

UPSC MCQ's 2018

IAS Prelims MCQ's On Economy

1. Consider the following statements regarding Autonomous and Accommodating transactions in BoP

- 1) Autonomous items in BOP take place due to some economic motives like earning income and profit maximization
- 2) Accommodating items in BOP refer to transactions that take place to cover deficit (or surplus) arising from autonomous transactions

Select the correct answer using the code given below.

- a) Only 1
- b) Only 2
- c) All of the above
- d) None of the above

Ans: c

Autonomous and Accommodating Transactions

Autonomous items in BOP:

- These refer to international economic transactions **that take place due to some economic motives like earning income and profit maximization.**
- These items are generally called '**above the line items**' in BOP. Again, it is autonomous transactions which make deficit or surplus in BOP.
- Both current and Capital Account
- They have nothing to do with foreign exchange payments.
- Since such transactions **are independent of the state of country's balance of payment**, i.e., irrespective of whether BOP is favorable or unfavorable, they are, therefore, called autonomous items.
- **BOP is in deficit** if the autonomous receipts are less than autonomous payments.
- **BOP is in surplus** if the autonomous receipts are greater than autonomous payments. In other words, deficit or surplus in BOP depends upon the balance of autonomous items.
- Deficit in BOP account: When during the year total inflows of foreign exchange on account of autonomous transactions are less than total outflows on account of such transactions, there is deficit in BOP.

Accommodating items in BOP:

- These refer to transactions **that take place to cover deficit (or surplus) arising from autonomous transactions.**
- These items are also called '**below the line items**'.
- Only in Capital Account
- Because of government financing, official settlements are seen as accommodating items to keep the BOP identity.

2. Look at the following statements about Nifty

- 1) It is based upon 50 firms in India.
- 2) It is regulated by the Reserve Bank of India.
- 3) It does not trade in mutual funds

Select the correct answer using the code given below:

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

Ans: a

Nifty

- The NIFTY 50 index is National Stock Exchange of India's benchmark stock market index for Indian equity market, launched on 21st April 1996
- Nifty is owned and managed by India Index Services and Products (IISL), which is a wholly owned subsidiary of the NSE Strategic Investment Corporation Limited.
- IISL had a marketing and licensing agreement with Standard & Poor's for co-branding equity indices until 2013.
- The term 'Nifty' is derived from the combination of two words - 'National' and 'Fifty' - as it consist of 50 actively traded stocks accounting for 12 sectors of the economy. It is used for a variety of purposes such as bench-marking fund portfolios, index based derivatives and index funds.

3. J curve in the economics is related to

- 1) Index is a type of cost-of-living index that uses an expenditure function such as one used in assessing expected compensating variation
- 2) Show the relationship between tax rates and the amount of tax revenue collected by governments
- 3) The inverse relationship between unemployment rate and inflation
- 4) Refers to the trend of a country's trade balance following a devaluation

Ans: d

J curve

- In economics, the 'J curve' **refers to the trend of a country's trade balance following a devaluation** or depreciation under a certain set of assumptions
- A J-curve demonstration is a representation of any value that **initially falls before recovering and ultimately rising**; it shifts in investment values and the impacts of policy changes on applicable economic metrics.

- An example of the J-curve effect is seen in economics when a country's trade balance initially worsens following a devaluation or depreciation of its currency. The higher exchange rate first corresponds to more costly imports and less valuable exports, leading to a bigger initial deficit or a smaller surplus.

4. With reference to the Baltic Dry Index, consider the following statements

- 1) It is an economic indicator issued daily by the London-based Baltic Exchange
- 2) They are restricted to Baltic Sea Countries

Select the correct answer using the code given below.

- a) Only 1
- b) Only 2
- c) All of the above
- d) None of the above

Ans: a

Baltic Dry Index (BDI)

- It is an economic indicator issued daily by the **London-based Baltic Exchange**.
- Not restricted to Baltic Sea countries, the index provides "an assessment of the **price of moving the major raw materials by sea**."
- Taking in 23 shipping routes measured on a time charter basis, the index covers Handysize, Supramax, Panamax, and Capesize dry bulk carriers carrying a range of commodities including coal, iron ore and grain.

5. Consider the following about National Capital Goods policy

- 1) Department of Heavy Industries implements it
- 2) It proposes for Enhancing the export of Indian made capital goods

Which of the following is/are correct?

- a) Only 1
- b) Only 2
- c) Both 1 and 2
- d) None of them

Ans: C

National Capital Goods Policy

- The policy is likely to create 30 million jobs and raise production to Rs 7.5 lakh crore from the current Rs 2.3 lakh crore. **Capital Goods are those goods that are used in producing other goods, rather than being bought by consumers.**

- The policy envisages increasing exports to 40% of production from the current 27%. It will increase the share of domestic production in India's demand from 60% to 80%, making India a net exporter of capital goods.
- It also aims to facilitate improvement in technology depth across sub-sectors, increase skill availability, ensure mandatory standards and promote growth and capacity building of MSMEs.
- The policy will help in realizing the vision of 'Building India as the World class hub for Capital Goods'.
- The objectives of the policy will be met by the Department of Heavy Industry in a time bound manner through obtaining approval for schemes as per the roadmap of policy interventions.
- Some of the key issues addressed include availability of finance, raw material, innovation and technology, productivity, quality and environment-friendly manufacturing practices, promoting exports and creating domestic demand.

6. Tax buoyancy is defined as

- a) Percentage change in tax revenue in response to change in tax rate and extension of coverage
- b) Refers to the % change in the tax revenue with the growth of national income i.e. growth based increase in tax collection
- c) The entity who bears the tax burden
- d) None of the above

Ans: b

Tax Buoyancy

- Refers to the % change in the tax revenue with the growth of national income i.e. growth based increase in tax collection.
- It is an indicator to measure efficiency and responsiveness of revenue mobilization in response to growth in the Gross domestic product or National income.

7. Look at the following statements about chit funds

- 1) It is a saving institution
- 2) They have regular members who make periodical subscriptions to the fund
- 3) Chit funds are included in the definition of Non- Banking Financial Companies

Which of the statements given above are correct?

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

d) All of the above

Ans: d

Chit Funds

- A Chit fund is a kind of savings scheme practiced in India.
- A chit fund company is a company that manages, conducts, or supervises such a chit fund, as defined in Section of the Chit Funds Act, 1982.
- Chit funds have regular members who make periodical subscriptions to the fund.
- Central Government has not framed any Rules of operation for them. Thus, Registration and Regulation of Chit funds are carried out by State Governments under the Rules framed by them
- Functionally, Chit funds are included in the definition of Non- Banking Financial Companies by RBI under the sub-head miscellaneous nonbanking company (MNBC).

8. Consider the following statements

- 1) Surcharge is tax on tax
- 2) Cess in charge on the tax

Which of the following is/are not correct?

- a) Only 1
- b) Only 2
- c) All of the above
- d) None of the above

Ans: c

- Cess is a tax that is levied by the government to raise funds for a pre-decided purpose. Collections from the Education Cess and the Secondary and Higher Education Cess, for instance, are supposed to be used for funding primary and higher and secondary education respectively. Likewise, money collected from the Krishi Kalyan Cess is to be used for funding agri development initiatives.
- The Surcharge is a charge on any already existing tax. Surcharge basically is an additional tax. In India Surcharge on income tax is an extra tax on high income. It is charged on the individuals and businesses.

9. Consider the following about International Financial Corporation

- 1) It lends money to the private sector companies of the member nations
- 2) It encourages foreign investment in developing economies by offering insurance to foreign private investors against loss caused by non-commercial risks

Which of the following is/are not correct?

- a) Only 1
- b) Only 2
- c) Both 1 and 2
- d) None of them

Answer: b

International Finance Corporation (IFC)

- Set up in 1956 this is also known as the private arm of the WB.
- It lends money to the private sector companies of its member nations. The interest rate charged is commercial but comparatively low.
- There are many attractive features of IFC's lending. It finances and provides advice for private public ventures and projects in partnership with private investors and, through its advisory work, helps governments of the member nations to create conditions that stimulate the flow of both domestic and foreign private savings and investment.
- It focuses on promoting economic development by encouraging the growth of productive enterprises and efficient capital markets in its member countries.
- It participates in an investment only when it can make a special contribution that complements the role of market investors (as a Foreign Financial Investor (FFI)).
- It also plays a catalytic role, stimulating and mobilising private investment in the developing world by demonstrating that investments there too can be profitable. We have seen a great upsurge in the IFC investments in India which has undoubtedly strengthened the foreign investors' confidence in the Indian economy.

10. Gender Budgeting is

- a) Funds are allocated only to the schemes that support women development
- b) Allocation of resources to the agencies are done by periodic re-evaluation through incrementalism
- c) Funds and responsibilities are allocated on the basis of gender
- d) None of them

Answer: c

Gender Budgeting

It is a powerful tool for achieving gender mainstreaming so as to ensure that benefits of development reach women as much as men. It is not an accounting exercise but an ongoing process of keeping a gender perspective in policy/ programme formulation, its implementation and review. GB entails dissection of the Government budgets to establish its gender differential impacts and to ensure that gender commitments are translated in to budgetary commitments.

The rationale for gender budgeting arises from recognition of the fact that national budgets impact men and women differently through the pattern of resource allocation. Women, constitute 48% of India's population, but they lag behind men on many social indicators like health, education, economic opportunities, etc. Hence, they warrant special attention due to their vulnerability and lack of access to resources. The way Government budgets allocate resources, has the potential to transform these gender inequalities. In view of this, Gender Budgeting, as a tool for achieving gender mainstreaming, has been propagated.

11. Consider the following about Islamic Banking/ No-Interest Banking

- 1) It is prescribed in the Sharia law
- 2) It prohibits interests only on loans

Which of the following is/are correct?

- a) Only 1
- b) Only 2
- c) All of the above
- d) None of the above

Answer: a

Islamic banking

- It is a banking system that is **based on the principles of Islamic law, also referred to as Shariah law**, and guided by Islamic economics.
- Two basic principles behind Islamic banking are the sharing of profit and loss and, significantly, the **prohibition of the collection and payment of interest by lenders and investors**.
- Collecting interest or "riba" is not permitted under Islamic law.

12. GDR means:

- a) 'Gross domestic ratio' which is a macro aggregate
- b) 'Global Depository Receipt' which is the mechanism to raise funds from international market
- c) 'Global development range' which has been set up by UNO for developing countries
- d) 'Geographically developed regions' as defined by the UNDP

Ans: b

Global Depository Receipt (GDR)

A global depository receipt (GDR) is a bank certificate issued in more than one country for shares in a foreign company. The shares are held by a foreign branch of an international bank.

The shares trade as domestic shares but are offered for sale globally through the various bank branches. A GDR is a financial instrument used by private markets to raise capital denominated in either U.S. dollars or euros.

13. Consider the following about Goods and Service Tax

- 1) It is a destination based tax
- 2) All the goods will be taxed at same rate

Which of the following is/are correct?

- a) Only 1
- b) Only 2
- c) Both 1 and 2
- d) None of them

Ans: a

Goods and Services Tax is a **comprehensive indirect tax** which is to be levied on the manufacture, sale and consumption of goods and services at a national level. This is so far the biggest tax reform in the country.

- **France was the first country to introduce GST system in 1954.** More than 140 countries have implemented the GST. Most of the countries have a unified GST system.
- **Brazil and Canada follow a dual system** where GST is levied by both the Union and the State governments.
- Destination based consumption tax

Conditions	Destination Based tax	Origin Based tax
Structure	Destination Based tax is the name suggests is the taxation based on destination or consumption of the goods or services.	Origin based tax is levied where goods or services are produced not where consumed.
Example	If A in Gujarat produces the goods and sells the goods to B in Rajasthan , then in such case the tax should be levied and collected and should accrue on the goods in the State of Rajasthan and not in the State of Gujarat.	If A in Gujarat produces the goods and sells the goods to B in Rajasthan , then in such case the tax should be levied and collected in the State of Gujarat and not in the State of Rajasthan.

Conditions	Destination Based tax	Origin Based tax
Taxation of Export	Exports would not be taxed and would be zero rated in the territory as tax under this principle is levied in the territory where the goods or services are finally consumed.	Exports would always be taxed in the origin based taxation as tax under this principle is levied on goods or services produced in the territory irrespective of the fact that whether the same is meant for export or domestic consumption.
Taxation of Import	Imports would be taxed in the territory where they have been imported as they would be consumed in that territory.	Imports would not be taxed in the territory where they have been imported for consumption, as origin based taxation only provides for levy of tax on the goods and services on the basis of territory where they are produced.

14. Recession is

- An economic contraction when the GDP declines for 2 consecutive years
- An economic boom when the GDP increases for 2 consecutive years
- An economic contraction when the GDP declines for 2 consecutive quarters
- None of them

Answer: c

Recession

- Recession is a slowdown or a massive contraction in economic activities. A significant fall in spending generally leads to a recession.
- Such a slowdown in economic activities may last for some quarters thereby completely hampering the growth of an economy. In such a situation, economic indicators such as GDP, corporate profits, employments, etc., fall.
- This creates a mess in the entire economy. To tackle the menace, economies generally react by loosening their monetary policies by infusing more money into the system, i.e., by increasing the money supply.
- This is done by reducing the interest rates. Increased spending by the government and decreased taxation are also considered good answers for this problem. The recession which hit the globe in 2008 is the most recent example of a recession.

15. Consider the following statements about GAAR

- 1) It was first discussed in Budget 2016-2017
- 2) It is an anti-tax avoidance Rule of India.
- 3) It is framed by the Department of Expenditure

Which of the statements given above are correct?

- e) Only 1
- f) Only 2
- g) Only 1 and 3
- h) All of the above

Ans: b

General Anti Avoidance Rules (GAAR)

- Originally mentioned in Budget 2012.
- GAAR is an anti-tax avoidance Rule of India.
- It is framed by the Department of Revenue under the Ministry of Finance.
- Originally proposed in the Direct taxes code 2009, are targeted at arrangement or transactions made specifically to avoid taxes
- It allows tax officials to target participatory notes.

16. Consider the following taxes of the central government:

- 1) Personal Income Tax
- 2) Corporation Tax
- 3) Excise Duty

The descending order of their allocation size in the 2015-16 budget is:

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

Ans: a

Major Tax Revenues of the Centre

Taxes	2014-15	2015-16	2016-17	2017-18	2014-15	2015-16	2016-17	2017-18
	PA				BE			
₹ in lakh crore)				(growth in per cent)				
Gross tax revenue	12.45	14.50	17.17	19.12	9.8	16.5	18.4	11.3
Corporation tax	4.29	4.53	4.85	5.39	8.7	5.7	7.0	11.1
Personal income tax	2.58	2.80	3.41	4.41	8.6	8.5	21.5	29.6
Customs duty	1.88	2.10	2.26	2.45	9.3	11.9	7.4	8.4
Excise duty	1.90	2.87	3.81	4.07	12.1	51.2	32.7	6.8
Service tax	1.68	2.11	2.55	2.75	8.5	25.9	20.4	8.0

Source: Union Budget Documents and CGA

PA=Provisional Actual ; BE=Budget Estimates

17. The oil price is falling due to following reasons

- 1) Demand is low because of weak economic activity
- 2) America now imports much less than in past due to shale gas exploration
- 3) Saudis and their Gulf allies have decided not to sacrifice their own market share to restore the price
- 4) More supply of petrol due to discoveries in Mid Africa

Select the correct answer using the code given below.

- a) 1 and 2 only
- b) 1, 2 and 3 only
- c) 2, 3 and 4 only
- d) All of the above

Answer: b

Oil Price

- Demand is low because of weak economic activity, increased efficiency, and a growing switch away from oil to other fuels.
- Second, turmoil in Iraq and Libya—two big oil producers with nearly 4m barrels a day combined—has not affected their output. The market is more sanguine about geopolitical risk.
- Thirdly, America has become the world's largest oil producer. Though it does not export crude oil, it now imports much less, creating a lot of spare supply.

- Finally, the Saudis and their Gulf allies have decided not to sacrifice their own market share to restore the price. They could curb production sharply, but the main benefits would go to countries they detest such as Iran and Russia. Saudi Arabia can tolerate lower oil prices quite easily. It has \$900 billion in reserves. Its own oil costs very little (around \$5-6 per barrel) to get out of the ground.

18. The ideal recommended ratio of NPK is

- 4: 2: 1
- 2: 4: 1
- 4: 1: 2
- 4: 3: 2

Ans: a

Nutrient-Based Subsidy (NBS) scheme

- The nutrient-based subsidy (NBS) scheme, introduced by the government in 2010
- The recommended Nitrogen (N): Phosphorous (P): Potassium (K) ratio of 4:2:1, the NPK ratio in 2013-14 was 8.2:3.2:1.

19. Consider the following statements with respect to repo rates

- 1) Rate at which central bank (RBI) lends money to commercial bank for short term liquidity needs.
- 2) Increase in repo rate helps in controlling inflation

Which of the following is/are correct?

- Only 1
- Only 2
- All of the above
- None of the above

Ans: c

Repo rate/ Policy rate

- Rate at which central bank (RBI) lends money to commercial bank for **short term liquidity needs.**
- If **the repo rate or the bank rate is increased,** bank has to pay more interest to the central bank. So in order to make profit, **banks in turn increase their interest rate at which they take deposit from the customer and lend money to the customer.**
 - So the demand for loan decreases, and people start putting more and more money in bank accounts to earn higher rate of interest. **This helps in controlling inflation.**

20. Consider the following about Call Money Market

- 1) It is an inter-bank money market where funds are borrowed and lent for one day
- 2) Collateral is required to borrow money from this market

Select the correct answer using the code given below.

- a) Only 1
- b) Only 2
- c) All of the above
- d) None of the above

Ans: a

Call Money

- Call money is mainly used by the **banks to meet their temporary requirement** of cash.
- They borrow and lend money from each other **normally on a daily basis**.
- It is repayable on demand and its **maturity period varies in between one day to a fortnight**.
 - If it's one day it is **call money** if it's more than a day its **Notice money**
- No collateral required
- The rate of interest paid on call money loan is known as **call rate**.

21. The word Dirigisme relates to

- a) Complete Capitalism
- b) Complete control of economy by state
- c) Positive role of state invention in economy
- d) None of the above

Ans: c

Dirigisme

- Dirigisme, an approach to economic development emphasizing the **positive role of state intervention**.
- The term dirigisme is derived from the French word diriger (“to direct”), which signifies the **control of economic activity by the state**.
- Dirigiste policies often include centralized economic planning, directing investment, controlling wages and prices, and supervising labour markets.
- Postwar planning became a widespread activity following economic stagnation before World War I and the Great Depression.
- In **France dirigisme took the form of indicative planning**, which entailed government credit policies and subsidies, developing new technologies, and the regulation of employment overseen by a special planning commission, the Commissariat au Plan.

22. Consider the following equations

1. Budget deficit= Total expenditure- Total Receipts
2. Primary deficit= Fiscal deficit- Interest payments

Select the correct option

- a) Only 1
- b) Only 2
- c) All of the above
- d) None of the above

Answer: c

A budget deficit is an indicator of financial health in which expenditures exceed revenue. The term budget deficit is most commonly used to refer to government spending rather than business or individual spending, but can be applied to all of these entities.

A revenue deficit occurs when the net income generated, revenues less expenditures, falls short of the projected net income. This happens when the actual amount of revenue received and/or the actual amount of expenditures do not correspond with budgeted revenue and expenditure figures. This is the opposite of a revenue surplus, which occurs when the actual amount of net income exceeds the projected amount.

23. Consider the following statements

- 1) Primary sector hosts majority of workers
- 2) Unemployment is more in urban than in rural

Which of the statements given above are correct?

- a) Only 1
- b) Only 2
- c) All of the above
- d) None of the above

Ans: c

The BSE has launched India's first index that will determine the country's unemployment rate. As per the Index, launched in collaboration with The Centre for Monitoring Indian Economy (CMIE) an independent economic think-tank headquartered in Mumbai, India's rural unemployment rate stood at 7.15% and the Urban rate stood at 9.62%. The overall rate of unemployment rate in the country stood at 7.97%, the index showed.

24. Deendayal Upadhyay Shramev Jayate Karyakram does not include which

- a) Apprentice Protsahan Yojana
- b) Pradhan Mantri Rozgar Protsahan Yojana
- c) Revamped Rashtriya Swasthya Bima Yojana
- d) Universal Account Number

Ans: b

Deendayal Upadhyay Shramev Jayate Karyakram

- Apprentice Protsahan Yojana
- Random Inspection Scheme
- Revamped Rashtriya Swasthya Bima Yojana
- Shram Suvidha Portal
- Universal Account Number

25. Look at the following statements about real exchange rate

- 1) It is taken as a measure of a country's international competitiveness
- 2) It refers to the relative price of goods
- 3) It has bearing on export and imports of the country

Which of the statements given above are correct?

- a) Only 1 and 2
- b) Only 2 and 3
- c) Only 1 and 3
- d) All of the above

Ans: d

Real Exchange Rate

- The ratio of foreign to domestic prices, measured in the same currency.
- It is defined as [Real exchange rate = (eP_f/P)] where P and P_f are the price levels here and abroad, respectively, and e is the rupee price of foreign exchange (the nominal exchange rate).
- The **numerator expresses prices abroad measured in rupees**, the **denominator gives the domestic price level** measured in rupees, so the real exchange rate measures prices abroad relative to those at home.
- If the **real exchange rate is equal to one**, **currencies are at purchasing power parity**. This means that goods cost the same in two countries when measured in the same currency.
- For instance, if a pen costs \$4 in the US and the nominal exchange rate is Rs 50 per US dollar, then with a real exchange rate of 1, it should cost Rs 200 ($eP_f = 50 \times 4$) in India.

- If the **real exchange rises above one**, this means that **goods abroad have become more expensive than goods at home**.
- The real exchange rate is often taken as a measure of a country's international competitiveness.

26. Palma ratio is

- It is the ratio of richest 10% of the population share of gross national income divided by the poorest 40% share
- It is the ratio of the poorest 40% of the population share of gross national income divided by the richest 10% share
- It is the ratio of the richest 10% of the population share of gross national income divided by the poorest 60% share
- None of the above

Palma Ratio

- The Palma ratio is defined as the ratio of the richest 10% of the population's share of gross national income divided by the poorest 40%'s share.
- It is based on the work of Chilean economist Gabriel Palma who found that middle class incomes almost always represent about half of gross national income while the other half is split between the richest 10% and poorest 40%, but the share of those two groups varies considerably across countries.
- The Palma ratio addresses the Gini index's over-sensitivity to changes in the middle of the distribution and insensitivity to changes at the top and bottom and therefore more accurately reflects income inequality's economic impacts on society as a whole.
- Palma has suggested that distributional politics pertains mainly to the struggle between the rich and poor, and who the middle classes side with

27. Which are the qualitative techniques used in monetary policy

- Open market operations
- Credit Rationing
- Moral Suasion

Which of the techniques given above are correct?

- Only 1 and 2
- Only 2 and 3
- Only 1 and 3
- All of the above

Ans: b

The qualitative techniques, also called selective credit controls, are: i) Moral suasion, ii) direct action, iii) margin requirement, iv) consumer credit control, v) differential interest rates, and vi) credit rationing.

28. Which of the following are money market instruments

- 1) Equity
- 2) Fully and partially convertible debentures
- 3) Shares

Select the correct answer using the code given below.

- a) Only 1
- b) 1 and 2
- c) 1 and 3
- d) None of them

Ans: d

These are Capital Market Instruments.

Money Market Instruments: RBI and SEBI have permitted introduction of a variety of money market instruments in recent years. The prominent among them are: Certificate of deposit (CD) and Commercial paper (CP), T-bills, Bills of exchange, Repos-Reverse Repos.

29. The objectives of Government budget are

- 1) Economic Stability
- 2) Redistribution of income and wealth
- 3) Allocation of resources

Which of the statements given above are correct?

- a) Only 1 and 2
- b) Only 2 and 3
- c) Only 1 and 3
- d) All of the above

Government Budget

- A government budget is an annual financial statement presenting the government's proposed revenues and spending for a financial year that is often passed by the legislature, approved by the chief executive or president and presented by the Finance Minister to the nation.

Its objectives are

- Economic growth
- Reduction of poverty and unemployment
- Reduction of inequalities/Redistribution of income
- Reallocation of resources
- Price stability/Economic stability
- Financing and management of public enterprises

30. Revenue expenditure does not include one of these

- a) Interest payment
- b) Infrastructure development
- c) Major subsidies
- d) Defence expenditure

Ans: b

Revenue Expenditure-Non Plan expenditure

- The expenditure incurred for normal running of government functionaries, which otherwise **does not result in creation of assets** is called revenue expenditure.
 - Interest payment
 - Major subsidies
 - Defence expenditure
 - Public administration
 - Grants given to state governments

31. Consider the following statements

- 1) Stocks are defined over a period of time
- 2) Flows are defined over a particular point of time

Which of the following is/are correct?

- a) Only 1
- b) Only 2
- c) All of the above
- d) None of them

Ans: d

- A **stock variable is measured at one specific time**, and represents a quantity existing at that point in time (say, December 31, 2004), which may have accumulated in the past.

- A **flow variable is measured over an interval of time**. Therefore, a flow would be measured per unit of time (say a year).

32. With respect to Anchor Investor, consider the following statements

- 1) He is the first investor in any round that provides subsequent investors a degree of confidence
- 2) Anchor investors belong to the Qualified Institutional Buyers (QIBs) category

Select the correct answer using the code given below.

- e) Only 1
- f) Only 2
- g) All of the above
- h) None of the above

Ans: c

Anchor Investor

- He is the first investor in any round that provides subsequent investors a degree of confidence.
- Put briefly, anchor investors are entities which are offered, and subscribed to, shares in an IPO before the offer opens to the public.
- Anchor investors belong to the Qualified Institutional Buyers (QIBs) category they would be in a better position to gauge the fundamentals and the future prospects of the company.

33. The Gross National Happiness does not have one of these as its components.

- a) Higher real per capita income.
- b) Uninterrupted growth and development Model
- c) Environmental Protection.
- d) Cultural Promotion (i.e. inculcation of ethical and spiritual values in life without which, it says, progress may become a curse rather than a blessing).

Ans: b

Gross National Happiness

Bhutan, a small Himalayan kingdom and an economic non-entity developed a new concept of development in early 1970s—the GNH. Without rejecting the idea of human development propounded by the UNDP, the kingdom has been officially following the targets set by the GNH.

Bhutan has been following up the GNH since 1972 which has the following parameters to attain happiness/development:

- Higher real per capita income.

- Good Governance.
- Environmental Protection.
- Cultural Promotion (i.e. inculcation of ethical and spiritual values in life without which, it says, progress may become a curse rather than a blessing).

34. Look at the following statements about Vittiya Saksharata Abhiyan

- 1) It is a Program to create awareness about sanitation with the help of celebrities
- 2) Under it, young students and faculty members will be roped to encourage and motivate people
- 3) Ministry of Sanitation and Drinking water launched it and is implementing agency

Which of the statements given above is/are correct?

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

Ans: b

Vittiya Saksharata Abhiyan

- VISAKA aims **to create awareness among people about digital economy and cashless modes** of transactions
- Under it, **young students and faculty members** will be roped to encourage and motivate people to use a digitally enabled cashless economic system for transfer of fund.
- For active participation of youth and faculty, HRD Minister also launched a webpage where students can register themselves. On this website, students and faculty members also can provide their feedback and suggestions on the initiative as well as upload the progress of their work.
- The **Ministry of Human Resource Development launched it and is implementing agency** and looks forward to active participation of students, faculty and staff members of all educational institutions in accomplishing this challenging task.

35. The Macro-Economic Vulnerability index includes

- 1) Fiscal Deficit
- 2) Current Account Deficit
- 3) Inflation

- a) Only 1 and 2

- b) Only 2 and 3
- c) Only 1 and 3
- d) All of the above

Ans: d

Macro-Economic Vulnerability Index

- Macro-Economic Vulnerability index was introduced in Economic Survey 2014-15. It adds a country's **Twin Deficit (Fiscal Deficit and Current Account Deficit) and inflation**.
- This index showed that in **2012 India was the most vulnerable of the major emerging market countries**.
- Since 2013, India's index has improved by 5.3 percentage points compared with 0.7 percentage point for China, 0.4 percentage point for all countries in India's investment grade.

36. Read the following statements carefully and choose the right answer by using the codes given below:

- 1) A 'procyclical fiscal policy means reducing spending and raising taxes during a boom period, and increasing spending/cutting taxes during a recession.
- 2) A 'countercyclical' procyclical fiscal policy' can be summarized simply as governments choosing to increase public spending and reduce taxes during an economic boom, but reduce spending and increase taxes during a recession.

- a) Only 1
- b) Only 2
- c) All of the above
- d) None of the above

Ans: d

Countercyclical (Restrictive) & Procyclical (Expansory)

- A 'countercyclical' fiscal policy means reducing spending and raising taxes during a boom period, and **increasing spending/cutting taxes during a recession**.
- A 'procyclical fiscal policy' can be summarized simply as governments choosing to **increase public spending and reduce taxes during an economic boom**, but **reduce spending and increase taxes during a recession**.

37. With reference to core of the core Schemes, consider the following statements

- 1) The funding is in the ration 75:25
- 2) MGNREGA is included in the classification

3) Development of Backward Classes and other vulnerable groups are not included

Select the correct answer using the code given below.

- a) Only 1 and 2
- b) Only 2 and 3
- c) Only 1 and 3
- d) All of the above

Ans: a

Core of core, Core and Optional Schemes

Budget 2016-17 has introduced a new **classification system** for the Centre's spending. The new system divides **Centrally Sponsored Schemes (CSS)** into **three** categories:

- **Core of the Core**: This system has been put in place as a run-up to the next financial year, when the **Plan/Non-Plan distinction in government expenditure will be done away with**. As per the new system, the Core of the Core schemes will retain their expenditure allocation framework. For example, MGNREGA **had 75:25**.
- Under the new classification, **eight schemes will be classified as Core of the Core** including
 - MGNREGA : new system has accorded the Scheme highest priority
 - Development of Backward Classes and other vulnerable groups
 - National Social Assistance Programme
 - umbrella schemes for the upliftment of minorities
 - Scheduled Castes,
 - Scheduled Tribes.
- **Core schemes** will have a **60:40 formula**, while the Core schemes, **33 in number**, include schemes as far-ranging as the Krishi Unnati Yojana, the Smart Cities programme, and the modernization of the police force.
- **Optional schemes** will have a **50:50 formula**, with the **states having the flexibility to decide whether to invest in these or not**.

38. RBI had constituted the Deepak Mohanty committee to examine the existing policy regarding financial inclusion. Its recommendations included

- 1) Augment the government social cash transfer
- 2) Step up account opening for females belonging to lower income group
- 3) Provide credit guarantees in niche areas for Micro and Small Enterprises
- 4) Government should Provide more subsidies to prevent farmer suicides

Which of the statements given above are correct?

- a) Only 1, 2 and 3
- b) Only 2, 3 and 4
- c) Only 1, 3 and 4
- d) All of the above

Ans: a

Deepak Mohanty Committee on Medium-term Path on Financial Inclusion

RBI had constituted the committee in July 2015 to examine the existing policy regarding financial inclusion and the form a five-year (medium term) action plan. It was tasked to suggest plan on several components with regard to payments, deposits, credit, social security transfers, pension and insurance.

- **Augment the government social cash transfer** in order to increase the personal disposable income of the poor. It would put the economy on a medium-term sustainable inclusion path.
- **Sukanya Shiksha Scheme:** Banks should make special efforts to **step up account opening for females belonging to lower income group** under this scheme for social cash transfer as a welfare measure.
- **Aadhaar linked credit account:** Aadhaar should be linked to each individual credit account as a unique biometric identifier which can be shared with Credit information bureau to enhance the stability of the credit system and improve access.
- **Mobile Technology:** Bank's traditional business model should be changed with greater reliance on mobile technology to improve 'last mile' service delivery.
- **Digitization of land records:** It should be implemented in order to increase formal credit supply to all agrarian segments through Aadhaar-linked mechanism for Credit Eligibility Certificates (CEC).
- **Nurturing self-help groups (SHGs):** Corporates should be encouraged to nurture SHGs as part of Corporate Social Responsibility (CSR) initiative.
- **Subsidies:** Government should replace current agricultural input subsidies on fertilizers, irrigation and power by a **direct income transfer scheme as a part of second generation reforms.**
- **Agricultural interest subvention Scheme:** It should be phased out.
- **Crop Insurance:** Government should introduce universal crop insurance scheme covering all crops starting with small and marginal farmers with monetary ceiling of Rs. 2 lakhs.
- **Multiple Guarantee Agencies:** Should be encouraged to **provide credit guarantees in niche areas for Micro and Small Enterprises (MSEs).** It would also explore possibilities for counter guarantee and re-insurance.

- **Unique identification of MSME:** It should be introduced for all MSME borrowers and information from it should be shared with credit bureaus.

39. With respect to Deputy Governor of RBI, consider the following statements

- 1) The RBI has four deputy governors
- 2) A central bank Deputy Governor can be appointed for a term with a maximum of five years or till the age of 60

Select the correct answer using the code given below.

- a) Only 1
- b) Only 2
- c) All of the above
- d) None of the above

Ans: a

Deputy Governor

- The RBI has **four deputy governors** and typically two are from the outside, of which traditionally one is a **commercial banker** and the other an **economist**.
- The **two others are promoted from within the central bank's ranks**.
- A central bank Deputy Governor can be appointed for a term with a maximum of five years or till the age of 62, whichever is earlier.

40. Consider the following statements regarding Non Scheduled banks

- 1) They are subject to Cash reserve requirement
- 2) They are not entitled to borrow from the RBI for normal banking purposes

Select the correct answer using the code given below.

- a) Only 1
- b) Only 2
- c) All of the above
- d) None of the above

Ans: c

Non-Scheduled Banks

- They are also subject to the statutory cash reserve requirement.
 - But they are not required to keep them with the RBI; they may keep these balances with themselves.
- They are not entitled to borrow from the RBI for normal banking purposes, though they may approach the RBI for accommodation under abnormal circumstances.

41. With reference to Special Mention Account, consider the following statements

- 1) SMA-0 Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress
- 2) SMA-1 Principal or interest payment overdue between 31-60 days
- 3) SMA-2 Principal or interest payment overdue between 61-90 days

Select the correct answer using the code given below.

- a) Only 1 and 2
- b) Only 2 and 3
- c) Only 1 and 3
- d) All of the above

Ans: d

Special Mention Account (SMA)

- Before a loan account turns into a NPA, banks are required to identify incipient stress in the account by creating three sub-categories under the SMA category.
 - **SMA-0** Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress
 - **SMA-1** Principal or interest payment overdue between 31-60 days
 - **SMA-2** Principal or interest payment overdue between 61-90 days

42. Read the following statements carefully and choose the incorrect answers by using the codes given below:

- 1) Sampoorna Bima Gram (SBG) Yojana provides affordable life insurance services to people, particularly those living in rural areas of the country
 - 2) Ministry of Rural development launched the scheme
 - 3) The benefits of Postal life Insurance will be confined to government and semi-government employees only
- a) Only 1 and 2
 - b) Only 2 and 3
 - c) Only 1 and 3
 - d) All of the above

Ans: b

Sampoorna Bima Gram (SBG) Yojana

- The Minister for Communications launched SBGY
- In a bid to provide affordable life insurance services to people, particularly those living in rural areas of the country, the government launched SBG and expanded the coverage of **Postal Life Insurance (PLI)**.

- Under SBG at least one village (having a minimum of 100 households) will be identified in each of the revenue districts of the country, wherein endeavour will be made to cover all households of that identified village with a minimum of one **RPLI (Rural Postal Life Insurance)** policy each.
- Coverage of all households in the identified Sampoorna Bima Gram village is the primary objective of this scheme.
- The benefits of PLI will no more be confined to government and semi-government employees only, **but will also be available to professionals such as** doctors, engineers, management consultants, chartered accountants, architects, lawyers, bankers etc. and to the employees of listed companies of NSE (National Stock Exchange) and BSE (Bombay Stock Exchange).
- The decision has been taken to enlarge the cover of social security and bring the maximum number of people under the protection of Postal Life Insurance (PLI).

43. With reference to National Investment Fund (NIF), consider the following statements

- 1) Purpose of the fund was to receive disinvestment proceeds of central public sector enterprises and to invest the same to generate earnings
- 2) Earnings of the Fund were to be used for selected Central social welfare Schemes
- 3) Fund is part of consolidated fund of India

Select the correct answer using the code given below.

- a) Only 1 and 2
- b) Only 2 and 3
- c) Only 1 and 3
- d) All of the above

Ans: a

National Investment Fund (NIF)

- The cabinet Committee on Economic Affairs (CCEA) on 27th January, 2005 had approved the constitution of a National Investment Fund (NIF).
- The Purpose of the fund was to receive disinvestment proceeds of central public sector enterprises and to invest the same to generate earnings without depleting the corpus.
- The earnings of the Fund were to be used for selected Central social welfare Schemes.
- This fund was kept outside the consolidated fund of India

44. Read the following statements carefully:

- 1) A micro enterprise in manufacturing sector has investment less than five lakh rupees
- 2) A small enterprise in Service Sector has investment less than five crore rupees
- 3) A medium enterprise in manufacturing sector has investment less than ten crore rupees

Choose the right answer by using the codes given below

- e) Only 1 and 2
- f) Only 2 and 3
- g) Only 1 and 3
- h) All of the above

Ans: c

MSME

Manufacturing Sector	
Enterprises	Investment in plant & machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	Investment in equipments
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

45. Look at the following statements about Financial and Business Cycle

- 1) Business cycle is the fluctuation in economic activity but in the financial cycle financial disruptions tend to be long
- 2) The scope of financial cycle is wider than the business cycle and has deep impact on the global economy

Which of the statements given above is/are correct?

- a) Only 1
- b) Only 2
- c) All of the above
- d) None of the above

Ans: c

Financial and Business Cycle

- **Business cycle is the fluctuation in economic activity** that an economy experiences over a period of time. A business cycle is basically defined in terms of periods of expansion or recession.
- In the financial cycle
 - financial disruptions tend to be long whereas booms are relatively short

- Equity and house prices cycles are typically longer and more pronounced than credit cycles.
- The features of financial cycles have changed over time; in particular, equity price cycles have become shorter.
- **Financial cycle that often does not move in sync with the business cycle.**
- The **financial cycle tends to be much longer than the business cycle** 15-20 years rather than 8-10 years.
- The scope of **financial cycle is wider than the business cycle** and has deep impact on the global economy.

46. The Chakravyuha Challenge present in economic survey speaks about

1. NPA issue and its impact on banking system
2. Issue of Exit from the market

Select the incorrect answer using the codes given below:

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

Ans: a

The Chakravyuha Challenge: Ease to enter, barriers to exit

The Economic Survey 2015-16 states that the case studies suggest that the challenge is more a feature of the relatively traditional sectors of the economy. It is not restricted to the public sector but is increasingly being seen in the private sector. India seems to have a disproportionately large share of inefficient firms with very low productivity and with little exit. This lack of exit generates externalities that hurt the economy.

Impeded exit has substantial fiscal, economic, and political costs.

- **Fiscal Costs:** Inefficient firms often require government support in the form of explicit subsidies (for example bailouts) or implicit subsidies (tariffs, loans from state banks).
- **Economic Costs:** Misallocation of scarce resources and factors of production in unproductive uses including overhang of stressed assets on corporate and bank balance sheets.
- **Political costs:** Government support to “sick” firms can give the impression that government favors large corporates, which politically limits its ability to undertake measures that will benefit the economy but might be seen as further benefitting businesses.

47. Consider the following statements with respect to reverse charge

- 1) The liability to pay tax is by the recipient of goods/services instead of the supplier.
- 2) Reverse charge may be applicable for services only

Select the correct answer using the code given below.

- a) Only 1
- b) Only 2
- c) All of the above
- d) None of the above

Ans: a

Reverse Charge

- Reverse charge means the **liability to pay tax is by the recipient of goods/services instead of the supplier.**
- **Reverse charge may be applicable for both services as well as goods.**
- Reverse charge, where the recipient is liable to pay tax, is common to many countries like Canada where it is applicable on imports of services and intangible properties. Normally, the supplier pays the tax on supply. In certain cases, the receiver becomes liable to pay the tax, i.e., the chargeability gets reversed which is why it is called reverse charge.

48. Aaykar Setu which is seen in news is related to

- a) It is a private limited company floated to aid the rollout of the new indirect tax regime
- b) It allows user or taxpayers to execute the provisions of GST through the online platform.
- c) App launched by CBDT that allows entities track TDS, pay taxes and apply for permanent account number (PAN)
- d) A desk that will explain the benefits of GST to small businessmen and answer their queries

Ans: C

Aaykar Setu

- It is an app launched by the CBDT that allows **entities track TDS, pay taxes and apply for permanent account number (PAN).**
- It will also help people link their 12-digit biometric identifier Aadhaar with PAN card.
- **'Aaykar Setu' literally means taxpayer's bridge.**

49. With respect to Capital Output Ratio, consider the following statements

- 1) It is the amount of capital needed to produce one unit of output
- 2) Higher level of COR means capital is efficiently employed in the country

Select the correct answer using the code given below.

- a) Only 1
- b) Only 2
- c) All of the above
- d) None of the above

Ans: a

Capital Output Ratio

- Capital output ratio is the amount of capital needed to produce one unit of output.
- Higher level of COR means capital is inefficiently employed in the country
- In earlier stage of economy COR is low as economy is mainly agrarian and when economy grows COR starts moving up.

50. Which of the following statements about Offer for sale is correct?

- 1) OFS is an auction and the proceeds go to promoters
- 2) OFS defines a price band within which bids should be placed

- a) Only 1
- b) Only 2
- c) All of the above
- d) None of the above

Ans: a

Offer For Sale (OFS) & Follow-On Public Offer (FPO)

- **OFS** is an auction and the proceeds go to promoters
 - FPO raises funds for company projects
- **OFS** is open only for a single trading session. The company defines a floor price (though declaring this is not mandatory) below which bids will be rejected. It's up to investors to decide what price they want to buy the share.
 - FPO defines a price band within which bids should be placed. The offer will be open for at least three and up to 10 days.

51. Consider the following statements about **Green GDP**:

1. Green GDP refers to the GDP that includes the cost accrued to environmental damage.
2. It takes into account the usage of non-renewable sources of energy.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation:

Green GDP refers to a national accounting system of the utilization of the non-renewable natural resources of any country and is now being envisioned as a part of sustainable development. The objective is to utilize the resources optimally, efficiently and effectively in furthering the growth of economies and at the same time a realization of their scarcity value. It is also believed that such an accounting will also pave the way for greater R&D for developing viable alternatives to the fast depleting non-renewable natural resources of the country.

52. Consider the following statements about **Inflation**:

1. Headline Inflation measures the price rise in food, fuel and all other commodities.
2. Core Inflation does not measure price rise in fuel and food articles.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation:

Headline Inflation

Headline Inflation is the measure of total inflation within an economy. It includes price rise in food, fuel and all other commodities.

The inflation rate expressed in Wholesale Price Index (WPI) usually denotes the headline inflation. Though Consumer Price Index (CPI) values are often higher, WPI values traditionally make headlines.

Core Inflation (Underline Inflation or Non-food Inflation)

Core inflation is also a term used to denote the extent of inflation in an economy. But Core inflation does not consider the inflation in food and fuel. This is a concept derived from headline inflation. There is no index for direct measurement of core inflation and now it is measured by excluding food and fuel items from Wholesale Price Index (WPI) or Consumer Price Index (CPI).

53. Which of the following can be **causes of Inflation**?

1. Increase in population
2. Increase in income levels of the population
3. Enhanced Government Expenditure

A) 2 only

B) 2 and 3 only

C) 1 and 3 only

D) All of the above

Answer: D

Explanation

- Increase in population leads to too many people chasing same quantity of goods in turn resulting in price rise
- Increase in income levels results in more demand for the same quantity of goods
- When Government expenditure increases, the money supply in the economy increases which in turn leads to inflation.
- Other causes of inflation include: Black money, Infrastructure bottlenecks which lead rise in production and distribution costs, Rise in Minimum Support Price (MSP), Rise in international prices, Hoarding and black marketing, Rise in indirect taxes.

54. Consider the following statements about **Balance of Payments**:

1. Balance of Payments comprises of Current account and Capital account.
2. Capital account is broader compared to Current account.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation:

- The balance of payments (BoP) records the transactions in goods, services, and assets between residents of a country with the rest of the world for a specified time period typically a year.
- It represents a summation of country's current demand and supply of the claims on foreign currencies and of foreign claims on its currency.
- There are two main accounts in the BoP – the current account and the capital account.
- **Current Account:** The current account records exports and imports in goods, trade in services and transfer payments.
- **Capital Account:** The capital account records all international purchases and sales of assets such as money, stocks, bonds, etc. It includes foreign investments and loans.

55. Consider the following statements about **Consolidation of Public Sector Banks**:

1. It will help in bringing down the NPAs of Banks.
2. It will result in more efficiency due to cost cutting and scaling of operations.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation:

- The consolidation of PSBs would impact on cost cutting and acquiring efficiency in the wake of mounting problem of stressed balance sheet and NPA.
- The amalgamation could cater for the massive credit requirements of the growing economy, absorb shocks and have the capacity to raise resources without depending unduly on the state exchequer.
- It would facilitate their resources diversion to other underserved segments.
- Large banks in a consolidated banking system enjoy scale benefits leading to better diversification of risks and stronger overall profitability contributing to higher credit ratings.

56. Consider the following statements **about financial markets in India:**

1. Money market deals in short term credit transactions with a maturity up to one year.
2. Money market does not directly deal in cash or money but provides a market for credit instruments.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation:

- The money market is a market for short-term funds, which deals in financial assets whose period of maturity is upto one year.
- It should be noted that money market does not deal in cash or money as such but simply provides a market for credit instruments such as bills of exchange, promissory notes, commercial paper, treasury bills, etc.
- These financial instruments are close substitute of money. These instruments help the business units, other organisations and the Government to borrow the funds to meet their short-term requirement.
- The Indian money market consists of Reserve Bank of India, Commercial banks, Co-operative banks, and other specialised financial institutions.

- The Reserve Bank of India is the leader of the money market in India. Some Non-Banking Financial Companies (NBFCs) and financial institutions like LIC, GIC, UTI, etc. also operate in the Indian money market.

57. Consider the following statements about Marginal Cost of Funds Based Lending Rate (MCLR):

1. RBI has replaced Base Rate with MCLR.
2. MCLR is more sensitive to policy changes in comparison to Base Rate.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation:

Reserve Bank of India has directed banks to adopt Marginal Cost of Funds based Lending Rate (MCLR) for determining their respective Base Rates.

- The marginal cost of funds based lending rate (MCLR) refers to the minimum interest rate of a bank below which it cannot lend, except in some cases allowed by the RBI. Thus, it is an internal benchmark or reference rate for the bank.
- To improve the transmission of policy rates into the lending rates of banks.
- To bring transparency in the methodology followed by banks for determining interest rates on advances.
- To ensure availability of bank credit at interest rates which are fair to borrowers as well as banks.
- To enable banks to become more competitive and enhance their long run value and contribution to economic growth.

Base Rate vs. MCLR

- Base rate calculation is based on cost of funds, minimum rate of return, i.e margin or profit, operating expenses and cost of maintaining cash reserve ratio while the MCLR is based on marginal cost of funds, tenor premium, operating expenses and cost of maintaining cash reserve ratio.

- Calculation of marginal cost under MCLR: Marginal cost is charged on the basis of following factors interest rate for various types of deposits, borrowings and return on net worth. Therefore MCLR is largely determined by marginal cost of funds and especially by deposit rates and repo rates.
- Reasons for introducing MCLR
- RBI decided to shift from base rate to MCLR because the rates based on marginal cost of funds are more sensitive to changes in the policy rates.
- This is very essential for the effective implementation of monetary policy.
- Prior to MCLR system, different banks were following different methodology for calculation of base rate /minimum rate – that is either on the basis of average cost of funds or marginal cost of funds or blended cost of funds.

58. Consider the following statements about various types of Inflation:

1. Disinflation is fall in general price level of goods and services.
2. Deflation on the other hand is a slow-down in the inflation rate
3. Reflation is the act of stimulating the economy by increasing the money supply or by reducing taxes

Which of the following statements are correct?

- A) 1 and 2 only
- B) 1 and 3 only
- C) 3 only
- D) All of the above

Answer : C

Explanation:

- Inflation refers to rise in general price level of goods and services,
- Deflation is fall in general price level of goods and services.
- Deflation is inflation in negative zone, i.e. a decrease in the general price level of goods and services. Deflation occurs when the inflation rate falls below 0% (a negative inflation rate).
- If there is a higher supply of goods and services but there is not enough money supply to combat this, deflation can occur.
- Disinflation is on the other hand is a slow-down in the inflation rate (i.e. when inflation declines to lower levels).
- Unlike deflation, disinflation is considered a positive sign and capital markets, especially the bond markets, tend to react positively to this trend.

- For example, if the inflation rate in the United States was 5% in January but decreases to 4% in March, it is said to be experiencing disinflation in the first quarter of the year.
- Reflation is the act of stimulating the economy by increasing the money supply or by reducing taxes, seeking to bring the economy (specifically price level) back up to the long-term trend, following a dip in the business cycle.

59. Consider the following statements about Payment Banks:

1. The primary objective of Payment Banks is to deal with NPAs.
2. They accept demand deposits and deal in remittance services.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: B

Explanation:

- Payments banks will mainly deal in remittance services and accept deposits of up to Rs 1 lakh.
- The objective of Payment Banks was to further financial inclusion in India.
- Payment banks are non-full service banks, whose main objective is to accelerate financial inclusion.
- They will not lend to customers and will have to deploy their funds in government papers and bank deposits.
- They can accept demand deposit, issue ATM/debit cards but not credit cards.

60. Consider the following statements:

1. Tier 1 Capital refers to the Bank's core capital.
2. Capital Adequacy ratio is used to measure the quality of bank's balance sheets.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

Tier 1 capital is a bank's core capital, whereas tier 2 capital is a bank's supplementary capital. A bank's total capital is calculated by adding its tier 1 and tier 2 capital together.

Tier1: It is essentially the money the bank has stored to keep it functioning through all the risky transactions it performs, such as trading/investing and lending. It is composed, primarily, of disclosed reserves (also known as retained earnings) and common stock.

Tier2: It is more risky. It is composed of items such as revaluation reserves, undisclosed reserves, hybrid instruments and subordinated term debt.

CRAR is the acronym for Capital to Risk weighted Assets Ratio, a standard metric to measure balance sheet strength of banks

61. Consider the following statements about SCHEME FOR SUSTAINABLE STRUCTURING OF STRESSED ASSETS (S4A):

1. S4A refers to the scheme to deal with stressed assets of banking sector.
2. Under this scheme, debt is converted into equity.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer:C

Explanation:

SCHEME FOR SUSTAINABLE STRUCTURING OF STRESSED ASSETS (S4A)

- It is restructuring large ticket loans where the project is up and running.
- Here the lenders are required to separate a sustainable loan from an unsustainable loan. The bank would convert the unsustainable debt into equity or equity related instruments.
- As a result, on one hand, the debt burden of the borrower is substantially reduced and on the other hand promoter's equity stake is also reduced.
- The idea behind the scheme is that banks would get the upside if the company regains its old glory and it also gives promoters a second chance to revive the company.
- Highlights
- Banks can split the overall loans of struggling companies into sustainable and unsustainable based on the cash flows of the projects.
- The unsustainable debt could be converted into equity or a convertible security. However at least 50% of the debt should be serviced in the same period as that of the existing loan.
- Once the unsustainable debt is converted to equity, banks can sell this stake to a new owner who will have the advantage of getting to run the business with a more manageable debt.
- An advisory body called Overseeing Committee (OC) will be constituted, which will review the resolution plans submitted by the Banks. It will check the reasonableness and adherence to the guidelines and give an opinion.
- Projects with a loan of at least Rs 500 crores and have commenced commercial operations are eligible to be restructured under S4A.
- An external consultant should endorse it as a viable project through a techno-economic viability (TEV) study and the forensic audit should give a clean chit to the promoter
- Bankers cannot tinker with the terms of the sustainable loan.

62. Consider the following statements:

1. SARFESI Act enables Banks to auction properties to recover loans.
2. ARCs are formed under SARFESI Act.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation:

SARFAESI: was enacted to enable Banks and financial institutions to auction residential or commercial properties without the intervention of any court or tribunal to recover loans. It led to the formation of ARCs, enabling banks to take over the management of secured assets etc

Debt Recovery Tribunal: They are alternate to civil courts formed for enforcement and recovery of debts. It provided a faster and easier procedure for recovery.

63. Consider the following statements:

1. Bilateral investment treaties protect the investments of one country into another.
2. BITs has other provisions like protection against nationalisation, non-discriminatory treatment etc.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

- BITs protect investments made by an investor of one country into another by regulating the host nation's treatment of the investment.
- It includes provisions like non-discriminatory treatment, protection against nationalization, Investor State Dispute Settlement (ISDS) provision requiring investors to exhaust local remedies before commencing international arbitration etc.

64. Consider the following statements:

1. Logistics Performance Index LPI is published by World Bank.

2. LPI measures the ease of movement of goods within and out of country.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

The World Bank Group recently launched its bi-annual report 'Connecting to Compete 2016: Trade Logistics in the Global Economy'.

LPI is a measure that captures the relative ease and efficiency with which products can be moved into and within a country.

65. Consider the following statements about Outcome budgeting:

- 1. Outcome budgeting measures the development outcomes of all government programmes.
- 2. It is a measure of improvement in quality of the programme.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

It is a budgeting scheme that gives project-wise outlays for all central ministries, departments and organisations listed against corresponding outcomes (measurable physical targets) to be achieved during the year. It measures the development outcomes of all government programmes.

Outcome based performance budgeting symbolizes a shift from traditional budgeting in the sense that it goes beyond budgeting by inputs (how much can we spend) towards budgeting by measurable outcomes (what can we achieve with what we spend).

The Outcome Budget is expected to sharpen the budgetary projections by listing the projected outcomes under various schemes.

The outcomes are expected results not only in terms of monetary units or physical infrastructure but also in terms of qualitative targets and achievements.

66. Consider the following statements about Essential Commodities Act:

1. Essential Commodities Act, 1955 ensures the easy availability of essential commodities by protecting the listed items.
2. State governments are empowered to regulate and control the production and distribution.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

The Essential Commodities Act, 1955 ensures the easy availability of essential commodities to consumers and to protect them from exploitation by unscrupulous traders.

It empowers the State Governments to regulate and control of production, distribution and pricing of commodities which are declared as essential.

The list of essential commodities is reviewed from time to time with reference to their production and supply and in the light of economic liberalization in consultation with the concerned Ministries/Departments administering these commodities.

67. Consider the following statements about Priority Sector Lending:

1. Priority sector lending is applicable to those sectors which do not get easy credit from the market.
2. Export Credit , Education and Housing are components of Priority Sector lending.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

Priority sector refers to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation.

Categories under priority sector include Agriculture; 2. Micro, Small and Medium Enterprises; 3. Export Credit; 4. Education; 5. Housing; 6. Social Infrastructure; 7. Renewable Energy; and 8. Others

68. Consider the following statements:

1. All NPAs are stressed assets.
2. An asset is considered as a Stressed asset if the principal and/or interest remains overdue for more than 45 days.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: B

Explanation

Stressed assets VS Non Performing Assets

Stressed Asset - An account where principal and/or interest remains overdue for more than 30 days.

NPA - A loan or advance for which the principal or interest payment remained overdue for a period of 90 days.

69. Consider the following statements about FCNR -Foreign Currency Non-Repatriable account deposits:

1. FCNR accounts are meant specifically for NRIs and PIOs.
2. FCNR accounts can be maintained in any foreign currency.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: A

Explanation

An FCNR account is a term deposit account that can be maintained by NRIs and PIOs in foreign currency. Thus, FCNRs are not savings accounts but fixed deposit accounts.

Any currency which is freely convertible. for ex: US dollar, Pound Sterling (GBP), Euro, Japanese Yen, Swiss Frank, Swedish Krona etc.

70. Consider the following statements about P-Notes:

- 1.P-notes and Overseas derivative instruments are used by foreign entities interested in investing in Indian equity.
2. They are not registered with SEBI.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

P-Notes/Overseas Derivative Instruments P-Notes are used by foreign entities who want to get an exposure to Indian equity without getting registered with SEBI. So, SEBI-registered FPIs buy shares on behalf of such entities and then transfer the securities to the actual beneficiaries.

SEBI has recently introduced new measures to check the flow of black money into the country by tightening the norms for issuing Participatory notes (P- Notes) or Overseas derivative instruments (ODIs) in line with the recommendations of the Supreme Court monitored SIT on Black Money.

(ODIs) are investment vehicles used by overseas investors for an exposure in Indian equities or equity derivatives.

These investors are not registered with SEBI, either because they do not want to, or due to regulatory restrictions.

71. Consider the following statements about Tax Terrorism

1. It is the practice adopted by the Government to impose large unjustified taxes.
2. Retrospective taxation is also considered as Tax terrorism.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

Tax Terrorism is used in the context of practices such as:

- Retrospective taxation cases such as: Vodafone pricing case, Cairn India-Vedanta group case.
- Enforcement of regulations relating to tax avoidance: GAAR (General Anti Avoidance Regulations) etc.,
- The practice of raising large unjustified tax demands followed up with
- Aggressive recovery procedures,
- Coercive methods
- Many decisions taken by discretion without proper accountability.
- The root cause of tax terrorism is the setting of unrealistic revenue collection targets in the Union Budgets.

72. Consider the following statements about Green Bonds

1. All green bonds are debt instruments.
2. The capital raised from green bonds is used only to fund green projects like renewable energy, emission reductions.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

Green Bond

- A bond is a debt instrument with which an entity raises money from investors.
- The capital for green bond is raised to fund 'green' projects like renewable energy, emission reductions etc.
- According to SEBI, a bond shall be considered green bond if the funds raised through it will be used for renewable and sustainable energy including wind, solar, bio-energy, other sources of energy which use clean technology.

73. Consider the following statements about Small Finance Banks:

1. Small Finance Banks are niche banks that cater to specific sections of the population.
2. These banks accept deposits and advance loans.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

Small finance banks are niche banks (banks that focuses and serves the needs of a certain demographic segment of the population) with main function to perform lending activities among weaker section

The SFBs are essentially scaled down versions of commercial banks, with both deposit-taking and loan making functions.

Resident individuals/professionals carrying 10 years of experience in banking and finance and companies and societies owned and controlled by residents will be eligible to set up small finance banks.

SFBs have a minimum paid up capital of Rs.100 crore.

SFBs are mainly for the growth of agriculture and Micro, Small and Medium industries

SFBs can sell forex, mutual funds, insurance, pensions and can also convert into a full-fledged bank

74. Consider the following statements about Banking Transaction Tax:

1. BCTT is a tax levied on cash transactions above a specified limit.
2. The purpose of BCTT is to trace the source of money.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

BCTT is a type of tax that was levied on cash transactions above a specified limit by an individual or HUF from any non-saving account of a scheduled bank in a single day.

The tax was introduced to track unaccounted money and trace its source and destination.

75. Consider the following statements about Advance Price Agreements:

1. APAs help the companies to plan their tax payments in a better way.
2. APAs are useful in avoiding double taxation.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

An APA is a contract, usually for multiple years, between a taxpayer and at least one tax authority specifying the pricing method that the taxpayer will apply to its related-company transactions.

Advantages of APAs

- Obtains certainty for complex, high risk transactions to be done in future.
- Avoids double taxation as there is agreement between the tax authorities of countries.
- Avoids litigation costs and saves time for tax payers and tax authorities.

- Reduces the burden of record keeping.
- It promotes the better business environment.

76. Consider the following statements:

1. Arms length pricing and Transfer pricing are one and the same.
2. They refer to the transactions between the 2 divisions of the same company.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer:B

Explanation

The price at which divisions of a company transact with each other is called transfer price. A transaction in which buyers and sellers of any products act independently and have no relationship with each other is known as Arm's length transaction.

77. Consider the following statements:

1. All Bank ATMs are owned and operated by the concerned bank.
2. White label ATMs are operated by non bank entities.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

Types of ATM:

Bank ATM- owned and operated by the respective bank.

Brown Label ATM- banks outsource the ATM operations to a third party.

White Label ATM- owned by nonbank entities.

78. Consider the following statements:

1. Tax mitigation and Tax avoidance are one and the same.
2. Both come under the domain of strategies of Tax planning.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: D

Explanation

- Tax mitigation – It is the situation when taxpayer uses fiscal incentives like tax concession given by the government to lower tax burden.
- Tax Avoidance – It is a situation where a taxpayer tries to exploit the legal loopholes to reduce tax liability which would otherwise be incurred.
It is an arrangement solely entered into for tax advantages.
- Tax Planning: It is a plan to minimize tax payment using options like retirement plans etc.

79. Consider the following statements about Startups in India:

1. All Start ups need to be registered within the last 5 years.
2. The Startups can be process, product or service oriented.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

Start up as defined by government Start-up means an entity, incorporated or registered in India not prior to five years, with annual turnover not exceeding INR 25 crores in any preceding financial year, working towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property

80. Consider the following statements about Masala Bonds:

1. All Masala bonds are denominated in Indian rupees.
2. These bonds insulate the investors from exchange rate fluctuations.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

- Masala bonds are rupee-denominated bonds issued by Indian entities in the overseas market to raise funds.
- As of now, it is being traded only at the London Stock exchange.
- Masala bonds have been named so by the International Finance Corporation (IFC), an investment arm of the World Bank which issued these bonds to raise money for infrastructure projects in India.

- They protect investors from exchange rate fluctuations as opposed to external commercial borrowing (ECB) that have to be raised and repaid in dollar.

81. Consider the following statements about Capital Gains Tax:

1. Capital gains tax is levied on profits made out of assets.
2. It is applicable only when the asset is realised.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

Capital Gains tax

A capital gains tax is a tax levied on capital gains, profits an investor realizes when he sells a capital asset for a price that is higher than the purchase price. Capital gains taxes are only triggered when an asset is realized, not while it is held by an investor.

India classifies this tax into short term (capital gains made within 36 months) and long term capital gains (made beyond 36 months). (subject to certain exceptions. for example, the holding period of 24 months has been specified for unlisted shares and immovable property).

82. Consider the following statements about GSTN:

1. GSTN is an interface for the taxpayer, central and state governments
2. It is a not for profit, private entity.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

Goods and services tax network

The GSTN is a unique and complex IT initiative.

It is unique as it seeks, for the first time to establish a uniform interface for the tax payer and a common and shared IT infrastructure between the Centre and States.

The portal envisions becoming a trusted National Information Utility (NIU) which provides reliable, efficient and robust IT Backbone for the smooth functioning of the Goods & Services Tax regime.

It is a not for profit, non-Government, private limited company set up primarily to provide IT infrastructure and services to the Central & State Governments, tax payers & other stakeholders for GST implementation.

Its 3 major functions include:

- o Registration
- o Tax Payment– 97% paid electronically
- o Filing for returns

83. Consider the following statements about Base Erosion Profit Shifting (BEPS)

1. BEPS is a tax avoidance strategy used by Corporates.
2. The profits are shifted to countries with low taxation.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

Base Erosion and Profit Shifting (BEPS)

- It refers to tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity, resulting in little or no overall corporate tax being paid.
- BEPS is of major significance for developing countries due to their heavy reliance on corporate income tax, particularly from multinational enterprises.

84. Consider the following statements about Venture Capital Funds:

1. VCEs manage the funds of investors interested in start-ups.
2. The investors seek to gain private equity in the start-ups.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

Venture capital funds are investment funds that manage the money of investors who seek private equity stakes in startup and small- to medium-sized enterprises with strong growth potential. These investments are generally characterized as high-risk/high return opportunities.

85. Consider the following statements :

1. An IPO sells securities in the secondary market.

2. Secondary market is made up of equities and debts.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: B

Explanation

An Initial Public Offer (IPO) is the selling of securities to the public in the primary market. It is when an unlisted company makes either a fresh issue of securities or an offer for sale of its existing securities or both for the first time to the public. This paves way for listing and trading of the issuer's securities. The sale of securities can be either through book building or through normal public issue.

Secondary market refers to a market where securities are traded after being initially offered to the public in the primary market and/or listed on the Stock Exchange. Majority of the trading is done in the secondary market. Secondary market comprises of equity markets and the debt markets.

86. Consider the following statements :

1. Public issue is an offer to the public to subscribe to the share capital of a company.
2. The Shares are issued according to SEBI regulations.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

Most companies are usually started privately by their promoter(s). However, the promoters' capital and the borrowings from banks and financial institutions may not be sufficient for setting up or running the business over a long term. So companies invite the public to contribute towards the equity and issue shares to individual investors.

The way to invite share capital from the public is through a 'Public Issue'. Simply stated, a public issue is an offer to the public to subscribe to the share capital of a company. Once this is done, the company allots shares to the applicants as per the prescribed rules and regulations laid down by SEBI.

87. Consider the following statements about Disinvestment:

1. The process of Government selling its stakes in PSUs is known as Disinvestment.
2. This process helps the government in meeting the fiscal deficits.
3. It is performed by the Department for Investment and Public asset Management under Ministry of Finance

Which of the above statements are correct?

- A) 1 and 3 only
- B) 1 and 2 only
- C) 2 and 3 only
- D) All of the above

Answer: D

Explanation

Disinvestment or divestiture refers to the government selling or liquidating its assets or stakes in PSE (public sector enterprise).

The Department for investment and public asset management (DIPAM) under Ministry of finance is the nodal agency for disinvestment

Disinvestment proceeds can help the government fund its fiscal deficit.

88. The objective of Medium Term Expenditure Framework statement is :

1. To provide closer integration between Annual Budget and FRBM statements.
2. To Provide medium term perspective to fiscal management and enhance Government's commitment to fiscal consolidation
3. To set 3 years target for Government expenditure.

Which of the above statements are correct?

- A) 1 and 3 only
- B) 1 and 2 only
- C) 2 and 3 only
- D) All of the above

Answer: D

Explanation

MTEF statement laid in the Parliament sets forth three year targets for expenditure with underlying assumptions and risk involved.

According to the FRBM Act, 2013 ,following documents are presented in the Parliament:

- the Medium-term Fiscal Policy Statement
- the Fiscal Policy Strategy Statement
- the Macroeconomic Framework Statement

These documents are presented along with the Annual Budget. However, later Section 3 was amended to present a MTEF statement in the Parliament immediately following the Budget session.

The objective of MTEF is

- To Provide closer integration between Annual Budget and FRBM statements.
- Provide medium term perspective to fiscal management and enhance Government's commitment to fiscal consolidation.
- To give focus to the expenditure pattern of Government on various schemes, a scheme wise projection has also been attached to the MTEF statement.

89. Consider the following statements about Convertible Notes:

1. A convertible note is a short-term debt.
2. It is eventually converted into an equity in the company.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

A convertible note is a form of short-term debt that converts into equity, typically in conjunction with a future financing round; in effect, the investor would be loaning money to a startup and instead of a return in the form of principal plus interest, the investor would receive equity in the company.

90. Consider the following statements:

1. Primary Market is a type of Capital Market.
2. Primary Market issues the sale of new securities in domestic market only.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: A

Explanation

The primary market provides the channel for sale of new securities. Primary market provides opportunity to issuers of securities; Government as well as corporates, to raise resources to meet their requirements of investment and/or discharge some obligation. They may issue the securities at face value, or at a discount/premium and these securities may take a variety of forms such as equity, debt etc. They may issue the securities in domestic market and/or international market.

91. Consider the following statements:

1. In a Bull market, the prices of shares are expected to rise.
2. In a Bear market, selling is predominant due to anticipation of losses.

Which of the above statements are correct?

- A) 1 only

- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

A bull market is a financial market of a group of securities in which prices are rising or are expected to rise. Bull markets are characterized by optimism, investor confidence and expectations that strong results will continue.

Bear market refers to a market condition in which the prices of securities are falling, and widespread pessimism causes the negative sentiment to be self-sustaining. As investors anticipate losses in a bear market and selling continues, pessimism only grows. A bear market should not be confused with a correction, which is a short-term trend that has a duration of less than two months.

92. Consider the following statements:

1. An Insolvent is not in a position to pay back the money to the creditor.
2. Legal declaration of Insolvency is called Bankruptcy.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

Insolvency is the situation where the debtor is not in a position to pay back the creditor. For a corporate firm, the signs of this could be a slow-down in sales, missing of payment deadlines etc. Bankruptcy is the legal declaration of Insolvency. So the former is a financial condition and latter is a legal position. All insolvencies need not lead to bankruptcy.

93. Consider the following statements:

1. The basic aim of Monetary Policy is to control the supply of money in the economy.
2. The Fiscal policy aims to balance the expenditure and revenues.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

Monetary Policy refers to the policy of the central bank. In India Reserve Bank of India (RBI) is responsible for monetary policy. Repo, Reverse Repo, CRR, SLR etc are part of monetary policy.

Fiscal policy refers to the policy actions of the Government to deal with the expenditure and revenues. Budget, tax, subsidies, expenditure etc. forms part of the fiscal policy

94. Consider the following statements about GDP:

1. GDP is the value of goods and services produced within the country.
2. GDP at constant prices are adjusted to inflation.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

Gross Domestic Product (GDP) is the total money value of all final goods and services produced in the economic territories of a country in a given year.

In simple terms, GDP is the product of the quantity of goods (and services) produced with their final price (value).

GDP can be expressed at the constant price and at the current price. Constant price calculations are inflation adjusted (real GDP), while current price calculations include the inflation component too (nominal GDP).

95. Currency in circulation comprises of:

1. Currency notes and coins with the public
2. Cash in hand with banks.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

Both statements are true.

96. Consider the following statements:

1. In a Fixed Rate exchange system, the exchange rate of currency is fixed by the Government.
2. Floating rate system is also referred to as Pegged Currency system.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: A

Explanation

If the government or RBI fix the exchange rate of a currency (and does not allow any variations according to demand and supply forces in the market), such a system is called Fixed Rate system. It is also called Bretton Woods system or Pegged Currency System.

97. Consider the following statements:

1. Market price includes taxes but excludes subsidies.
2. Basic price includes subsidies without taxes

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

Factor Cost + Indirect Tax – Subsidies = Market Price.

Factor cost + production tax – production subsidies = Basic prices.

Basic Price + Product tax – Product Subsidy = Market Price.

98. Consider the following statements:

1. Devaluation and Depreciation refer to reduction in the value of domestic currency.
2. Both are performed by the Government or Central Bank.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

The term devaluation is used when the government reduces the value of a currency under Fixed Rate System. When the value of the currency falls under Floating Rate System, it is called depreciation. Revaluation is a term which is used when there is a rise of currency to the relation with a foreign currency in a fixed exchange rate. In floating exchange rate correct term would be appreciation. Altering the face value of a currency without changing its foreign exchange rate is a redenomination, not a revaluation.

99. Consider the following statements:

1. Reserve Money is also referred to as Narrow Money.
2. It includes the currency that is in circulation in the economy and deposits of commercial banks with RBI.

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

Reserve money is also called central bank money, monetary base, base money, high-powered money, and sometimes narrow money. In the most simple language, Reserve Money is **Currency in Circulation** plus **Deposits of Commercial Banks with RBI**.

Reserve money equals :

1. currency in circulation plus
2. bankers' deposits with RBI plus
3. 'other' deposits with RBI.

It is the base level for money supply or the high-powered component of money supply.

100. Consider the following statements:

1. Broad Money is the total stock of money that is circulating in an economy.
2. Broad Money is also referred to as Money Supply .

Which of the above statements are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

Answer: C

Explanation

Money supply is the total stock of money circulating in an economy. In general terms, it is also called broad money.

Money supply consists of:

1. total currency circulating in the public plus
2. the non-bank deposits with commercial bank.

Money supply includes deposits generated in the banking system resulting from a multiplier effect of movement of currency in the banking system as well as other forms of liquid assets.

