assets through interest subvention and credit guarantee.** The duration of the scheme is from FY2020 to FY2029 (10 years). **Eligible beneficiaries include farmers, FPOs, PACS, Marketing Cooperative Societies, SHGs, Joint Liability Groups (JLG), Multipurpose Cooperative Societies, Agri-entrepreneurs, Start-ups, and Central/State agency or Local Body sponsored Public-Private Partnership Projects.**

127) Consider the following statements.

1. The Agriculture sector is the largest employer of workforce in India.
2. India is the world's largest consumer and importer of vegetable oil.
3. Oilseed production in India has steadily increased in the last five years.

Which of the above statements is/are correct?

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

Solution: b)

The agriculture sector has experienced buoyant growth in the past two years. **The sector, which is the largest employer of workforce,** accounted for a sizeable 18.8 per cent (2021- 22) in Gross Value Added (GVA) of the country registering a growth of 3.6 per cent in 2020-21 and 3.9 per cent in 2021-22.

India is one of the major oilseeds growing country. **The oilseed production in India has steadily increased since 2016-17** onward after showing a fluctuating trend prior to that. **India is the world's second largest consumer and number one importer of vegetable oil.**

128) Consider the following statements regarding Sugar Sector in India.

1. India is the largest consumer and producer of sugar in the world.
2. Cane Reservation Area is an area where sugar mills buy sugarcane from farmers within a specified radius.
3. The Fair and Remunerative Price (FRP) for sugarcane has doubled in last ten years.

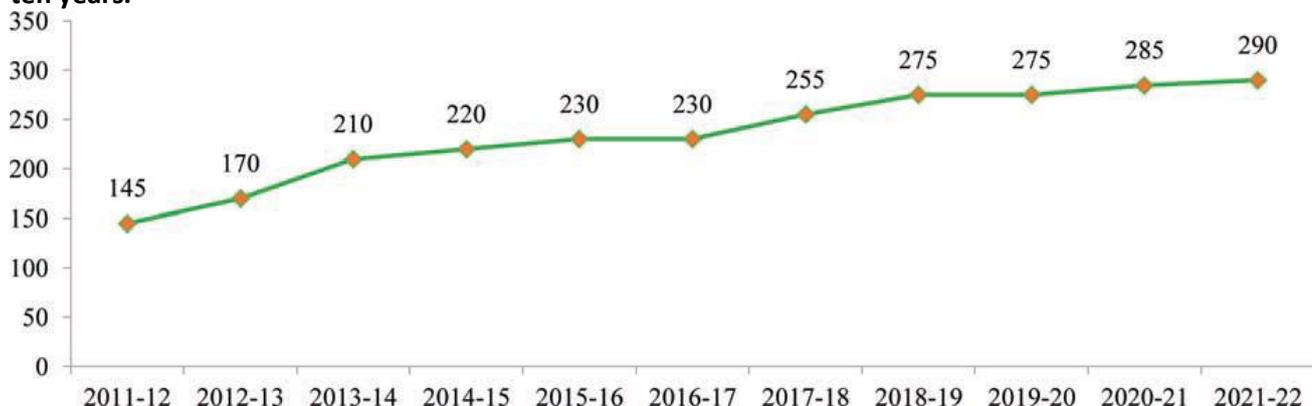
Which of the above statements is/are correct?

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

Solution: c)

Significance of sugarcane and sugar industry for India’s economy can be gauged from the fact that it is the country’s second largest agro-based industry, next to cotton. It impacts the livelihood of over 5 crore farmers and their dependents. **India is the largest consumer and the second-largest producer of sugar in the world.**

The interest of the farmers is protected by **Fair and Remunerative Price (FRP)** which has doubled in a span of ten years.



In addition, some state governments announce State Advised Price (SAP) at levels higher than FRP. Additionally, **sugar mills that buy sugarcane are mandated to purchase crops from farmers within a specified radius known as the Cane Reservation Area.** In this way, sugarcane farmers are insured and protected against price risk.

- 129) Consider the following statements.
1. West Bengal is the largest Rice producing state in India.
 2. In the last 2 years, Punjab and Haryana account for one-third of the Government’s share in total wheat and paddy procurement and its allocation under National Food Security Act.

Which of the above statements is/are correct?

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

Solution: a)

Punjab accounts for a whopping 27% of all procurement, and Haryana for 11%, while only being allocated 2% and 1% of grains under PDS respectively.

Government procurement of wheat and paddy in Bihar and West Bengal each account for just 2% of the national total, despite the fact that the latter is the country’s largest rice producer. However, 10% of all foodgrains allocated under the National Food Security Act last year went to Bihar, while 7% went to West Bengal.

Source and target

The tables depict a State's share in the total wheat and paddy procured in FY21 and the share allocated under the National Food Security Act. Only top five States in each category are depicted:



State	Procurement %	State	Allocation %
Punjab	27%	U.P.	17%
M.P.	16%	Bihar	10%
Haryana	11%	Maharashtra	8%
Telangana	10%	West Bengal	7%
U.P.	8%	Tamil Nadu	7%

- 130) Arrange the following kharif crops in the increasing order in terms of area under cultivation.
1. Sugarcane
 2. Pulses

3. Oilseeds

4. Rice

Select the correct answer code:

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

Solution: c)

Sowing Area Coverage of Kharif Crops : as on 31.07.2020, the total Kharif crops has been sown on 882.18 lakh ha area against 774.38 lakh ha area during the corresponding period of last year.

Rice: About 266.60 lakh ha area coverage

Oilseeds: About 175.34 lakh ha area coverage

Pulses: About 111.91 lakh ha area coverage

Sugarcane: About 51.78 lakh ha area coverage

131) Consider the following statements.

1. Commercial crops are not covered under minimum support prices (MSPs).
2. IF MSP is made legally binding, no crop can be purchased below the MSP by the private buyers.

Which of the above statements is/are correct?

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

Solution: b)

How can MSP be made legally binding?

There are two ways it can be done.

The first is to **force private buyers to pay it. In this case, no crop can be purchased below the MSP**, which would also act as the floor price for bidding in mandi auctions.

The second route is, of course, the government itself buying the entire crop that farmers offer at the MSP.

Commercial crops like cotton, copra and raw jute are covered under MSP.

132) Consider the following statements.

1. The share of small and marginal farmers in India have decreased from the year 1980-81 to 2015-16.
2. The Centre has encouraged farmer producer organisations (FPOs) under the Small Farmers' Agri-Business Consortium (SFAC).

Business Consortium (SFAC).

Which of the above statements is/are correct?

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

Solution: b)

One of the reasons for agrarian distress is the declining average size of farm holdings. The average farm size declined from 2.3 hectares (ha) in 1970-71 to 1.08 ha in 2015-16. **The share of small and marginal farmers increased from 70 per cent in 1980-81 to 86 per cent in 2015-16.**

In the last decade, **the Centre has encouraged farmer producer organisations (FPOs) to help farmers.** Since 2011, it has intensively promoted FPOs under the Small Farmers' Agri-Business Consortium (SFAC), NABARD, state governments and NGOs.

133) As per agriculture Census consider the following Categorisation of Farmers.

1. Marginal Farmer- Below 2.00 hectare
2. Medium Farmer- 4.00-10.00 hectare
3. Large Farmer- 10.00 hectare and above

Which of the above statements is/are correct?

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

Solution: c)

In agriculture Census, the operational holdings are categorised in five size classes as follows:

Marginal: Below 1.00 hectare.

Small: 1.00-2.00 hectare.

Semi- Medium: 2.00-4.00 hectare.

Medium: 4.00-10.00 hectare.

Large: 10.00 hectare and above.

134) Consider the following statements regarding National Agriculture Market (eNAM).

1. National Agriculture Market (eNAM) is a pan-India electronic trading portal which networks the existing APMC mandis to create a unified national market for agricultural commodities.
2. NABARD is the lead agency for implementing eNAM under the aegis of Ministry of Agriculture and Farmers' Welfare.
3. All states and UTs in India have integrated on eNAM.

Which of the above statements is/are incorrect?

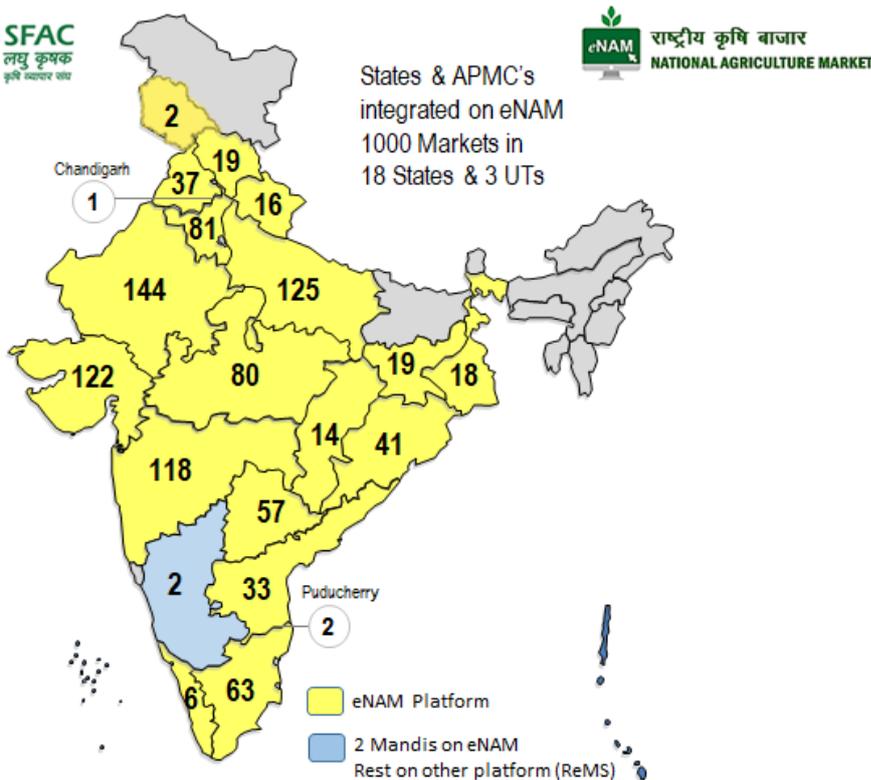
- a) 3 only
- b) 2, 3
- c) 1, 2
- d) 1, 3

Solution: b)

National Agriculture Market (eNAM) is a pan-India electronic trading portal which networks the existing APMC mandis to create a unified national market for agricultural commodities.

It was launched by the Ministry of Agriculture, Government of India. The electronic market pilot across India was launched on 14 April 2016 by Prime Minister of India, Narendra Modi.

Small Farmers Agribusiness Consortium (SFAC) is the lead agency for implementing eNAM under the aegis of Ministry of Agriculture and Farmers' Welfare, Government of India.



135) Consider the following statements.

1. The minimum support price (MSP) of a crop is the same throughout the country.
2. Agricultural wage rate is not considered while setting up of the MSP.
3. The Food Corporation of India (FCI) was constituted on the recommendation of the LK Jha

Committee.

Which of the above statements is/are correct?

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

Solution: a)

- For the first time, in 1966-67, the minimum support price (MSP) of wheat and paddy was fixed. To fix the price, the central government constituted the Agricultural Prices Commission, which was later renamed as the Commission for Agricultural Costs and Prices (CACP) in 1985.
- **The MSP of a crop is the same throughout the country.**
- The **Food Corporation of India (FCI) was constituted in 1965 on the recommendation of the LK Jha Committee.** The government stores the grains procured from the farmers with the FCI and NAFED (National Agricultural Cooperative Marketing Federation of India) from where the grains are distributed to the poor under the Public Distribution System (PDS).
- Since 2009, the Commission for Agricultural Costs and Prices fixes the minimum support price of a crop based on cost, demand, supply position, price changes, market price trend, different costs and international market prices.
- The Ministry of Agriculture also claims that the cost of production of cultivation does not only include cash expenditure (as per market) but **also the cost of labour** (as per market rate). This means that **agricultural wage rate is also considered while setting up of the MSP.**

2. Art and Culture

- 1) Consider the following statements regarding Dhammacakkappavattana Sutta.
1. It deals with the teachings given by Gautama Buddha before his demise or parinirvana
 2. The main topic of this sutra is the Four Noble Truths, which are the central teachings of Buddhism.
 3. It contains the Buddhist concepts of the Middle Way, impermanence, and dependent origination.

Which of the above statements is/are correct?

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

Solution: c)

Dhammacakkappavattana Sutta:

The Setting in Motion of the Wheel of the Dharma Sutra or Promulgation of the Law Sutra is considered to be a record of the **first teaching given by Gautama Buddha after he attained enlightenment.**

According to tradition, the Buddha gave this teaching in Sarnath, to the "five ascetics", his former companions with whom he had spent six years practicing austerities.

The main topic of this sutra is the Four Noble Truths, which are the central teachings of Buddhism that provide a unifying theme, or conceptual framework, for all of Buddhist thought.

This sutra also introduces the Buddhist concepts of the Middle Way, impermanence, and dependent origination.

- 2) Consider the following statements regarding Apabhramsa School of painting?
1. This school traces its origin to Mewar region in Rajasthan.
 2. Jainism was the main theme of these paintings.
 3. The pictures of animals and birds were absent in these paintings.

Which of the above statements is/are correct?

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

Solution: b)

Apabhramsa School of Art

This school traces its origin to Gujarat and Mewar region in Rajasthan. It was the predominant school of painting in western India during 11th to 15th century. **The most common themes of these paintings were Jain** and in the later period the Vaishanava School appropriated them too.

The features of the human figures depicted in the paintings have fish-shaped bulging eyes; a **pointed nose and a double chin.**

The animal and bird figurines in the paintings are represented as toys. The most famous example is of Kalpasutra and the Kalakacharya Katha from 15th century.

- 3) Consider the following statements regarding Amir Khusrau?
1. He introduced new musical ragas such as ghora and sanam.
 2. He evolved a new style of light music known as qwalis by blending the Hindu and Iranian systems.
 3. He authored the work Tuglaq Nama.

Which of the above statements is/are correct?

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

Solution: d)

Amir Khusrau (1252-1325) introduced many new ragas such as ghora and sanam.

He evolved a new style of light music known as qwalis by blending the Hindu and Iranian systems. The invention of sitar was also attributed to him.

Amir Khusrau was the famous Persian writer. He wrote a number of poems. He experimented with several poetical forms and created a new style of Persian poetry called Sabaqi- Hind or the Indian style.

He also wrote some Hindi verses. Amir Khusrau's Khazain-ul-Futuh speaks about Alauddin's conquests. His famous work **Tughlaq Nama** deals with the rise of Ghyiasuddin Tughlaq.

- 4) Consider the following statements regarding the difference in Mohiniyattam classical dance from Kathakali?
1. The characters in a Kathakali performance are divided into satvika, rajasika and tamasika types, unlike in Mohiniyattam.
 2. The body movement is abrupt and involves sudden jerks in Mohiniyattam unlike Kathakali.

Which of the above statements is/are incorrect?

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

Solution: b)

The characters in a Kathakali performance are broadly divided into satvika, rajasika and tamasika types. Satvika characters are noble, heroic, generous and refined.

Mohiniyattam is characterized by graceful, swaying **body movements with no abrupt jerks or sudden leaps.**

- 5) Consider the following statements regarding Mural paintings in India.
1. Mural paintings can be found in both natural caves and in rock-cut chambers.
 2. These paintings are secular in nature.
 3. The Mural paintings are unique because of their small size, which can be contained on paper.

Which of the above statements is/are correct?

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

Solution: a)

Most of the mural paintings are either in natural caves or in rock-cut chambers. The paintings follow a theme, the most common being Hindu, Buddhist and Jain. The Mural paintings are unique because of their **sheer size. They cannot be contained on paper and need to be executed on the walls of large structures**, usually caves and temple walls. In ancient period, these were utilised by three major religions: Buddhism, Jainism and Hinduism. Some of the best examples are murals in the Ajanta- Ellora Caves.