

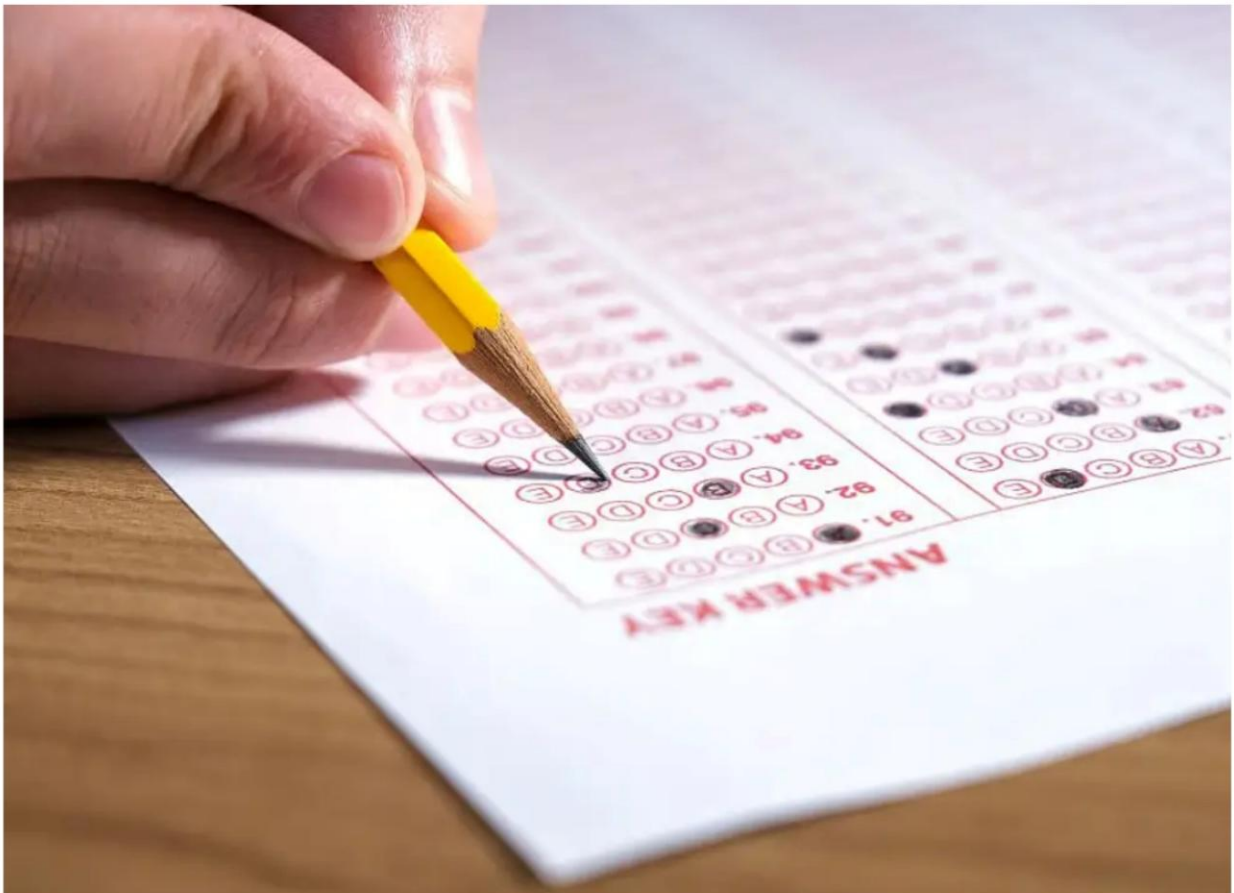


INSIGHTSIAS
SIMPLIFYING IAS EXAM PREPARATION

INSTA 75 DAYS REVISION PLAN FOR UPSC CSE PRELIMS 2026

INSTA TEST: DAY- 05

SUBJECT : ECONOMY (SYNOPSIS)



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Q1. Consider the following statements:

1. Both Gross Domestic Product (GDP) and Gross Value Added (GVA) are measures used to estimate national income.
2. If the government collects more taxes than the subsidies it provides, the value of GVA will be higher than GDP.

Which of the statements given above is/are correct?

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

Answer: (a)

Explanation:**Statement 1 is correct:**

Both **GDP** and **GVA** are important indicators used to measure **national income**. While **GDP** measures economic activity from the **expenditure (demand) side**, **GVA** measures it from the **production (supply) side** by calculating the value added by each sector of the economy such as agriculture, industry, and services.

Statement 2 is incorrect:

The relationship between GDP and GVA is expressed as:

$$\text{GDP} = \text{GVA} + (\text{Taxes on products}) - (\text{Subsidies on products})$$

Therefore, when the **tax revenue collected by the government exceeds the subsidies provided**, the value of **GDP becomes higher than GVA**. Conversely, if **subsidies exceed taxes**, **GVA may be higher than GDP**.

Hence, **only Statement 1 is correct**.

Q2. With reference to "Cut Motions," consider the following statements:

1. A Policy Cut Motion is a demand that the amount of the grant be reduced to ₹1.
2. An Economy Cut Motion asks for a reduction by a specific amount.
3. A Token Cut Motion reduces the grant by ₹100 to express a specific grievance.

Which of the statements given above are correct?

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

Answer: (d)

Explanation

A **Cut Motion** is a powerful veto power held by members of the Lok Sabha to oppose a demand for funds in the Union Budget. If a Cut Motion is passed, it signifies a lack of confidence in the government, and the Ministry is expected to resign.

- **Statement 1 is correct:** A **Policy Cut Motion** represents the strongest form of opposition. The member moves that "the amount of the demand be reduced to ₹1." This indicates that the member disapproves of the entire policy underlying the demand.
- **Statement 2 is correct:** An **Economy Cut Motion** is moved when a member believes the amount demanded for a particular policy is excessive. The motion states that "the amount of

the demand be reduced by a **specified amount**" (which could be a lump sum or the omission of an item). Its goal is to bring about economy in public expenditure.

- **Statement 3 is correct:** A **Token Cut Motion** is used to express a **specific grievance** that is within the sphere of the Government of India's responsibility. The motion states that "the amount of the demand be reduced by ₹100." It does not aim to stop the policy or save money, but rather to spark a discussion on a particular issue.

Value Addition

- For a Cut Motion to be admitted, it must relate to only one demand, be clearly phrased, and not contain arguments or defamatory statements.
- On the last day of the allotted time for discussing the budget, the Speaker puts all remaining demands to vote immediately, whether they have been discussed or not. This process is called the "Guillotine," which effectively ends the opportunity to move Cut Motions for those specific demands.
- Cut Motions can only be moved in the **Lok Sabha**, as the Rajya Sabha has no power to vote on the "Demands for Grants."

Q3. Consider the following statements:

1. An Interim Budget includes both receipts and expenditure, whereas a Vote on Account deals only with expenditure.
2. An Interim Budget is presented by a government just before elections, while a Vote on Account can be used in any year.

Which of the statements given above is/are correct?

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

Answer: (a)

Explanation

In an election year, the outgoing government often finds it inappropriate to present a full "Union Budget" because a new government will soon take office. Instead, they use these two mechanisms to keep the country running.

- **Statement 1 is correct:** An **Interim Budget** is a complete set of financial statements, much like a regular budget. It includes both **estimates of receipts** (revenue and capital) and **estimates of expenditure**. A **Vote on Account**, on the other hand, is a formal request for a grant from the Lok Sabha to cover specific **expenditures** (like salaries and ongoing projects) for a short period (usually two months) until the full budget is passed.
- **Statement 2 is incorrect:** A **Vote on Account** is a part of regular budget year to provide funds for the period between the start of the financial year (April 1st) and the final passing of the Appropriation Bill. While an **Interim Budget** is typically presented just before elections, a Vote on Account is a routine constitutional necessity used in both election and non-election years.

VOTE ON ACCOUNT	INTERIM BUDGET
only presents demand for Expenditure part. (i.e. allow government to spend money from CFI, until budget is passed)	Deals with both income (taxation) part and Expenditure part. + annual financial statement showing incoming and outgoing money of the government.
only one article applicable: 116(2)	many articles applicable <ul style="list-style-type: none"> • 112: have to put annual financial statement • 265: have to put finance bill (to get parliament's permission to collect taxes) • 266: have to put appropriation bill (to get parliament's permission to spend money from consolidated fund of India)
Only Lok Sabha has Decision Making power here. Because art 116(2) specifically says "House of people" can grant such money.	Both houses involved. Because Art 112: Annual financial statement has to be laid in both houses Lok Sabha and Rajya Sabha. although Rajya Sabha doesn't really have any Decision Making power here either, but they could stall it for 14 days.
Asks parliament to grant 1/6 th of the total estimated expenditure	Asks parliament to grant entire money for total estimated expenditure.
Validity: 2 months	If the new Government doesn't give new (full) budget after election, then Interim budget's provision remain valid for the whole financial year i.e. 1 st April 2014 to 31 st March 2015.
done in non-election years and election years.	only during election years/extreme situation.
Vote on account doesn't contain interim budget.	interim budget contains vote on account. (Because here also, budget presented in Feb, while passed somewhere in late April/May.) so government needs money in between. However, the vote on account will be of longer duration e.g. 3-4 months. (than during normal full budget years.)

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Q4. Consider the following Funds:

1. Micro Irrigation Fund (MIF)
2. Dairy Processing and Infrastructure Development Fund (DIDF)
3. Food Processing Fund (FPF)
4. Fisheries and Aquaculture Infrastructure Development Fund (FIDF)

How many of the above Funds are managed by the National Bank for Agriculture and Rural Development (NABARD)?

- (a) Only two
- (b) Only three
- (c) All four
- (d) None

Answer: (c)

Explanation

The **National Bank for Agriculture and Rural Development (NABARD)** acts as the nodal agency and manager for several specialized infrastructure funds. These funds are designed to provide

subsidized credit to State Governments, cooperatives, and private players to boost specific sub-sectors of the rural economy.

- **1. Micro Irrigation Fund (MIF):** Established with a corpus to help states mobilize resources for expanding coverage under micro-irrigation (drip and sprinkler systems). It supports the objective of "Per Drop More Crop."
- **2. Dairy Processing and Infrastructure Development Fund (DIDF):** This fund was created to modernize milk processing plants and create additional milk chilling infrastructure. NABARD manages the fund, which is disbursed to the National Dairy Development Board (NDDB) and National Cooperative Development Corporation (NCDC).
- **3. Food Processing Fund (FPF):** Specifically set up within NABARD to provide affordable credit for establishing **Mega Food Parks** and individual food processing units in designated food parks.
- **4. Fisheries and Aquaculture Infrastructure Development Fund (FIDF):** While the Department of Fisheries governs the policy, NABARD serves as one of the nodal entities for managing and providing concessional finance to State Governments for developing fishing harbors, fish landing centers, and aquaculture farms.

Q5. Consider the following statements regarding "Priority Sector Lending" (PSL) for Agri-Credit:

1. Commercial banks are mandated to lend 18% of their Adjusted Net Bank Credit (ANBC) to the agriculture sector.
2. Within the 18% target, a sub-target of 10% is prescribed for Small and Marginal Farmers (SMFs).
3. If a bank fails to meet its PSL target, the shortfall amount is usually deposited in the RIDF managed by NABARD.

Which of the statements given above are correct?

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

Answer: (d)

Explanation

The Reserve Bank of India (RBI) mandates **Priority Sector Lending (PSL)** to ensure that credit flows into sectors that impact large segments of the population and are employment-intensive, but often lack access to timely and adequate institutional credit.

- **Statement 1 is correct:** Domestic Scheduled Commercial Banks and Foreign Banks with 20 branches or more are mandated to lend **18%** of their **Adjusted Net Bank Credit (ANBC)** or Credit Equivalent Amount of Off-Balance Sheet Exposure (whichever is higher) to the agriculture sector.
- **Statement 2 is correct:** Within the 18% overall agriculture target, the RBI has prescribed a specific sub-target to ensure that credit reaches the most vulnerable. This sub-target for **Small and Marginal Farmers (SMFs)**—those with landholdings up to 2 hectares—has been progressively increased to **10%** (up from 8% in previous years).
- **Statement 3 is correct:** When a bank fails to achieve its PSL targets, it is not "fined" in the traditional sense. Instead, the "shortfall" must be deposited into the **Rural Infrastructure**

Development Fund (RIDF), which is maintained by **NABARD**. Other funds like the Micro Irrigation Fund may also receive these deposits as directed by the RBI.

Banks that exceed their targets can sell "certificates" to banks that have a shortfall. This allows the buyer to meet their regulatory requirement without actually lending the money themselves, while the seller earns a premium for their over-performance.



Q6. With reference to sectors in India where Foreign Direct Investment (FDI) is prohibited, consider the following:

1. Lottery business and gambling
2. Atomic energy
3. Real estate business
4. Manufacturing of cigars and cigarettes

Which of the above are included in the FDI prohibited list?

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

Answer: (d)

Explanation

Under the **Consolidated FDI Policy of India**, while most sectors are open to foreign investment (either through the Automatic Route or the Government Route), certain activities are strictly prohibited. All four sectors listed in the question are part of this "negative list."

- **1. Lottery Business and Gambling: (Prohibited)** FDI is prohibited in lottery businesses, including Government/private lotteries and online lotteries. Similarly, Gambling and Betting, including casinos, are off-limits. This prohibition extends to foreign technology collaboration in any form (franchise, trademark, brand name, management contract) for these activities.
- **2. Atomic Energy: (Prohibited)** : Atomic energy is considered a strategic sector vital to national security. Therefore, private investment, including foreign investment, is prohibited in activities related to the production of atomic energy and the mining of prescribed substances. However, some auxiliary activities like the manufacturing of equipment for nuclear power plants may be open under strict conditions.

- **3. Real Estate Business: (Prohibited):** FDI is prohibited in "Real Estate Business" or the construction of farmhouses. "Real Estate Business" is defined as dealing in land and immovable property with a view to profiting from it. This prohibition does not apply to the development of townships, construction of residential/commercial premises, roads, or bridges, and Real Estate Investment Trusts (REITs).
- **4. Manufacturing of Cigars and Cigarettes: (Prohibited) :** The manufacturing of cigars, cheroots, cigarillos, and cigarettes, of tobacco or tobacco substitutes, is prohibited for FDI. This is primarily a public health policy measure to discourage the expansion of the tobacco industry through foreign capital.

Value Addition

Other Prohibited Sectors:

- Chit Funds and Nidhi Companies
- Trading in Transferable Development Rights (TDRs)
- **Agricultural Activities:** FDI is prohibited in agriculture (excluding floriculture, horticulture, seed development, and animal husbandry) and plantations (excluding tea, coffee, rubber, and cardamom).

Q7. Consider the following entities associated with the Initial Public Offering (IPO) process:

1. Merchant Bankers
2. Registrar to the Issue
3. Syndicate Members (Brokers)
4. Bankers to the Issue

How many of the above are recognized as intermediaries in the IPO process?

- (a) Only two
- (b) Only three
- (c) All four
- (d) None

Answer: (c)

Explanation

In the capital markets, an IPO is not a direct transaction between a company and an investor. It requires a chain of **market intermediaries** registered with the Securities and Exchange Board of India (**SEBI**) to ensure the process is transparent, legal, and efficient.

- **1. Merchant Bankers (Lead Managers):** They are the most critical intermediaries. They assist the company in preparing the **Draft Red Herring Prospectus (DRHP)**, determining the price band, conducting roadshows, and ensuring overall compliance with SEBI regulations.
- **2. Registrar to the Issue:** The Registrar is responsible for processing the IPO applications. They track the number of shares applied for, verify the validity of applications, and ultimately manage the **allotment process** based on the basis of allotment approved by the stock exchange.
- **3. Syndicate Members (Brokers):** These are the intermediaries who act as the link between the investor and the issuer. They accept physical or electronic application forms and help in the **marketing and distribution** of the IPO to retail and institutional clients.
- **4. Bankers to the Issue:** These are scheduled banks designated to collect the application money from investors. In the modern **ASBA (Application Supported by Blocked Amount)** system, they are responsible for blocking and unblocking funds in the investors' bank accounts.

Value addition

- **Self-Certified Syndicate Banks (SCSBs):** Under the current ASBA mechanism, only specific banks (SCSBs) are authorized to block funds. This ensures that the investor's money remains in their own account until the shares are actually allotted.
- **Underwriting:** Merchant bankers often act as **underwriters**, meaning they guarantee to buy the unsubscribed portion of the IPO (up to a certain limit) to ensure the issue meets the minimum subscription criteria (usually 90%).

Q8. Consider the following statements:

Statement I: The "Fiscal Multiplier" is generally lower in an economy experiencing high "Financial Crowding Out."

Statement II: When government borrowing pushes up interest rates, the resulting decline in private investment offsets the positive impact of increased public spending on the Aggregate Demand.

Statement III: The "Balanced Budget Multiplier" suggests that an equal increase in both government spending and taxes will lead to a net increase in National Income by exactly the same amount.

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

(a) Both Statement II and Statement III are correct and both of them explain Statement I

(b) Both Statement II and Statement III are correct but only one of them explains Statement I

(c) Only one of the Statements II and III is correct and that explains Statement I

(d) Neither Statement II nor Statement III is correct

Answer: (b)

Explanation:

Statement I is correct:

The fiscal multiplier measures the ratio of the change in national income to the change in government expenditure. When there is significant financial crowding out, the increase in GDP generated by government spending gets reduced, resulting in a lower fiscal multiplier.

Statement II is correct and explains Statement I:

This statement describes the precise mechanism of financial crowding out. When the government borrows heavily to finance its expenditure, the demand for loanable funds rises, which pushes up interest rates. Higher interest rates make borrowing costlier for the private sector, leading to a decline in private investment. This offsets part of the expansionary impact of government spending and thereby lowers the fiscal multiplier.

Statement III is correct, but it does not explain Statement I:

This refers to the Keynesian concept of the balanced budget multiplier, which is equal to 1. It means that if the government increases expenditure by ₹100 and simultaneously raises taxes by ₹100, national income will still rise by ₹100. This happens because the reduction in consumption caused by taxation is smaller than the direct addition to aggregate demand through government spending. Although this statement is factually correct, it relates to a tax-expenditure situation and does not explain the crowding-out effect or the interest-rate mechanism referred to in Statement I.

Hence, both Statement II and Statement III are correct, but only Statement II explains Statement I.

Q9. The Brahmananda–Vakil Wage-Good Model was an alternative strategy proposed during the Second Five-Year Plan period that emphasized:

- (a) Expansion of heavy industries through large-scale public sector investment and centralized industrial planning.
- (b) Greater investment in agriculture and wage-goods industries to address inflationary pressures and unemployment.
- (c) Rapid privatization of banking and financial institutions to increase efficiency in industrial financing.
- (d) Development of strategic sectors such as nuclear energy and space technology to accelerate long-term growth.

Answer: (b)

Explanation:

The Brahmananda–Vakil Wage-Goods Model criticized the Mahalanobis heavy-industry strategy. It argued that priority should be given to wage-goods industries (mainly agriculture and consumer goods) so that the supply of essential goods increases, which would help control inflation, generate employment, and support sustainable growth.

Q10. Consider the following statements regarding the Modified Interest Subvention Scheme (MISS):

1. The scheme is implemented by the Ministry of Finance as a Centrally Sponsored Scheme through cooperative and private banks.
2. It seeks to lower the cost of short-term crop loans for farmers and promote timely repayment through interest subvention and repayment incentives.

Which of the statements given above is/are correct?

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

Answer: (b)

Explanation:

The **Modified Interest Subvention Scheme (MISS)** aims to make agricultural credit more affordable for farmers. The Union Cabinet has approved the continuation of the scheme for **FY 2025–26**, maintaining **1.5% interest subvention on short-term agricultural loans** to ensure easier access to institutional credit.

Statement 1 is incorrect: The **Modified Interest Subvention Scheme (MISS)** is a **Central Sector Scheme**, not a **Centrally Sponsored Scheme**. It is implemented by the **Ministry of Agriculture and Farmers' Welfare**, rather than the **Ministry of Finance**. The scheme operates through various financial institutions such as **Public Sector Banks, Regional Rural Banks (RRBs), Cooperative Banks, and Private Banks**, with facilitation support from **RBI and NABARD**.

Statement 2 is correct: The scheme aims to **reduce the borrowing cost of farmers** by providing **interest subvention** and **prompt repayment incentives**. Under the scheme, farmers can avail **short-term crop loans up to ₹3 lakh**, where **1.5% interest subvention** and an additional **3% incentive for timely repayment** reduce the effective interest rate to about **4% per annum**. It also supports farmers during **natural calamities** and provides **working capital for agricultural and allied activities**.

Therefore, only Statement 2 is correct.

Q11. A thief is spotted by a policeman from a distance of 250 metres. When the policeman starts chasing him, the thief also begins to run. If the speed of the thief is 10 km/h and the speed of the policeman is 12 km/h, how many metres will the thief have run before he is caught?

- A. 1000 metres
- B. 1250 metres
- C. 1500 metres
- D. 1750 metres

Answer: B

Solution:

Relative speed of policeman = $12 - 10 = 2 \text{ km/h}$

Convert to metres per second:

$$2 \times \frac{5}{18} = \frac{5}{9} \text{ m/s}$$

Distance between them = **250 m**

Time taken to catch the thief = Distance \div Relative speed

$$= 250 \div \left(\frac{5}{9}\right)$$

$$= 250 \times \frac{9}{5}$$

$$= \mathbf{450 \text{ seconds}}$$

Speed of thief in m/s = $10 \times \frac{5}{18} = \frac{25}{9} \text{ m/s}$

Distance run by thief = Speed \times Time

$$= \left(\frac{25}{9}\right) \times 450$$

$$= \mathbf{1250 \text{ metres}}$$

Q12. Excluding stoppages, the speed of a bus is 54 km/h, and including stoppages it is 45 km/h. For how many minutes does the bus stop per hour?

- A. 9 minutes
- B. 10 minutes
- C. 12 minutes
- D. 15 minutes

Answer: B

Solution:

Assume the total time including stoppages is **1 hour**.

Distance covered in 1 hour at the average speed (including stoppages):

$$= 45 \text{ km}$$

Time required to travel **45 km without stoppages** at **54 km/h**:

$$= 45 \div 54 \text{ hours}$$

$$= \frac{5}{6} \text{ hour}$$

Convert to minutes:

$$\frac{5}{6} \times 60 = \mathbf{50 \text{ minutes}}$$

So the bus actually **moves for 50 minutes** in one hour.

Remaining time is the **stoppage time**:

$$60 - 50 = \mathbf{10 \text{ minutes}}$$

Therefore, the bus **stops for 10 minutes per hour**.

Q13. Consider the following statements regarding a boat moving in a river:

1. If the speed of a boat in still water is u and the speed of the stream is v , the average speed of the boat for a to-and-fro journey is always less than u .
2. If the speed of the stream increases, the time taken for a complete round trip between two fixed points increases.
3. If the speed of the boat in still water is equal to the speed of the stream, the boat can never complete a round trip.

How many of the above statements are correct?

- A. Only one
- B. Only two
- C. All three
- D. None

Answer: C

Solution:

Statement 1: correct

For a round trip in a river:

Downstream speed = $u + v$

Upstream speed = $u - v$

Average speed for the whole trip = $(2 \times \text{downstream} \times \text{upstream}) \div (\text{downstream} + \text{upstream})$

This simplifies to:

$(u^2 - v^2) \div u$

Since v^2 is positive, $(u^2 - v^2)$ is always **less than u^2** , so the average speed is **always less than u** .

Statement 2: correct

If stream speed v increases:

- Downstream speed increases slightly.
- Upstream speed **decreases significantly**.

Because the boat becomes slower while moving upstream, the **total time for the round trip increases**.

Statement 3: correct

If boat speed in still water = stream speed:

Upstream speed = $u - v = 0$

The boat cannot move upstream at all.

Therefore, it **cannot return to the starting point**, so the round trip cannot be completed.

Q14. A man rows to a place 48 km away and comes back in 14 hours. He finds that he can row 4 km downstream in the same time as 3 km upstream. What is the speed of the stream?

- A. 1 km/h
- B. 1.5 km/h
- C. 2 km/h
- D. 2.5 km/h

Answer: A

Solution:

Ratio of downstream speed to upstream speed = **4 : 3**

Let downstream speed = **4k**

Upstream speed = **3k**

Total time = Time downstream + Time upstream

$$48 \div (4k) + 48 \div (3k) = 14$$

$$12/k + 16/k = 14$$

$$28/k = 14$$

$$k = 2$$

Downstream speed = **8 km/h**

Upstream speed = **6 km/h**

$$\begin{aligned} \text{Speed of stream} &= (\text{Downstream} - \text{Upstream}) \div 2 \\ &= (8 - 6) \div 2 \end{aligned}$$

Q15. Read the following passage and answer the question that follows.

Economic growth often hides the gradual loss of natural resources. Conventional measures like GDP do not account for depletion of forests, soil degradation, or environmental damage. As a result, a country may appear to grow economically while its ecological foundations weaken. Sustainable development therefore requires the adoption of “green accounting,” where environmental resources are treated as valuable economic assets.

Question:

Which of the following best describes the paradox mentioned in the passage?

- A. Economic growth always leads to environmental destruction.
- B. Economic indicators may show prosperity even while natural resources are being depleted.
- C. Developing countries should ignore environmental concerns until they become rich.
- D. Environmental resources are more important than economic growth.

Answer: B

Solution:

(a) is an extreme generalization not supported by the text.

(c) is an external economic theory not mentioned in the passage.

(d) is a value judgment; the passage argues for their integration, not necessarily the superiority of one.

The passage explains that traditional economic indicators such as **GDP** measure economic growth but **do not account for environmental damage or depletion of natural resources.**

Because of this limitation:

- A country may appear to be **growing economically.**
- At the same time, its **natural resources like forests, soil, and ecosystems may be deteriorating.**

This creates a **paradox (contradiction)** where economic statistics suggest **prosperity**, while the **environmental base supporting that economy is weakening.**

Therefore, the option that best captures this paradox is:

B. Economic indicators may show prosperity even while natural resources are being depleted.