



## 60 Steps To Prelims (2021) (Date : 01-05-2021)

---

 drishtiias.com/print-quiz/1352

### Question 1:

With reference to "the invisible hand of markets", consider the following statements:

1. It is an unobservable market force that helps demand and supply of goods to reach equilibrium.
2. No government intervention can alter this market force.
3. With increasing economic openness, the invisible hand of markets get stronger.

Which of the statements given above is/are correct?

1. 1 only
2. 1 and 2 only
3. 1 and 3 only
4. 1, 2 and 3

**Correct Answer : 3**

### Explanation

---

- The unobservable market force that **helps the demand and supply of goods** in a free market to **reach equilibrium automatically** is the invisible hand of markets. The phrase 'invisible hand' was introduced by Adam Smith in his book 'The Wealth of Nations'. **Hence, statement 1 is correct.**

- The invisible hand needs to be strengthened by promoting pro-business policies to
    - Provide equal opportunities for new entrants, enable fair competition and ease doing business.
    - Enable trade for job creation.
    - Efficiently scale up the banking sector to be proportionate to the size of the Indian economy.
    - **Eliminate policies that undermine markets through government intervention even where it is not necessary.** Thus, government intervention can lead to the strengthening of the invisible hand of markets.  
**Hence, statement 2 is not correct.**
  - The invisible hand of the market is reflected in openness in economic transactions. The increase in economic openness leads to the strengthening of the invisible hand of markets. **Hence, statement 3 is correct.**
- 

### Question 2:

Consider the following statements:

1. India had the largest entrepreneurship ecosystem in the world in 2018 as per the World Bank.
2. The number of new firms registered in the formal sector has steadily increased in the last decade.

Which of the statements given above is/are correct?

1. 1 only
2. 2 only
3. Both 1 and 2
4. Neither 1 nor 2

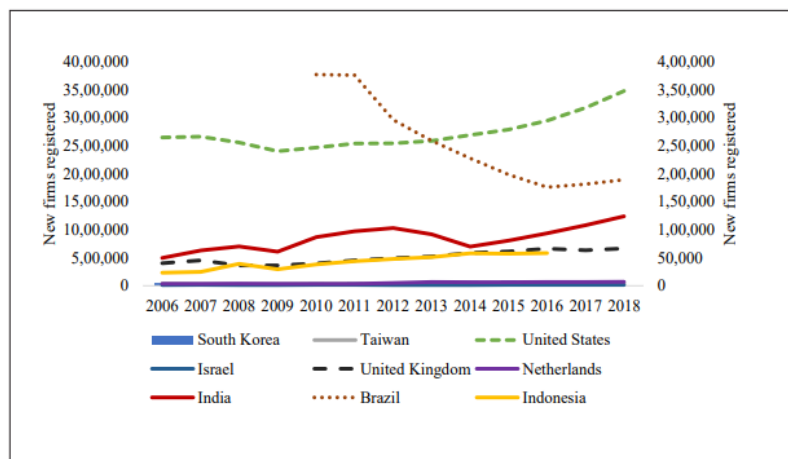
**Correct Answer : 4**

### Explanation

---

Entrepreneurship is a strategy to fuel productivity growth and wealth creation. India has the **3<sup>rd</sup> largest entrepreneurship ecosystem** in the world. **Hence, statement 1 is not correct.**

Comparison of entrepreneurial activity (new firms) across countries

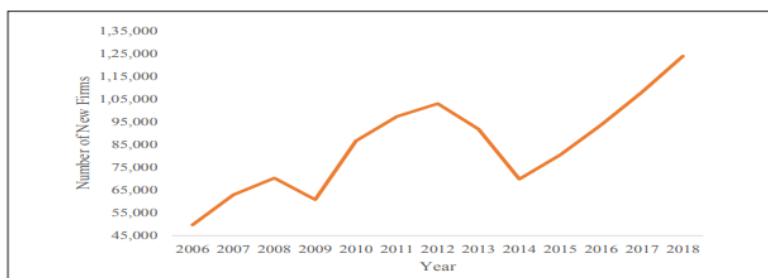


Source: World Bank's EODB Entrepreneurship Data, Business Formation Statistics of the U.S. Census Bureau and Survey Calculations

Note: Secondary axis for India, Brazil and, Indonesia

The number of new firms registered in the formal sector **has not steadily increased** in the last decade. It grew at a cumulative annual growth rate of **3.8 per cent from 2006-2014**, the **growth rate from 2014 to 2018 has been 12.2 per cent**. There has been a **steady increase** in the registration of **new firms since 2014**.

Growth in new firms over time in India



Above figure shows, there has been a sharp fall in the registration of the new firm in 2009 and 2014. **Hence, statement 2 is not correct.**

### Question 3:

Consider the following pairs:

Scheme	Ministry
1. Kisan Rail	Ministry of Agriculture & Farmers' Welfare
2. Krishi Udan	Ministry of Civil Aviation
3. PM KUSUM	Ministry of New and Renewable Energy

Which of the pairs given above are correctly matched?

1. 1 and 2 Only
2. 1 and 3 Only
3. 2 and 3 Only
4. 1, 2 and 3

**Correct Answer : 3**

### Explanation

---

- **Kisan Rail** to be set up by **Indian Railways** through Public-Private Partnership (PPP):
    - To build a seamless national cold supply chain for perishables (milk, meat, fish, etc).
    - Express and Freight trains to have refrigerated coaches. **Hence, pair 1 is not correctly matched.**
  - **Krishi Udaan** to be launched by the **Ministry of Civil Aviation**:
    - Both international and national routes to be covered.
    - North-East and tribal districts to realize Improved value of agri-products. **Hence, pair 2 is correctly matched.**
  - Pradhan Mantri Kisan Urja Suraksha even Utthan Mahabhiyan (**PM KUSUM**) Scheme has been launched by the **Ministry of New and Renewable Energy (MNRE)**.
    - It is for farmers for installation of solar pumps and grid-connected solar and other renewable power plants in the country.
    - The scheme aims to add solar and other renewable capacities of 25,750 MW by 2022. **Hence, pair 3 is correctly matched.**
- 

### Question 4:

Consider the following pairs:

Branch of Knowledge	Subject Matter
1. Varta	Philosophical and ethical framework
2. Dandaneeti	Law and enforcement
3. Anvikshiki	Economic policy
4. Trayi	Cultural context

Which of the pairs given above are correctly matched?

1. 1 and 2 Only
2. 2 and 4 Only
3. 1, 2 and 4 Only
4. 1, 2, 3 and 4

**Correct Answer : 2**

### Explanation

---

- **Kautilya** is often presented as the Machiavelli of India. He wrote the book Arthashastra which literally means “**The Treatise on Wealth**” and it extensively discusses issues ranging from urban governance to tax administration and commerce.
  - The book explicitly presents its intellectual framework right in the beginning by stating that good governance is based on the following branches of knowledge:  
**Varta** (economic policy), **Dandaneeti** (law and enforcement), **Anvikshiki** (philosophical and ethical framework) and **Trayi** (cultural context). **Hence, pair 2 and 4 are correctly matched.**
- 

### Question 5:

With reference to the term ‘Thalinomics’, consider the following statements:

1. It is an attempt to quantify what a common person pays for a plate of food across India.
2. The absolute prices of a vegetarian thali plate have increased significantly since 2015-16.

Which of the statements given above is/are correct?

1. 1 only
2. 2 only
3. Both 1 and 2
4. Neither 1 nor 2

**Correct Answer : 1**

### Explanation

---

- The Economic survey 2019-2020 presents a chapter on Thalinomics. Thalinomics refers to the economics of a plate of food in India.

- Thalinomics is an attempt to quantify what a common person pays for a Thali across India. **Hence, statement 1 is correct.**
- According to the Survey, across India the absolute prices of a vegetarian Thali have **decreased significantly since 2015-16**, though the price has **increased during 2019-20**. **Hence, statement 2 is not correct.**
- After 2015-16, the average household gained Rs.10,887 on average per year from the moderation in prices in the case of vegetarian Thali. Similarly, an average household that consumes two non-vegetarian Thalis gained around Rs.11787 on average per year during the same period.
- Using the annual earnings of an average industrial worker, the survey finds that affordability of vegetarian Thalis improved 29 per cent from 2006-07 to 2019-20 while that for nonvegetarian Thalis improved by 18%.

### Question 6:

The term 'debt overhang' was used in Economic Survey 2019-20, which of the following best describes the term?

1. It is the availability of fresh loans from Public sector banks with government guarantee.
2. It is a situation where a nation has both a current account deficit and a budget deficit.
3. It is a situation where all current income of the borrower gets used up in repaying the accumulated debt.
4. It is a condition where a large number of loans are defaulted in a short period.

**Correct Answer : 3**

### Explanation

- Debt overhang refers to a debt burden so large that an entity cannot take on additional debt to finance future projects. This includes entities that are profitable enough to be able to reduce indebtedness over time.
- It refers to a situation where **all current income gets used up in repaying the accumulated debt**, leaving little incentives to invest either in physical or human capital.  
Debt overhang leads to abandonment of beneficial investment and hence reduces social welfare.
- **Hence, option C is correct.**

### Question 7:

With reference to spatial heterogeneity in the distribution of Entrepreneurial Activity in India, consider the following statements:

1. Entrepreneurial activity in the Agriculture sector is highest in Punjab, Haryana and Uttar Pradesh.
2. Entrepreneurial activity in the Manufacturing sector is highest in the regions of Gujarat, Meghalaya, Puducherry and Rajasthan.

Which of the statements given above is/are correct?

1. 1 only
2. 2 only
3. Both 1 and 2
4. Neither 1 nor 2

**Correct Answer : 2**

### Explanation

---

- There exists a spatial heterogeneity in the distribution of Entrepreneurial Activity in India i.e. varied levels of entrepreneurial activity across the districts. According to the Economic Survey 2019-2020, all regions demonstrate strong growth in entrepreneurial activity over time with the exception of the Eastern states.
  - States in the highest quintile of relative entrepreneurial activity in the **Agriculture sector** are **Manipur, Meghalaya, Madhya Pradesh, Assam, Tripura and Odisha. Hence, statement 1 is not correct.**
  - Entrepreneurial activity in the **Manufacturing sector** is highest in the regions of **Gujarat, Meghalaya, Puducherry, Punjab and Rajasthan. Hence, statement 2 is correct.**
  - Entrepreneurial activity in the services sector is highest in the regions of **Delhi, Mizoram, Uttar Pradesh, Kerala, Andaman and Nicobar, and Haryana.**
- 

### Question 8:

Regarding the shadow banking system, consider the following statements:

1. It operates outside the traditional commercial banking sector.
2. It functions as intermediaries between end-suppliers and end-users of funds.

Which of the statements given above is/are correct?

1. 1 only

2. 2 only
3. Both 1 and 2
4. Neither 1 nor 2

**Correct Answer : 3**

### Explanation

---

- Shadow banking comprises a set of activities, markets, contracts and institutions that operate partially (or fully) **outside the traditional commercial banking sector**. These are either lightly regulated or not regulated at all. **Hence, statement 1 is correct.**
  - A shadow banking system comprises entities that **intermediate between end-suppliers and end-users of funds**. However, they do not have explicit access to central bank liquidity and are highly levered with risky and illiquid assets. **Hence, statement 2 is correct.**
  - There are three important segments of the shadow banking system in India - Non-Banking Housing Finance Companies (HFCs), Retail Non-Banking Financial Companies (Retail-NBFCs) and Liquid Debt Mutual Funds (LDMFs).
- 

### Question 9:

Which of the following statements is/are correct?

1. Strategic disinvestment involves the transfer of ownership and management control of a public sector entity to some other entity, either private or public.
2. Department of Investment and Public Asset Management (DIPAM) is the nodal department for strategic disinvestment.
3. The Department of Disinvestment was set up as a separate department in 2004.

Select the correct answer using the code given below:

1. 1 and 2 only
2. 2 and 3 only
3. 1 only
4. 1, 2 and 3

**Correct Answer : 1**

### Explanation

---



- **Strategic disinvestment** is transferring the ownership and control of a public sector entity to some other entity (mostly to a private sector entity).
    - Unlike the simple disinvestment, strategic sale implies some sort of privatization. Disinvestment means the dilution of the stake of the Government in a public enterprise.
    - According to the government, strategic disinvestment would imply the **sale of a substantial portion** of the Government shareholding of a central public sector enterprise (CPSE) of up to 50%, or such higher percentage as the competent authority may determine, along with **transfer of management control**.  
**Hence, statement 1 is correct.**
  - The **Department of Disinvestment** has been renamed as **Department of Investment and Public Asset Management (DIPAM)** from 14<sup>th</sup> April, 2016 which has been made the **nodal department for the strategic stake sale** in the Public Sector Undertakings (PSUs). **Hence, statement 2 is correct.**
  - The **Department of Disinvestment was set up as a separate department in December, 1999** and was later renamed as the Ministry of Disinvestment in September, 2001. From 27<sup>th</sup> May, 2004, the Department of Disinvestment was brought under the Ministry of Finance. **Hence, statement 3 is not correct.**
- 

#### Question 10:

Regarding 'Arth Ganga' project, consider the following statements:

1. It implies a sustainable development model with a focus on economic activities related to Ganga.
2. Inland waterway is one of the most important pillars of the project.

Which of the statements given above is/are correct?

1. 1 only
2. 2 only
3. Both 1 and 2
4. Neither 1 nor 2

**Correct Answer : 3**

#### Explanation

---

- The first meeting of the **National Ganga Council** was held in Kanpur (Uttar Pradesh) during which the Prime Minister urged for a holistic thinking process where '**Namami Gange**' evolved to '**Arth Ganga**'.

- **The Arth Ganga project implies a sustainable development model with a focus on economic activities related to Ganga.** Under this farmers will be encouraged to engage in sustainable agriculture practices, including zero budget farming, planting of fruit trees and building plant nurseries on the banks of Ganga. **Hence, statement 1 is correct.**
  - Along with the creation of infrastructure for water sports and development of campsites, cycling and walking tracks etc., would help to tap the 'hybrid' tourism potential of the river basin area - for purposes of religious as well as adventure tourism.
  - **The Ministry of Shipping** has highlighted that **Inland Waterways is one of the most important pillars** of the Arth Ganga project as it will result into inclusive growth and play a key role in the generation of enormous employment opportunities in the National Waterways stretch. **Hence, statement 2 is correct.**
- 

### Question 11:

Which of the following statements is/are correct regarding Dutch Disease?

1. It is a paradoxical situation in which the growth in one sector negatively impacts the country's broader economy.
2. It leads to depreciation of the currency of the country.
3. It encourages the import of cheaper alternatives in the country.

Select the correct answer using the code given below:

1. 1 and 2 only
2. 1 and 3 only
3. 1 only
4. 1, 2 and 3

**Correct Answer : 2**

### Explanation

---

- **Dutch Disease** refers to the phenomenon wherein countries that are rich in natural resources witness uneven growth across sectors. It stands for the **negative consequences** that can arise from a spike in the value of a nation's currency. **Hence, statement 1 is correct.**
- The resource-rich countries export their resources to the rest of the world, it causes the exchange rate of their **currency to appreciate significantly.** **Hence, statement 2 is not correct.**
- The term was coined owing to the impact of the discovery of vast natural gas deposits in the North Sea (The Netherlands) in 1959.

- The newfound wealth and massive exports of oil caused the value of the Dutch Guilder (the erstwhile currency) to rise sharply, making Dutch exports of all non-oil products less competitive on the world market. It therefore affects other sectors in the country by **discouraging their exports** while **encouraging the import of cheaper alternatives**. Hence, statement 3 is correct.
- 

### Question 12:

The term 'Bank run' often seen in news refers to:

1. A condition when homebuyers fail to make a mortgage payment.
2. A situation when a corporation or government fails to pay a bond which has reached maturity.
3. A condition of insolvency of banks due to increasing liabilities.
4. A large number of people start making withdrawals from banks out of panic.

**Correct Answer : 4**

### Explanation

---

- **Bank runs** happen when a large number of people start making withdrawals from banks because they fear the institutions will run out of money.
  - A bank run is typically the result of panic rather than true insolvency. A bank run triggered by fear that pushes a bank into actual insolvency represents a classic example of a self-fulfilling prophecy. The bank does risk default, as individuals keep withdrawing funds. So what begins as panic can eventually turn into a true default situation. **Hence, option D is correct.**
- 

### Question 13:

With reference to Public Goods, consider the following statements:

1. These are non-excludable, non-rejectable and have non-rival consumption.
2. Trust in government is an example of the public good.

Which of the statements given above is/are correct?

1. 1 only
2. 2 only
3. Both 1 and 2

4. Neither 1 nor 2

**Correct Answer : 3**

### Explanation

---

- A public good is a product that an individual can consume without reducing its availability to others and of which no one is deprived. For Example, law enforcement, national defence, air etc.
  - **Characteristics of Public Goods:**
    - **Non-excludability:** The citizens can enjoy their benefits at no explicit financial cost.
    - **Non-rival consumption:** The marginal cost of supplying this public good to an extra citizen is zero.
    - **Non-rejectable:** There is a collective supply for public goods to all citizens which means that they cannot be rejected. **Hence, statement 1 is correct.**
  - The Economic Survey 2019-2020 introduces the idea of trust in governments as a public good. It noted that unlike other public goods, trust grows with repeated use and therefore takes time to build. **Hence, statement 2 is correct.**
  - The Survey also suggests that policies must empower transparency and effective enforcement using data and technology to enhance this public good.
- 

### Question 14:

With reference to the 'Index of Economic Freedom', consider the following statements:

1. It is annually brought out by the Fraser Institute.
2. The index measures the status of Rule of Law, Government Size, Regulatory Efficiency and Open Markets in the country.

Which of the statements given above is/are correct?

1. 1 only
2. 2 only
3. Both 1 and 2
4. Neither 1 nor 2

**Correct Answer : 2**

### Explanation

---

- The Index of Economic Freedom is brought out by the **Heritage Foundation**, whereas it is the **Global Economic Freedom Index** which is brought out by the **Fraser Institute**. **Hence, statement 1 is not correct.**
  - India was categorized as 'mostly unfree' with a score of 55.2 in 2019 ranking the Indian economy 129<sup>th</sup> among 186 countries in the index.
  - The index measures economic freedom based on 12 quantitative and qualitative factors, grouped into four broad categories, or pillars, of economic freedom:
    1. **Rule of Law** (property rights, government integrity, judicial effectiveness)
    2. **Government Size** (government spending, tax burden, fiscal health)
    3. **Regulatory Efficiency** (business freedom, labour freedom, monetary freedom)
    4. **Open Markets** (trade freedom, investment freedom, financial freedom). **Hence statement 2 is correct.**
- 

### Question 15:

With reference to the National Bureau of Soil Survey and Land Use Planning (NBSS & LUP), consider the following statements:

1. It is an autonomous institute under the Ministry of Earth Science.
2. BHOOMI Geo-portal was developed by NBSS & LUP.
3. It prepares digitized maps of micronutrient status of the soil.

Which of the statements given above is/are correct?

1. 1 and 2 only
2. 1 and 3 only
3. 2 and 3 only
4. 1, 2 and 3

**Correct Answer : 3**

### Explanation

---

- The National Bureau of Soil Survey and Land Use Planning (NBSS & LUP) is one among the chain of Indian Council of Agricultural Research Institutes, under **the Ministry of Agriculture**. **Hence, statement 1 is not correct.**

- The Government of India established the **All India Soil Survey Organisation** in 1956 with the Headquarters at the Indian Agricultural Research Institute, Nagpur.
    - In 1969, it was reorganized and the research aspects of soil survey, classification and correlation were transferred to the **Indian Council of Agricultural Research (ICAR)**, and the developmental activities were retained under the Department of Agriculture, Ministry of Food and Agriculture.
    - In 1976, it became an independent Institute of ICAR named as **National Bureau of Soil Survey and Land Use Planning (NBSS&LUP)** and continued to function at the IARI, New Delhi.
  - NBSS & LUP developed **BHOOMI Geo-portal** to access various thematic information on major physiographic regions, sub-physiographic regions, agro-ecological regions and agro-ecological sub-regions of the country. **Hence, statement 2 is correct.**
  - It has also developed the **National Resource Inventory (LRI)**.

National Resource Inventory is a digitized map of micro-nutrients status, which would be helpful in providing site-specific variable rate of application of micro nutrients prescription for sustainable agricultural productivity. **Hence, statement 3 is correct.**
- 

### Question 16:

Regarding the National Internet Exchange of India (NIXI), consider the following statements:

1. NIXI is a not for profit Organization under Companies Act 2013.
2. It facilitates the exchange of domestic internet traffic between peering Internet Service Provider (ISP) members.

Which of the statements given above is/are correct?

1. 1 only
2. 2 only
3. Both 1 and 2
4. Neither 1 nor 2

**Correct Answer : 3**

**Explanation**

---

- NIXI is a **not for profit organization** under section 8 of the Companies Act 2013, and was registered on 19<sup>th</sup> June 2003. **Hence, statement 1 is correct.**  
An Internet Exchange Point is a facility that allows Internet Service Providers (ISP) to "meet" and exchange traffic, also called peering. This saves money on International bandwidth for the ISPs and improves connectivity for their customers by reducing latency.
  - NIXI was set up for peering of ISPs among themselves for the purpose of routing the **domestic traffic within the country, thereby resulting in a better quality of service** (reduced latency) and reduced bandwidth charges for ISPs by saving on International Bandwidth. **Hence, statement 2 is correct.**
- 

### Question 17:

Consider the following statements:

1. Member of Parliament Local Area Development Scheme is run by the Ministry of Parliamentary Affairs.
2. Indian Statistical Institute is an institute of national importance under the Ministry of Statistics and Programme Implementation (MoSPI).
3. The Office of Registrar General & Census Commissioner is under MoSPI.

Which of the statements given above is/are correct?

1. 1 and 3 only
2. 2 only
3. 2 and 3 only
4. 1, 2 and 3

**Correct Answer : 2**

### Explanation

---

- The Ministry of Statistics and Programme Implementation (MoSPI) has **two wings**, one relating to Statistics and the other- Programme Implementation.
- The Programme Implementation Wing has three Divisions, namely,
  - Twenty Point Programme
  - Infrastructure Monitoring and Project Monitoring and
  - **Member of Parliament Local Area Development Scheme. Hence, statement 1 is not correct.**

- Besides these two wings, there is the National Statistical Commission (NSC) created through a resolution of the Government of India (MOSPI) and one autonomous Institute, viz., **Indian Statistical Institute (ISI) declared as an institute of national importance** by an act of the Parliament. **Hence, statement 2 is correct.**
  - The Office of the Registrar General & Census Commissioner is under **the Ministry of Home Affairs. Hence, statement 3 is not correct.**
- 

### Question 18:

Consider the following statements:

1. Index of Industrial Production (IIP) is published on a monthly basis by the Central Statistical Organization(CSO).
2. The weightage of the manufacturing sector is the largest in IIP.

Which of the statements given above is/are correct?

1. 1 only
2. 2 only
3. Both 1 and 2
4. Neither 1 nor 2

**Correct Answer : 3**

### Explanation

---

- The Index of Industrial Production (IIP) is estimated and published on a monthly basis by the Central Statistical Organization (CSO). The three sectors of the IIP as per the revision based on 2011-12 series are: (i) Mining, (ii) Manufacturing (iii) Electricity. **Hence, statement 1 is correct.**
  - The IIP assigns a weight of 77.63 per cent to the manufacturing sector, 14.37 per cent to mining sector and 7.99 per cent to electricity sector. **Hence, statement 2 is correct.**
- 

### Question 19:

Which among the following factors contribute to dwarfism in MSME sector:

1. The exemptions in labour laws given to the smaller firms.
2. The lower productivity and employability of smaller firms.
3. Incentives received by MSMEs from the government to boost this sector.

Select the correct answer using the code given below:



1. 1 and 3 only
2. 2 only
3. 2 and 3 only
4. 1, 2 and 3

**Correct Answer : 4**

### **Explanation**

---

- India has a plethora of labour laws, regulations and rules, both at the centre and the state levels that govern the employer-employee relationship.
  - For example, the Industrial Disputes Act (IDA), 1947 mandates companies to get permission from the government before the retrenchment of employees.
  - This restriction is, however, applicable only to firms with more than 100 employees. Thus, firms with less than 100 employees are exempted from the need to get permission from the Government before retrenching their employees.
  - Given the transaction costs inherent in complying with such regulations, naturally, a large majority of firms would prefer to be below the threshold of 100 employees, and therefore contributing to dwarfism. **Hence, statement 1 is correct.**
- Firms with less than 100 workers despite being more than ten years old, account for more than half of all organized firms in manufacturing by number, their contribution to employment is only 14 % and productivity is a mere 8%.
  - In contrast, large firms (more than 100 employees) account for three-quarters of such employees and close to 90 % of productivity despite accounting for about 15 % by number.
  - Lack of productivity and employability leads to low output and thus firms remain dwarf. **Hence, statement 2 is correct.**
- The policies targeted at the small firms referred to as the MSMEs include priority sector lending, incentives/exemptions till they reach an investment upper limit quantified in terms of investment in plant & machinery.

To be able to continue to receive such incentives firms prefer to remain dwarf.  
**Hence, statement 3 is correct.**

---

### **Question 20:**

Arrange the following in descending order of employment elasticity:

1. Rubber and plastic products
2. Wood and products of wood
3. Electronic and optical products

4. Transport equipment, machinery
5. Electricity, gas and water supply

Select the correct answer using the code given below:

1. 1, 3, 4, 5 and 2
2. 2, 3, 4, 5 and 1
3. 2, 3, 4, 5 and 1
4. 5, 4, 3, 2 and 1

**Correct Answer : 1**

### **Explanation**

---

- The sub-sectors with highest employment elasticities are: **Rubber and plastic products> Electronic and optical products>Transport equipment>Electricity, Gas and water supply>Wood and products of wood.**
  - To step up the impact of economic growth on employment, the focus has to be on such high employment elastic sectors. **Hence, option A is correct.**
-