



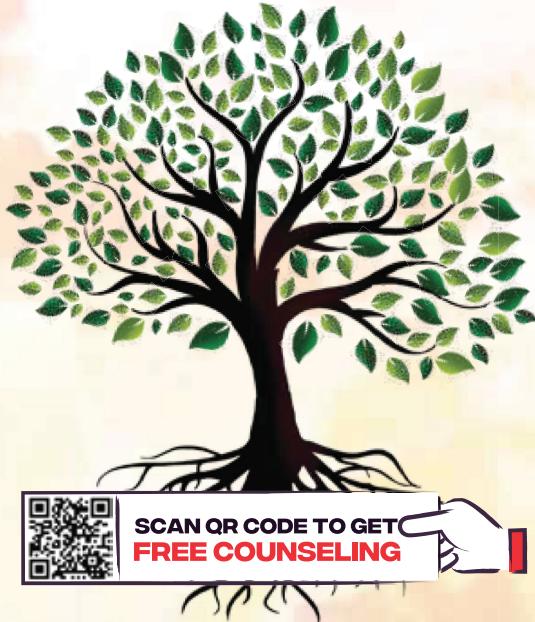
# **7 Year PYQ Trend Analysis**

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# SYLLABUS

**Economic and Social Development-Sustainable Development, Poverty, Inclusion, Demographics, Social Sector Initiatives, etc.**

The syllabus is invariably mentioned in the notification that UPSC releases every year at the beginning of the cycle.

The syllabus for Economics which is mentioned above appears restricted. In reality, these less than 15 words hide within great many topics. Mind the 'etc.' Starting from the nature of money, to what the roles of the different players in an economy are, to how much of what is produced in the country, come under the syllabus.

## SOURCES TO BE REFERRED TO

### Essential Material (EM)

1. Macroeconomics (NCERT Class 12)
2. Indian Economic Development (NCERT Class 11)
3. Microeconomics (NCERT Class 12)
4. Business Studies (NCERT Class 12)
5. Union Budget
6. Economic Survey

\*Business Studies NCERT (for Financial Market only)

### Essential Newspapers (EN)

1. The Hindu
2. The Indian Express

\*You can selectively refer to The Hindu Business Line or the Live Mint

### Reference Material (RM)

1. PIB (articles)
2. Arthapedia (website)
3. Vikaspedia (website)
4. Investopedia (website)

\*You can selectively refer to the websites of the RBI, the WTO, Britannica etc.

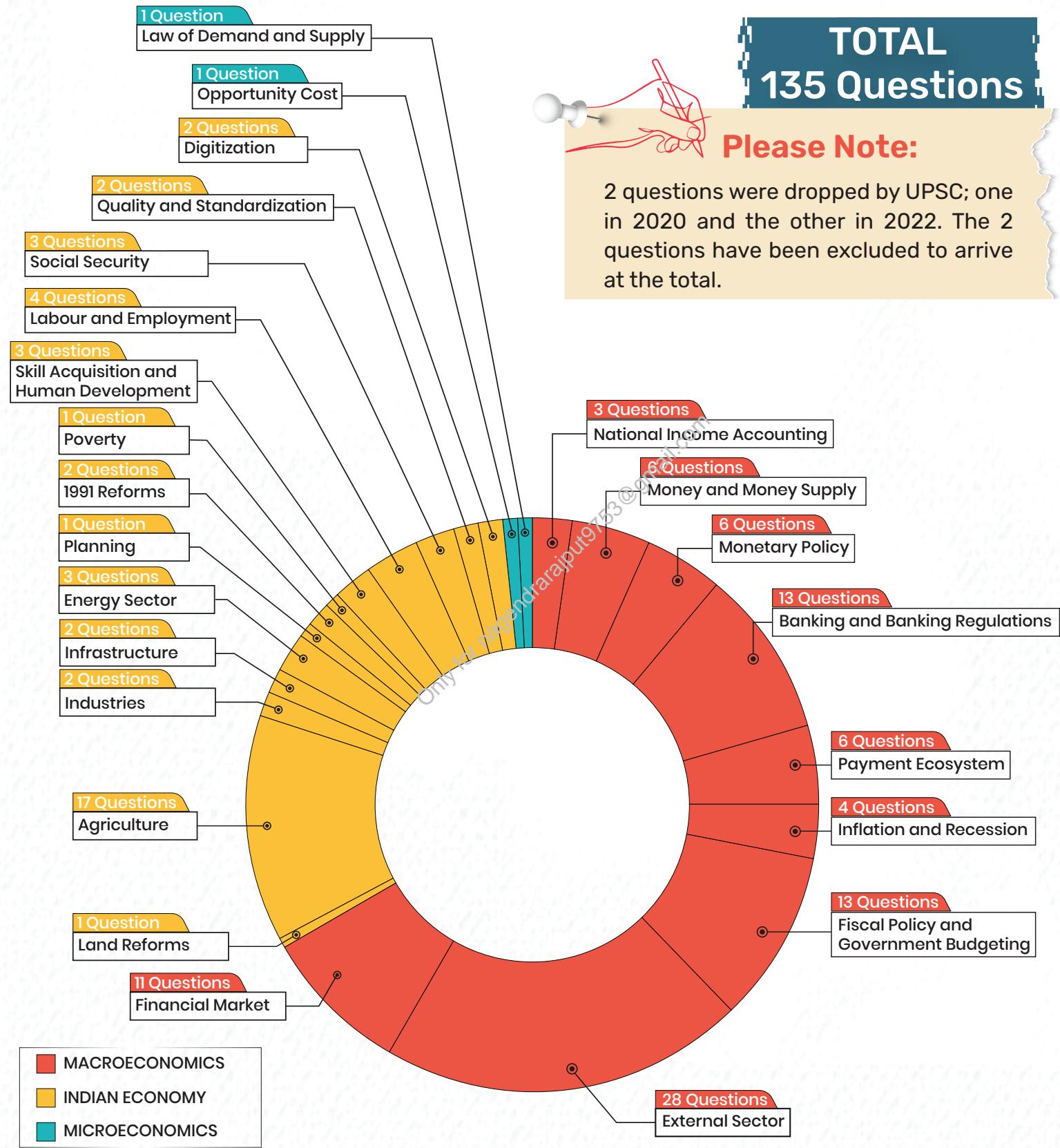
### Random Resources (RR)

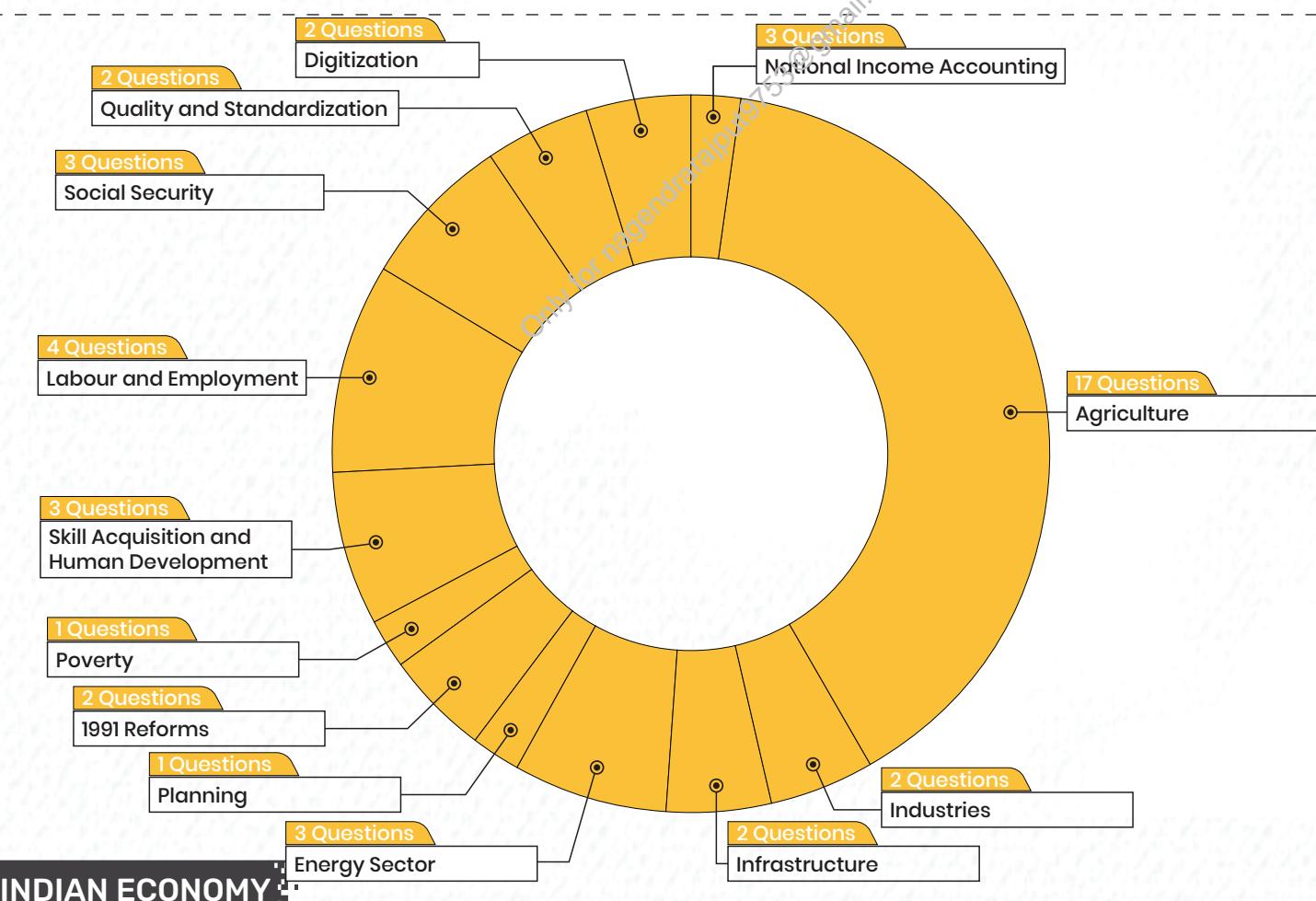
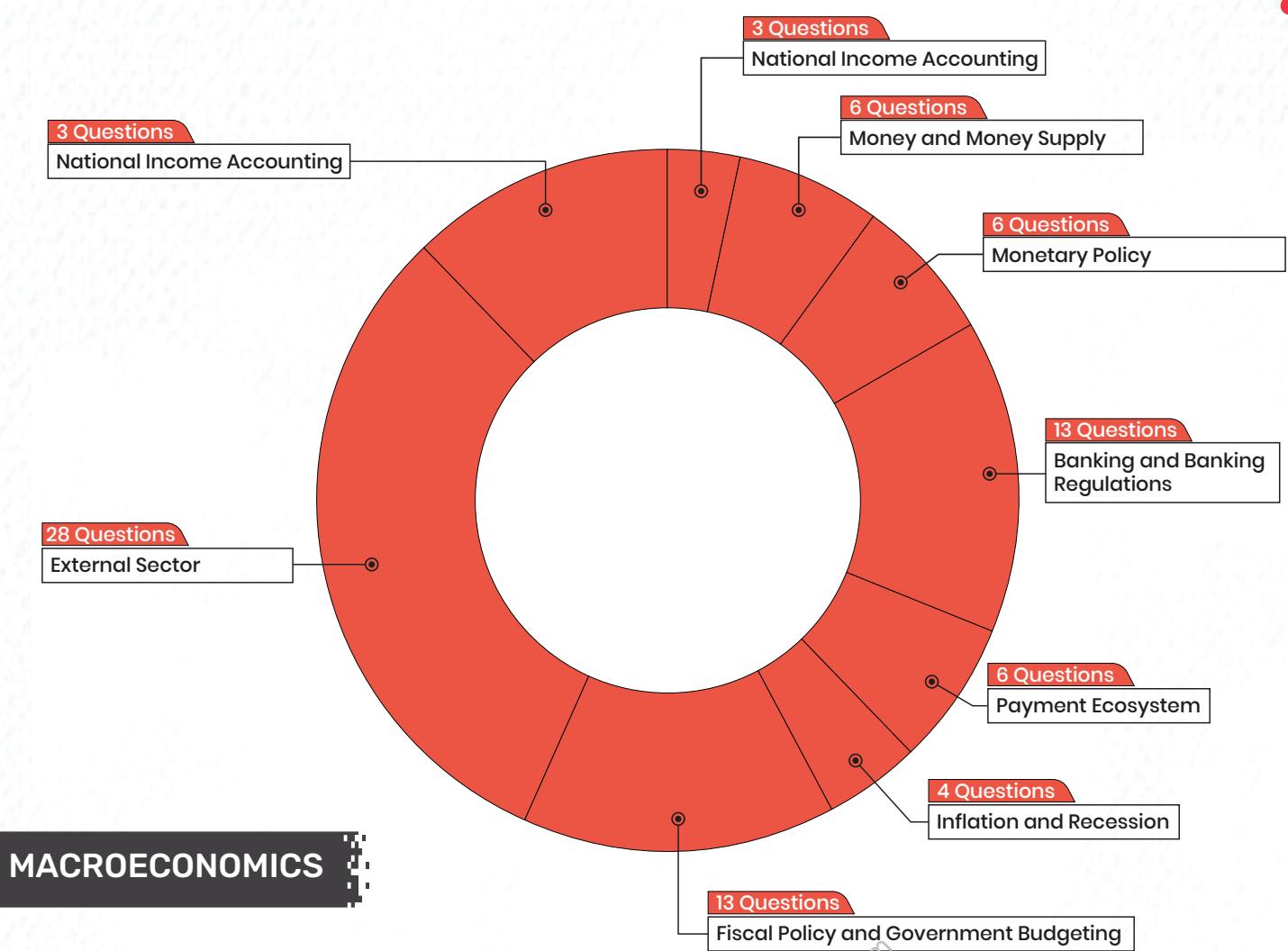
Every year some questions feature in the UPSC Prelims which are based on themes that are not covered in the standard sources mentioned above (EM, EN or RM).

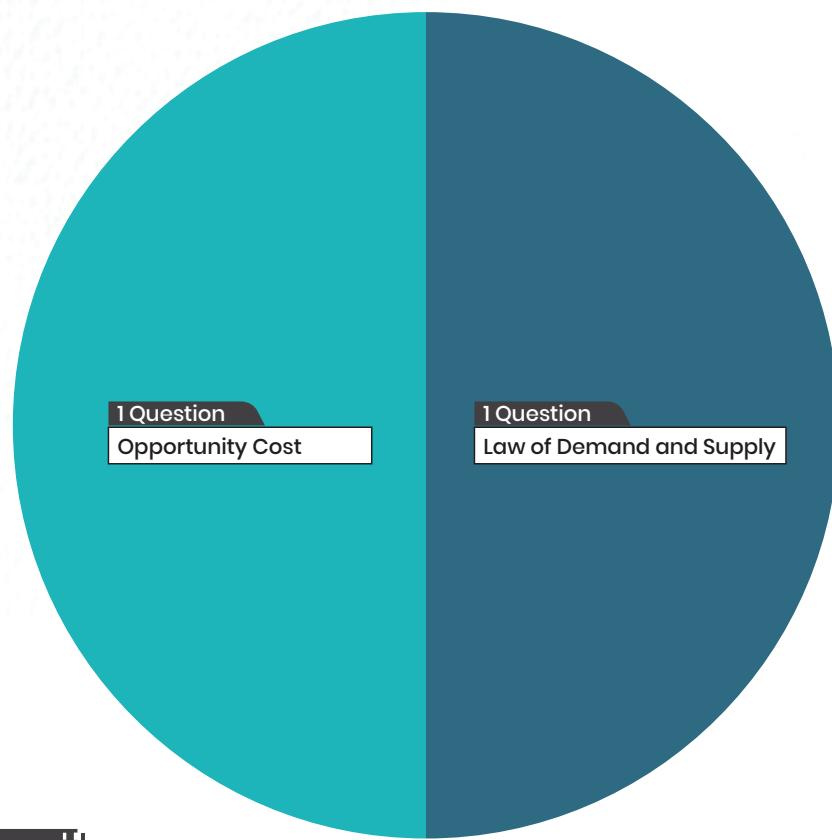
E.g. the question on 'Water Credit' in 2021. Such themes are lesser-known and hence such sources (from where the themes are sourced) have been classified as unconventional or Random Resources (RR)

# DISTRIBUTION OF THE PREVIOUS 7 YEARS' QUESTIONS ACROSS DIFFERENT TOPICS

**TOTAL ECONOMICS QUESTIONS - 135**

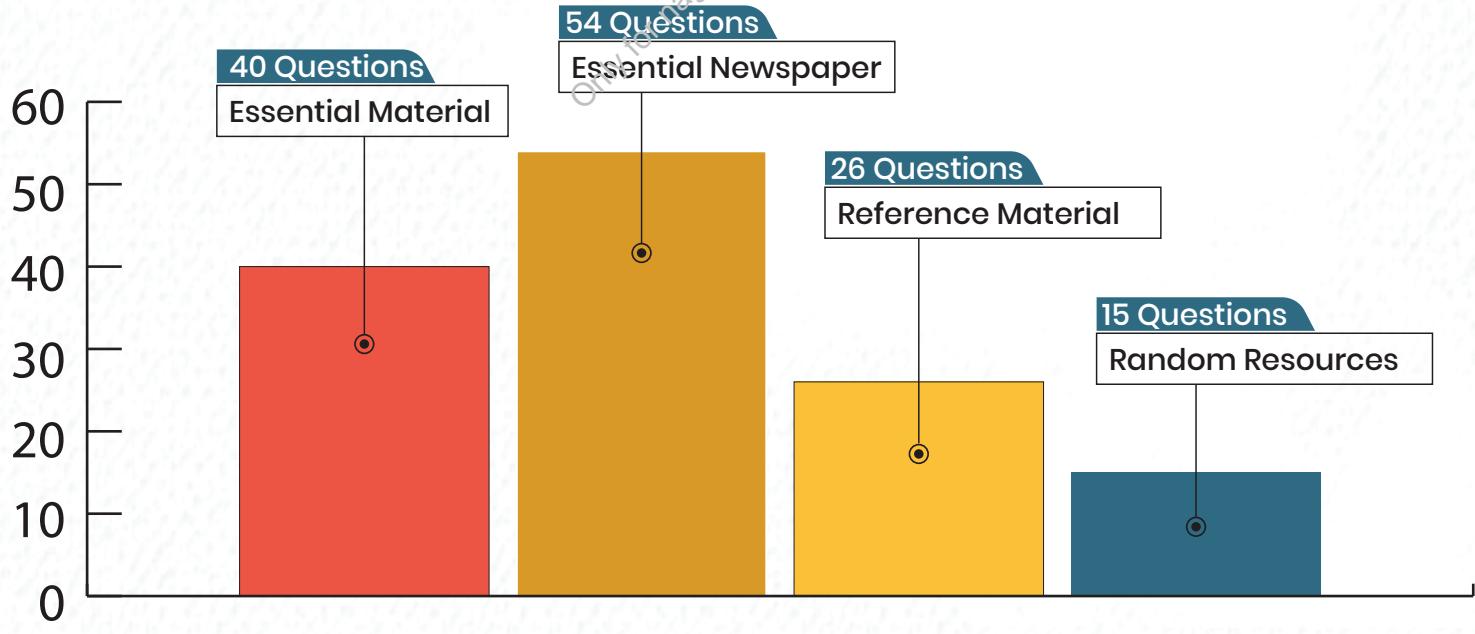






MICROECONOMICS

## QUESTION SOURCE-TYPE ANALYSIS





## ANALYSIS OF SOURCES

- ⑤ The above division is slightly difficult to make as **some questions have both static and dynamic angles** and hence cannot be answered only by referring to NCERT books. For example questions related to external sector.
- ⑥ There is no doubt in the fact that **newspaper reading is indispensable** to preparation for the dynamic aspects in Economics.
- ⑦ **Please note:** For most of the questions, where newspaper links are shared, answers and information could also be found in Economic Surveys, but the same could not be found at one place. That it where the reading of newspaper is important.
- ⑧ **A few questions were based on very unconventional or lesser-known themes** and some questions had statements which are difficult to find in conventional sources. Now that years have passed, some of the themes appear very common, but at the time when they are asked, conventional sources were difficult to find.
- ⑨ A year-wise analysis is shown below
  - **2017:** The questions on Quality Council of India and APCHUD
  - **2018:** The questions on NSSO Agricultural Survey and the items on which GST is applied (not easy)
  - **2019:** most of the facts could be obtained from conventional questions
  - **2020:** The questions related to 'rice price', 'public investment in agriculture', 'non-financial debts'
  - **2021:** The question on 'Water Credit'
  - **2022:** The question on 'e-commerce'
  - **2023:** The questions on the ports (having an angle of economic geography), S3i, 'stability and growth pact.
- ⑩ **Vikaspedia and Arthapedia are hidden gems** and compensate for the missing information in the NCERT books. However, certain numerical facts should be cross-checked in case those are found to be of older dates.



## DIFFICULTY LEVEL ANALYSIS

- Every year, irrespective of how many unconventional and difficulty themes feature, on an average 40 percent of the questions have always been EASY. Another 30-40 percent questions are of MODERATE OR MEDIUM level and only 3-4 questions are DIFFICULT.

## DIFFICULTY LEVEL DISTRIBUTION

YEAR	NO. OF QUESTIONS	EASY	MEDIUM	DIFFICULT
2017	25	9	14	2
2018	20	8	9	3
2019	23	8	7	8
2020	20	8	8	4
2021	15	7	6	2
2022	14	5	6	3
2023	18	8	7	3

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## OVERALL OBSERVATIONS

- ⑥ Every year, on an average, 18-20 questions are asked from the Economics section. We classify some of the questions under Current Affairs (hence the number appears slightly low).
- ⑥ **60 percent of the questions asked in the 7 YEARS (2017-2023) have been from the Macro-economics sections** (going by the NCERT classification) comprising the External Sector, Money Supply and Banking sections.
- ⑥ Certain themes have been highly recurring like Payment Ecosystems (or Digital Finance). In 2017, 2 questions were asked from that section, 3 were asked in 2018 and 1 in 2019. The reason was clear, the **demonetisation-led growth in the sector of Digital Finance** made it a popular theme.
- ⑥ The questions from Indian Economy (going by the NCERT classification) have been equally reasonable in number. **So far, Indian Agriculture has been the dominating section.** 2021 and 2022 have been aberrations though as in those two years there were no Economics questions based on Indian Agriculture.
- ⑥ In Agriculture, **Minimum Support Price (MSP)** has been a very recurring theme. In 2020 itself, as many 3 questions (related to MSPs in varying degrees) were asked. The next important sub-section has been Agricultural Trade.
- ⑥ There also have been repetition of questions without any iota of change. In 2019 and 2021, the same question was asked.
- ⑥ Also, Bank Board Bureau has been a recurring theme.
- ⑥ Microeconomics section has been ignored, but that does not mean, UPSC has abandoned it forever. In the 7 years, only 2 questions have featured.
- ⑥ UPSC is also going beyond the conventional domain. A few questions from **Accountancy** have also featured; e.g. related to capital/revenue of firms, and '**cyber insurance**'.
- ⑥ Between 2017 and 2023, so far 2 questions from Economics have been dropped. The first question was from 2020 (based on the International Trade of India) and the second one was from 2022 (Capital Flight).





## ADVICE FOR STUDENTS

- ❖ Undoubtedly, Economics is one of the most important subjects from the UPSC CSE Prelims point of view.
- ❖ It requires a thorough preparation. As the range of themes covered is very wide and diverse, students are advised to not get overwhelmed and always take steady baby-steps.
- ❖ Always start with the NCERT books (Class 11 and 12). If one wants to start from an even more basic level, then Class 9 books are a good option.
- ❖ Gradually newspaper reading can be started. Only after revising and understanding the basic concepts of macroeconomics, one can comprehend the trajectory of the Indian Economy.
- ❖ Try to stick to one standard newspaper (the choice is yours)
- ❖ Always read the Union Budget transcript and the Economic Survey released that year.
- ❖ And most importantly supplement your preparation by taking regular mock tests.

*Have Faith in Yourself and Study Well!*

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# MACROECONOMICS

## NATIONAL INCOME ACCOUNTING

(3 Questions)

**YEAR 2018**

**GROSS NATIONAL PRODUCT (GNP)**

**Q1. Increase in absolute and per capital real GNP do NOT connote a higher level of economic development, if**

- (a) industrial output fails to keep pace with agricultural output.
- (b) agricultural output fails to keep pace with industrial output.
- (c) poverty and unemployment increase.
- (d) imports grow faster than exports.

**ANSWERS C**

**EXPLANATION**



- An essential aspect of development is to enable the maximum number to experience the fruits of development. Concepts of per capita income (per capita GDP or per capita NSDP) are not able to capture this aspect of development. There may be a case wherein increase in absolute and per capita GNP is reflective of growth in income of a small section of society and that majority of the population is poverty stricken and unemployed. Multi dimensional non-monetary social indicators (like poverty or prosperity and employment or unemployment) are better reflectors of overall economic development in the society. Hence option (c) is the correct answer.

**ANALYSIS:**



### Scope for elimination

As can be seen, option (c) is the only option which talks about qualitative growth (population benefitting due to growth). All other options are related to quantitative growth.

- This question could have been easily answered using the knowledge from the Macroeconomics (NCERT Class 12) book and the Indian Economic Development (NCERT Class 11). The Human Geography (NCERT Class 12) also differentiates well between 'Development' and 'Growth'

During the period 1950–2010, Gross Domestic Product (GDP) of India grew positively and was higher than the employment growth. However, there was always fluctuation in the growth of GDP. During this period, employment grew at the rate of not more than 2 per cent.

Chart 7.3 also points at another disheartening development in the late 1990s: employment growth started declining and reached the level of growth that India had in the early stages of planning. During these years, we also find a widening gap between the growth of GDP and employment. This means that in the Indian economy, without generating employment, we have been able to produce more goods

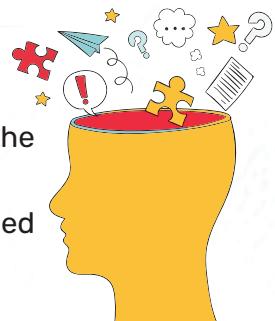
Excerpt from NCERT

INDIAN ECONOMIC DEVELOPMENT

**SOURCE : Indian Economic Development (NCERT Class 11), Human Geography (NCERT Class 12)**

## Additional Information

- ① **Gross National Product (GNP)** is a measure of the total economic output produced by the residents of a country, both within its borders and abroad, during a specific time period.
- ② **Gross Domestic Product:** It is the monetary value of all final goods & services produced inside the domestic territory of a country during one financial year or a quarter.
- ③ **Net Domestic Product (NDP)** is an annual measure of the economic output of a nation that is adjusted to account for depreciation, calculated by subtracting depreciation from the gross domestic product (GDP).  $NDP = GDP - \text{Depreciation}$
- ④ **Net National Product at Market Price (NNP)** is the total money value of all the final goods and services excluding depreciation, which is the consumption of fixed capital. Thus  $NNP = GNP - \text{Depreciation}$
- ⑤ **National income** = Net National Product at factor cost = Net National Product at market price – Indirect taxes + Subsidies.



**YEAR 2018**

## CAPITAL FORMATION

**Q2. Despite being a high saving economy, capital formation may not result in significant increase in output due to**

- (a) weak administrative machinery
- (b) illiteracy
- (c) high population density
- (d) high capital-output ratio

**ANSWERS** | D

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## EXPLANATION

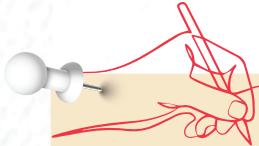


- ⑥ Capital formation means increasing the stock of real capital in a country. In other words, capital formation involves making of more capital goods such as machines, tools, factories, transport equipment, materials, electricity, etc., which are all used for future production of goods. For making additions to the stock of Capital, saving and investment are essential. Capital output ratio is the amount of capital needed to produce one unit of output.
- ⑦ For example, suppose that investment in an economy, investment is 32% (of GDP), and the economic growth corresponding to this level of investment is 8%. Here, a Rs 32 investment produces an output of Rs 8. Capital output ratio is  $32/8$  or 4. In other words, to produce one unit of output, 4 units of capital is needed. **Hence, if the capital-output ratio is high, there will not be significant increase in output despite high savings and investment.**

## ANALYSIS:

- Scope for Elimination:** Of all the four options in the question, **only option (d) as a proper mathematical relationship with capital formation.** The other options may have an effect, but the same cannot be quantified satisfactorily, whereas capital-output ratio can be expressed mathematically as Capital/Output. If for the same capital (numerator), output (denominator) is higher, then capital-output will be low. Thus, a low capital-output ratio is desirable.

**SOURCE :** : Business Studies (NCERT Class 12)



### Please Note:

Even though a basic concept, it is not directly covered in the NCERT Macroeconomics book (Class 12), the concept is explained in a chapter in the NCERT Business Studies book (Class 12). If time permits very selected portions of the NCERT Class 12 Business Studies chapters can be read. E.g. **Chapter 13 of the Class 12 Business Studies** explains the concept of Capital Output Ratio and ICOR (Incremental Capital Output Ratio)

## Additional Information

- Incremental Capital Output Ratio (ICOR)** is a metric that assesses the marginal amount of investment capital necessary for a country or other entity to generate the next unit of production.
- A lower ICOR is preferred as it indicates a country's production is more efficient. Overall, a higher ICOR value is not preferred because it indicates that the entity's production is inefficient. The measure is used predominantly in determining a country's level of production efficiency.



**YEAR 2022**

**REAL SECTOR**

### Q3. Which of the following activities constitute real sector in the economy?

1. Farmers harvesting their crops
2. Textile mills converting raw cotton into fabrics
3. A commercial bank lending money to a trading company
4. A corporate body issuing Rupee Denominated Bonds overseas

Select the correct answer using the code given below:

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

**ANSWERS** | **A**

## EXPLANATION



- The real sector of an economy is the key section as activities of this sector persuade economic output and is represented by those economic segments that are essential for the progress of GDP of the economy. For instance, farmers harvesting their crops or textile mills converting raw cotton into fabrics ensure increase of economic output and in turn progress of GDP. The sector is crucial for the sustainability of the economy because of its productive capability to meet nations' aggregate demand. **Hence options 1 and 2 are correct.**
- On other hand, the financial sector is a section of the economy made up of firms and institutions that provide financial services to commercial and retail customers. The financial sector generates a good portion of its revenue from loans and mortgages. This sector comprises a broad range of industries including banks, investment companies, insurance companies, and real estate firms. Thus, a commercial bank lending money to a trading company or a corporate body issuing rupee denominated bonds overseas constitute financial sector activities and not real sector activities. **Hence options 3 and 4 are not correct.**

## ANALYSIS:

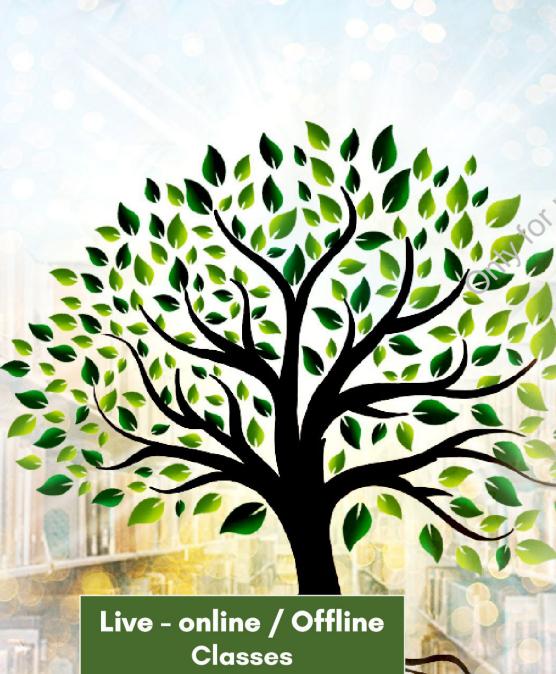


### Scope for elimination

A commercial bank lending money to a trading company and a corporate body issuing Rupee Denominated Bonds overseas, these are financial activities and not real, so if we eliminate 3 and 4, we are left with options 1 and 2. In such questions, one should try to find similar options (put them together) and then separate from dissimilar options. Logically, all the four options cannot be correct together.

**SOURCE :** [https://www.investopedia.com/terms/f/financial\\_sector.asp](https://www.investopedia.com/terms/f/financial_sector.asp)

<https://www.imf.org/external/region/tlm/rr/pdf/Jan1.pdf>



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JAIPUR: **4 MAR**
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LUCKNOW: **12 MAR**
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## MONEY AND MONEY SUPPLY

### (6 Questions)

**YEAR 2022**

#### TYPES OF MONEY

**Q1. Which one of the following statements correctly describes the meaning of legal tender money?**

- (a) The money which is tendered in courts of law to defray the fee of legal cases
- (b) The money which a creditor is under compulsion to accept in settlement of his claims
- (c) The bank money in the form of cheques, drafts, bills of exchange etc.
- (d) The metallic money in circulation in a country

#### ANSWERS **B**

#### EXPLANATION



- Legal tender is any official medium of payment recognized by law that can be used to extinguish a public or private debt, or meet a financial obligation. A creditor is obligated to accept legal tender toward repayment of a debt. Legal tender can only be issued by the national body that is authorized to do so. **Legal tenders cannot be refused by any citizen of the country for settlement of any kind of transaction.** Cheques drawn on savings or current accounts, however, can be refused by anyone as a mode of payment. Hence, demand deposits are not legal tenders. **Hence option (b) is the correct answer.**

#### ANALYSIS:

**SOURCE : Macroeconomics (NCERT: Class 12)**

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Introductory Macroeconomics

Though a hundred-rupee note can be used to obtain commodities worth Rs 100 from a shop, the value of the paper itself is negligible – certainly less than Rs 100. Similarly, the value of the metal in a five-rupee coin is probably not worth Rs 5. Why then do people accept such notes and coins in exchange of goods which are apparently more valuable than these? The value of the currency notes and coins is derived from the guarantee provided by the issuing authority of these items. Every currency note bears on its face a promise from the Governor of RBI that if someone produces the note to RBI, or any other commercial bank, RBI will be responsible for giving the person purchasing power equal to the value printed on the note. The same is also true of coins. Currency notes and coins are therefore called **fiat money**. They do not have **intrinsic value** like a gold or silver coin. They are also called **legal tenders** as they cannot be refused by any citizen of the country for settlement of any kind of transaction. Cheques drawn on savings or current accounts, however, can be refused by anyone as a mode of payment. Hence, demand deposits are not legal tenders.

Excerpt from NCERT

## YEAR 2019 MONEY MULTIPLIER

**Q2. The money multiplier in an economy increases with which one of the following?**

- (a) Increase in the cash reserve ratio
- (b) Increase in the banking habit of the population
- (c) Increase in the statutory liquidity ratio
- (d) Increase in the population of the country

### ANSWERS **B**

### EXPLANATION



- Money Multiplier is the ratio of the stock of money to the stock of high powered money. It is the relationship between the monetary base and money supply of an economy. It explains the increase in the amount of cash in circulation generated by the banks' ability to lend money out of their depositors' funds. Therefore, it refers to how an initial deposit can lead to a bigger final increase in the total money supply.
- For example, if the commercial banks gain deposits of Rs1 Lakh and this leads to a final money supply of Rs 10 lakh. The money multiplier is 10. Therefore, increase in banking habit of the population would lead to more deposits and hence increase in Money Multiplier. **Hence (b) is the correct answer.**

### ANALYSIS:

- It is a recurring theme and this is a basic concept studied in macroeconomics and anyone appearing for exams should be covering this topic.



### Scope for elimination

- Increasing CRR and SLR will obviously reduce the money flow and increasing population has no impact on the money multiplier. **By this we can eliminate three options (a,c,d).**

**SOURCE : Macroeconomics (NCERT Class 12)**

**What is Money Supply? When we talk of Money Supply here, we are referring to Broad Money or M3.** Let's see what that is! Reserve Money or M0 is roughly the total currency in circulation and bankers' deposits with RBI totaling INR 30 trillion. This is the current Monetary Base of India. Add total time and demand deposits to this number and we arrive at M3 of INR 170 trillion. So basically, M3 or the broad money is roughly all the money floating in the economy, either as cash or is currently parked in deposits. A familiar concept for students of economics is Money Multiplier, or the fact that money multiplies itself. This is how M0 of INR 30 trillion becomes 5.6 times to INR 170 trillion, 5.6 being the Money Multiplier of India. This INR 170 trillion worth of M3 further multiples 1.1 times to make India's Nominal GDP of INR 190 trillion, with 1.1 being the velocity of money.

Excerpt from NCERT

- ➊ The above description has been taken from an article from the Times of India
- ➋ Source: <https://timesofindia.indiatimes.com/blogs/the-macro-faire/what-drives-an-economy-money/>

## YEAR 2020 MONEY SUPPLY

**Q3. If you withdraw Rs. 1,00,000 in cash from your Demand Deposit Account at your bank, the immediate effect on aggregate money supply in the economy will be**

- (a) to reduce it by Rs. 1,00,000
- (b) to increase it by Rs. 1,00,000
- (c) to increase it by more than Rs. 1,00,000
- (d) to leave it unchanged

## ANSWERS D

### EXPLANATION



- ➊ There are 4 concepts of money supply: M1, M2, M3 and M4
- ➋  $M1 = C + DD + OD$
- C Is the currency held by the public. (Public money means that money which is held by everybody other than the government and the banks. It includes companies, general organisations, households. It does not include inter-bank or government deposits in banks)
- DD means net demand deposits with banks. 'Net' here indicates the deposits of only the public in banks.
- OD means other deposits. These are the deposits with the RBI, held by certain individuals and institutions • Individuals - like the former governors of the RBI • institutions- like IMF deposits
- ➌  $M3 = M1 + TD = C + DD + OD + TD$  (Broad money) 'TD' means time deposits
- ➍ M3 shows the total purchasing power in the economy. **Therefore, when we say money supply in general, it means M3.**
- ➎ So, normally, in newspapers etc. when the word money supply is used, it means M3 (Sometimes, M1 is also used - meaning 100% liquid money - but overall PP is shown by M3)
- ➏ Now, in the given case, while the 'DD' component will fall by Rs. 1,00,000, the 'C' component will increase by Rs. 1,00,000, thereby, leaving the money supply unchanged. **Hence option (d) is the correct answer.**

## ANALYSIS:



### Scope for elimination

- Although there is no direct scope for elimination, if we need to know that taking money from demand deposit account (for example – savings account) will not erase the money from the aggregate money supply in the economy as it has only changed hands (from keeping it with the bank to the depositor), the money is still there in the economy (immediate effect). Hence, a general idea could have helped too to answer this question.

**SOURCE :** Macroeconomics (NCERT Class 12)

**YEAR 2021**

### BLACK MONEY

**Which one of the following effects of creation of black money in India has been the main cause of worry to the Government of India?**

- Diversion of resources to the purchase of real estate and investment in luxury housing
- Investment in unproductive activities and purchase of precious stones, jewellery, gold, etc.
- Large donations to political parties and growth of regionalism
- Loss of revenue to the State Exchequer due to tax evasion

**ANSWERS** D



### EXPLANATION

- There is no official definition of black money in economic theory, with several different terms such as parallel economy, black money, black incomes, unaccounted economy, illegal economy and irregular economy all being used more or less synonymously. The simplest definition of black money could possibly be money that is hidden from tax authorities. That is, black money can come from two broad categories: illegal activity and legal but unreported activity. The first category is the more obvious of the two. Money that is earned through illegal activity is obviously not reported to the tax authorities, and so is black. The second category comprises income from legal activity that is not reported to the tax authorities.
- For example, let us assume that a piece of land is sold, with the payment made in the proportion of 60% by cheque or electronic transfer, and 40% in cash. If that 40% cash component is not reported to the Income Tax Department, then it is black money. A large number of small shops around the country almost exclusively do business in cash without receipts. All of this could potentially be black money. Another major source of black money is income earned by companies that is routed through shell companies abroad, thereby evading tax authorities.
- There are several ways to curb black money and the first is through legislative action. The government has already enacted several laws that seek to formalise the economy and make it necessary to report economic transactions. These include the Central Goods and Services Tax Act, the various GST Acts at the State levels, the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015, the Benami Transactions (Prohibition) Amendment Act, and the Fugitive Economic Offenders Act to name a few. Another method employed by the government to make it harder for transactions to be hidden is to mandate the reporting of PAN for transactions of more than ₹2.5 lakh, and the prohibition of cash receipts of ₹2 lakh or more and a penalty equal to the amount of such receipts if a person contravenes the provision. statements given in option a, b, and c are ways of creation of black money. **Hence option (d) is the correct answer.**

## ANALYSIS:

- Reaching the correct answer to this question is dependent on the candidate's conceptual clarity. However, it is based on applied/practical options. Ever since the demonetisation, 'black money' has always been in the news.



### Scope for elimination

**Scope for Elimination:** Already given in the explanation.

**SOURCE :** <https://www.thehindu.com/business/Economy/what-is-black-money-and-why-is-it-so-difficult-to-quantify-it/article28228853.ece>

## YEAR 2021 MONEY MULTIPLIER

### Q5. The money multiplier in an economy increases with which one of the following?

- Increase in the Cash Reserve Ratio in the banks
- Increase in the Statutory Liquidity Ratio in the banks
- Increase in the banking habit of the people
- Increase in the population of the country

## ANSWERS C

### EXPLANATION



- Already explained in the question that featured in the CSE Prelims 2019
- Formula: Money Multiplier = Money Supply/Base Money**
- Hence option (c) is the correct answer.

## ANALYSIS:

- Refer to the question in 2019. The same question was asked, only two options were interchanged. That directly shows the importance of practicing previous year questions.

**SOURCE :** Macroeconomics (NCERT Class 12)

YEAR 2023

**CENTRAL BANK DIGITAL CURRENCIES (CBDC)****Q6. With reference to Central Bank Digital Currencies, consider the following statements :**

1. It is possible to make payments in a digital currency without using US dollar or SWIFT system.
2. A digital currency can be distributed with a condition programmed into it such as a time-frame for spending it.

Which of the statements given above is/are correct?

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

**ANSWERS C****EXPLANATION**

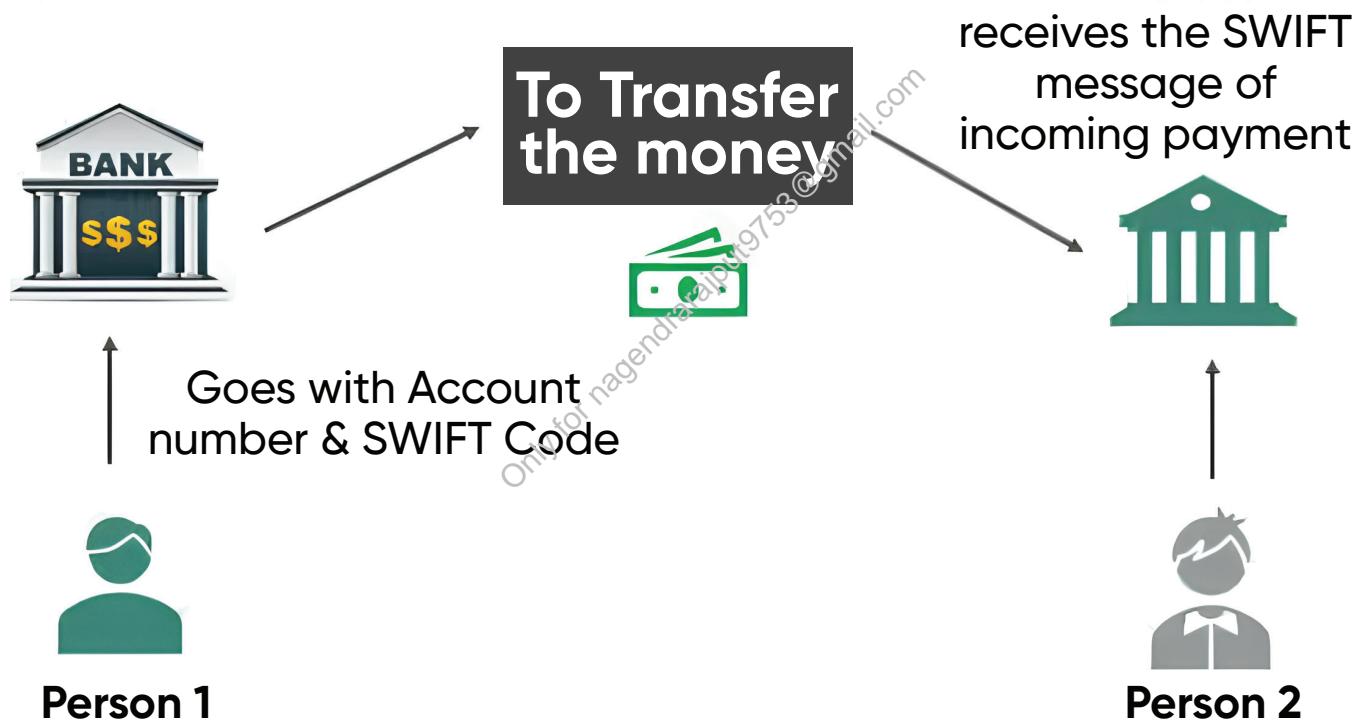
- Alternatives to SWIFT and the U.S. dollar are coming from two directions: cryptocurrencies and central bank digital currencies. Countries will be able to directly exchange digital currencies in a bilateral way and without going through SWIFT or similar settlement systems. **Hence statement 1 is correct.**
- When the technology allows seamless and instantaneous convertibility from one sovereign currency into another, it changes the practical need for a dominant global reserve currency. CBDC could be employed for fiscal transfers to households or firms, such as relief or stimulus payments. Such helicopter drops or subsidies would potentially become easier when there is widespread adoption of CBDC accounts. The transfer payments could also be “programmable”, with conditions such as expiration upon a certain date or a requirement to spend the funds at certain vendors. **Hence statement 2 is correct.**

**ANALYSIS:**

- This question is related to CBDC in general, but is obviously derived from the current affairs. The Reserve Bank of India is aiming at expanding the pilot CBDC project. Many countries in the world have started CBDC. Apart from that, there is also a growing tendency among many countries to counter the dollar hegemony. SWIFT was also in the news as Russia was removed from the SWIFT settlement system. This question is thus inspired by many current events. UPSC has been asking questions related to payment interfaces, digital banking systems from time to time. **More such questions can be expected in the future, not just related to the basic features or definitions but also related to the applications of the new technologies used in banking and finance.**
- Only through the daily newspaper reading.**

**SOURCE : Daily Newspapers**

Digital Currency	Cryptocurrency
 Normally backed by the Central Bank (The RBI has already introduced it in India)	 Not backed by the central bank (e.g. the RBI does
 Centralised	 Decentralised
 Transparent; not as transparent as only the sender, receiver and the banking authorities will be aware of the transactions	 Transparent due to the distributed ledger system; Every detail regarding cryptocurrency transactions is in the public domain.



## MONETARY POLICY

(6 Questions)

**YEAR 2017**

**MONETARY POLICY COMMITTEE**

**Q1. Which of the following statements is/are correct regarding the 'Monetary Policy Committee (MPC)?**

1. It decides the RBI's benchmark interest rates.
2. It is a 12-member body including the Governor of RBI and is reconstituted every year.
3. It functions under the chairmanship of the Union Finance Minister.

Select the correct answer using the code given below:

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

**ANSWERS** A

**EXPLANATION**



- The Reserve Bank of India Act, 1934 (RBI Act) has been amended by the Finance Act, 2016, to provide for a statutory and institutionalised framework for a Monetary Policy Committee it would be entrusted with the task of fixing the benchmark policy rate (repo rate) required to contain inflation within the specified target level. **Hence Statement 1 is correct.**
- As per the provisions of the RBI Act, out of the six Members of Monetary Policy Committee, three Members will be from the RBI and the other three Members of MPC will be appointed by the Central Government. **Hence statement 2 is not correct.** The Governor of the Bank— ex officio Chairperson of MPC. **Hence statement 3 is not correct.**

**ANALYSIS:**



**Scope for elimination**

- It is well-known that fiscal policy is the responsibility of the Union Finance Ministry and Monetary Policy is that of the Reserve Bank of India. Hence logically MPC should be chaired by the RBI Governor. Using that simple logic, statement 3 can be eliminated.

Important Institutions which will add lot of value and transparency to monetary policy decisions in India. Not covered in any of the Essential Material, but MPC had been in news since since the adoption of Inflation Targeting Regime.

**SOURCE :** <http://pib.nic.in/newsite/PrintRelease.aspx?relid=151264>

## REMEMBER:

- ⑥ It is the Central Government which sets the inflation target and not the RBI. The RBI only takes or suggests measures to control inflation.
- ⑥ As per Section 45 ZA of the RBI Act, 1934,
- ⑥ Inflation target.—(1) The Central Government shall, in consultation with the Bank, determine the inflation target in terms of the Consumer Price Index, once in every five years.



**YEAR 2019**

## MONETARY POLICY

**Q2. Which one of the following is not the most likely measure the Government/RBI takes to stop the slide of Indian rupee?**

- Curbing imports of non-essential goods-and promoting exports
- Encouraging Indian borrowers to issue rupee denominated Masala Bonds
- Easing conditions relating to external commercial borrowing
- Following an expansionary monetary policy

## ANSWERS **B**

## EXPLANATION



- ⑥ The options (a), (b) and (c) are all measures which intend to shield the Indian currency against depreciation. Option (d) which is 'adopting an expansionary monetary policy' would not be a likely measure as expansionary monetary policy is the monetary policy adopted by the RBI (Reserve Bank of India) when the RBI aims to stimulate the economy and that comes with a cost (**inflation, which lowers purchasing power and causes money to lose value**). That increases the money supply, lowers interest rates, and increases aggregate demand. **Hence option (b) is the correct answer.**
- ⑥ Lower interest rates will also tend to reduce the value of the currency. If domestic interest rates fall relative to elsewhere, it becomes less attractive to save money in domestic banks. Therefore, it will lead to an outflow of foreign currency and therefore, slide of Indian Rupee.

## ANALYSIS:

- ⑥ Basic understanding is enough to solve this question. If expansionary monetary policy is followed that means policy rates will have to be kept low which will not repel and not attract foreign investors thus reducing the demand of Indian currency further thus adding to its depreciation.

**SOURCE : Macroeconomics (NCERT Class 12)**

**YEAR 2020****EXPANSIONIST MONETARY POLICY**

**Q3. If the RBI decides to adopt an expansionist monetary policy, which of the following would it not do?**

1. Cut and optimise the Statutory Liquidity Ratio
2. Increase the Marginal Standing Facility Rate
3. Cut the Bank Rate and Repo Rate

Select the correct answer using the code given below:

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

**ANSWERS** B**EXPLANATION**

- Expansionist/expansionary monetary policy is when the central bank of a country increases money supply to stimulate the economy. The tools used by the RBI to control money supply in the economy can be quantitative or qualitative. Quantitative tools control the extent of money supply by changing the Cash Reserve Ratio (CRR), or Statutory Liquidity Ratio (SLR), or bank rate or Liquidity Adjustment Facility (LAF) that includes Marginal Standing Facility (MSF). If RBI changes reserve ratios, this would lead to changes in lending by the banks which, in turn, would impact the deposits and hence, the money supply.
- **SLR is the ratio of liquid assets to the demand and time liabilities (NDTL).** RBI increases SLR to reduce bank credit during the time of inflation. Similarly, it reduces SLR during the time of recession to increase bank credit. Therefore, cutting and optimising SLR is something the RBI would do under its expansionist monetary policy. **Hence option 1 is not correct.**
- **MSF is an emergency window available to scheduled banks to borrow from RBI** on an overnight basis by pledging government securities. Increasing the MSF rate of interest will make borrowing costly, and thus is something that the RBI would not do as part of its expansionist monetary policy. **Hence option 2 is correct.**
- **The rate of interest charged by RBI on loans extended to commercial banks is called Bank Rate.** Repo rate is the rate at which the RBI lends to commercial banks by purchasing securities. Lower bank rates and repo rates would reduce the cost of borrowing, and thus will increase liquidity in the economy. Cutting bank rate and repo rate is something the RBI would do under its expansionist monetary policy. **Hence option 3 is not correct.**

**ANALYSIS:**

- The functions of the Central Bank is an important topic in the syllabus. Hence, a student must have deep knowledge about various functions of the Central Bank.

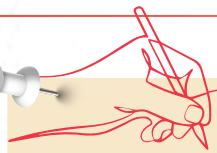
**Scope for elimination**

If we remove statement 1, we will be left only with the correct answer, that is option (b).

SOURCE : Macroeconomics (NCERT Class 12)

**Varying Reserve Requirements:** Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) also work through the rdr-route. A high (or low) value of CRR or SLR helps increase (or decrease) the value of reserve deposit ratio, thus diminishing (or increasing) the value of the money multiplier and money supply in the economy in a similar fashion.

Excerpt from NCERT



### Please Note:

The NCERT book does not directly discuss such a situation, but it does discuss the various monetary tools.

## YEAR 2022 MONETARY TOOLS

### Q4. With reference to the Indian economy, consider the following statements:

1. If the inflation is too high, Reserve Bank of India (RBI) is likely to buy government securities.
2. If the rupee is rapidly depreciating, RBI is likely to sell dollars in the market.
3. If interest rates in the USA or European Union were to fall, that is likely to induce RBI to buy dollars.

Which of the statements given above are correct?

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

### ANSWERS B

### EXPLANATION



- A central bank such as Reserve Bank of India (RBI), periodically intervenes in the debt market to influence the interest rates and rate of inflation in the economy. If RBI feels inflation is too high, it will sell government securities, and suck money out of the system. This act will push up interest rates in the economy, and business will cut back on capital expenditure financed by loans, reducing the demand for money. **Hence statement 1 is not correct.**
- Central banks also intervene periodically in foreign exchange markets. If the rupee is rapidly depreciating, RBI will sell dollars in the market. This will increase the supply of dollars and the demand for rupees, causing the rupee price of the dollar to come down. On the contrary, if the rupee is rapidly appreciating, RBI will buy dollars and inject rupees into the economy. This will increase the demand for dollars and the supply of rupees, thereby leading to an increase in the rupee price of the dollar. **Hence statement 2 is correct.**

- Interest rate movements in a foreign economy can stimulate action on the part of RBI. If interest rates in the US or the EU were to fall, FIIs (Foreign Institutional investors) will ramp up investments in India. The resultant demand for rupees will cause the rupee to appreciate. In response, RBI will buy dollars and inject rupees into the system. **Hence statement 3 is correct.**

## ANALYSIS:



### Motivation

- The question was inspired due to fall/depreciation in rupee vis-a-vis dollar and rising inflation in USA and in India with recent interest rates hike in May 2022 meeting of RBI monetary policy committee to curb inflation.



### Scope for elimination

- If RBI will buy govt securities, it will increase money flow in market which will increase purchasing power, which will increase demand and will result in increase in inflation, hence 1 statement can be eliminated and the answer is option (b)

**SOURCE :** <https://www.financialexpress.com/money/your-money-central-banks-role-in-an-interconnected-world/2282240/>  
<https://www.livemint.com/opinion/online-views/the-curious-case-of-india-s-rising-forex-reserves-and-falling-rupee-11639328784014.html>  
<https://www.moneycontrol.com/news/business/rbi-may-have-to-tolerate-high-yields-prioritise-inflation-experts-say-8502921.html>

## YEAR 2023 STERILIZATION / OPEN MARKET OPERATIONS

### Q5. Which one of the following activities of the Reserve Bank of India is considered to be part of 'sterilization' ?

- Conducting 'Open Market Operations'
- Oversight of settlement and payment systems
- Debt and cash management for the Central and State Governments
- Regulating the functions of Non-banking Financial Institutions

## ANSWERS A



### EXPLANATION

- To ease the threat of currency appreciation or inflation, central banks often attempt what is known as the "sterilization" of capital flows. In a successful sterilization operation, the domestic component of the monetary base (bank reserves plus currency) is reduced to offset the reserve inflow, at least temporarily. In theory, this can be achieved in several ways, such as by encouraging private investment overseas, or allowing foreigners to borrow from the local market. The classical form of sterilization, however, has been through the use of open market operations, that is, selling Treasury bills and other instruments to reduce the domestic component of the monetary base. **Hence option (a) is the correct answer.**

**SOURCE :** Sterilisation is well-explained in the Chapter 3 of the Introductory Macroeconomics book.

Please find below the screenshot.

**Sterilisation by RBI:** RBI often uses its instruments of money creation for stabilising the stock of money in the economy from external shocks. Suppose due to future growth prospects in India investors from across the world increase their investments in Indian bonds which under such circumstances, are likely to yield a high rate of return. They will buy these bonds with foreign currency. Since one cannot purchase goods in the domestic market with foreign currency, a person or a financial institution who sells these bonds to foreign investors will exchange its foreign currency holding into rupee at a commercial bank. The bank, in turn, will submit this foreign currency to RBI and its deposits with RBI will be credited with equivalent sum of money. What kind of adjustments take place from this entire transaction? The commercial bank's total reserves and deposits remain unchanged (it has purchased the foreign currency from the seller using its vault cash, which, therefore, goes down; but the bank's deposit with RBI goes up by an equivalent amount – leaving its total reserves unchanged). There will, however, be increments in the assets and liabilities on the RBI balance sheet. RBI's foreign exchange holding goes up. On the other hand, the deposits of commercial banks with RBI also increase by an equal amount. But that means an increase in the stock of high powered money – which, by definition, is equal to the total liability of RBI. With money multiplier in operation, this, in turn, will result in increased money supply in the economy.

This increased money supply may not altogether be good for the economy's health. If the volume of goods and services produced in the economy remains unchanged, the extra money will lead to increase in prices of all commodities. People have more money in their hands with which they compete each other in the commodities market for buying the same old stock of goods. As too much money is now chasing the same old quantities of output, the process ends up in bidding up prices of every commodity – an increase in the general price level.



Excerpt from NCERT

## YEAR 2023 CENTRAL BANKS

### Q6. Correct the following statements:

Statement-I: In the post-pandemic recent past, many Central Banks worldwide had carried out interest rate hikes.

Statement-II: Central Banks generally assume that they have the ability to counteract the rising consumer prices via monetary policy means.

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

- (a) Both Statement-I and Statement-II are correct and Statement-II is the correct explanation for Statement-I
- (b) Both Statement-I and Statement-II are correct and Statement-II is not the correct explanation for Statement-I
- (c) Statement-I is correct but Statement-II is incorrect
- (d) Statement-I is incorrect but Statement-II is correct

## ANSWERS A

## EXPLANATION



- A new study by the World Bank has revealed that with the central banks across the world simultaneously hiking interest rates in response to inflation, the world may be edging toward a global recession in 2023 and a string of financial crises in emerging markets and developing economies that would do them lasting harm. **Central banks around the world have been raising interest rates this year with a degree of synchronicity not seen over the past five decades—a trend that is likely to continue well into next year.**
- A central bank with a high degree of credibility firmly anchors expectations of price stability. The monetary policy transmission mechanism is characterised by long, variable and uncertain time lags. Thus it is difficult to predict the precise effect of monetary policy actions on the economy and price level. **Hence Central Banks generally assume that they have the ability to counteract the rising consumer prices via increasing interest rates. Hence both statements are correct and statement II is the correct explanation of statement I.**

## ANALYSIS:



### Motivation/Why asked?

- Because the actions of the central banks have been widely covered (both by the RBI and the Federal Reserve)
- And standard newspapers (<https://www.thehindu.com/business/Economy/rbi-set-for-fourth-straight-rate-hike-to-quell-inflation-say-experts/article65934484.ece>)

**SOURCE : macroeconomics (NCERT Class 12; Chapter 3: Money and Banking; the role of the RBI)**

However, the most important role of RBI is as the controller of money supply and credit creation in the economy. RBI is the independent authority for conducting monetary policy in the best interests of the economy – it increases or decreases the supply of high powered money in the economy and creates incentives or disincentives for the commercial banks to give loans or credits to investors. The instruments which RBI uses for conducting monetary policy are as follows.

**Open Market Operations:** RBI purchases (or sells) government securities to the general public in a bid to increase (or decrease) the stock of high powered money in the economy. Suppose RBI purchases Rs 100 worth government securities from the bond market. It will issue a cheque of Rs 100 on itself to the seller of the bond i.e. if a person or institution possessing the cheque produces it to RBI. RBI must pay equivalent amount of money to the person or the institution. The seller will deposit the cheque in her bank, which, in turn, will credit the seller's account with a balance of Rs 100. The bank's deposits go up by Rs 100 which is a liability to the bank. However, its assets also go up by Rs 100 by the possession of this cheque, which is a claim on RBI. The bank will deposit this cheque to RBI which, in turn, will credit the bank's account with RBI with Rs 100. The changes in RBI's balance sheet are shown in Table 3.4.

Total liability of RBI, or, by definition, the supply of high powered money in the economy has gone up by Rs 100. If RBI wishes to reduce the supply of high powered money it undertakes an open market sale of government securities of its own holding in just the reverse fashion, thereby reducing the monetary base.

Excerpt from NCERT

### RBI set for fourth straight rate hike to quell inflation, say experts

The RBI, which has since May raised the repo rate by 140 basis points, may again go for a 50-bps increase to take it to a three-year high of 5.9%, say experts

September 25, 2022 06:00 pm | Updated 07:20 pm IST - Mumbai

## BANKING AND BANKING REGULATIONS

### (13 Questions)

YEAR 2017

#### RESTRUCTURING OF ASSETS

**Q1. Which of the following statements best describes the term 'Scheme for Sustainable Structuring of Stressed Assets (S4A)', recently seen in the news?**

- (a) It is a procedure for considering ecological costs of developmental schemes formulated by the Government.
- (b) It is a scheme of RBI for reworking the financial structure of big corporate entities facing genuine difficulties.
- (c) It is a disinvestment plan of the Government regarding Central Public Sector Undertakings.
- (d) It is an important provision in 'The Insolvency and Bankruptcy Code' recently implemented by the Government.

#### ANSWERS **B**

#### EXPLANATION



- ① The Reserve Bank of India introduced the Scheme for Sustainable Structuring of Stressed Assets (S4A Scheme) on June 13, 2016.

The S4A by RBI envisages determination of the sustainable debt level for a stressed borrower, and bifurcation of the outstanding debt into sustainable debt and equity/quasi-equity instruments which are expected to provide upside to the lenders when the borrower turns around.

- ② Hence option (b) is the correct answer.

#### ANALYSIS:

#### Motivation

Stressed assets and NPAs had constantly remained in the news in 2017. RBI came up with many schemes to address these issues. Ex - S4A, 5:25 etc. NPA crisis was one of the hot topics in 2017 as RBI had taken several steps, Economic Survey had discussed it in detail and banking health was thoroughly discussed in newspaper.

#### Scope for elimination

One should pay close attention to the term 'stressed assets'. The assets here refers to that of banks and RBI is the regulator of all banks. From the term 'stressed assets', student can decipher that the scheme is connected to banking and debt restructuring. **Thus, options (a) and option (c) get automatically eliminated. Applying that logic, one can reach the correct answer.**

**SOURCE :**

<http://www.thehindu.com/business/Industry/First-S4A-debt-recast-gets-approval/article16437605.ece>  
<http://indianexpress.com/article/business/banking-and-finance/rbi-unveils-new-scheme-to-tackle-bad-loans-of-big-firms-2851186/>  
<https://www.thehindu.com/business/Industry/First-S4A-debt-recast-gets-approval/article16437605.ece>

- ◆ Can be covered as part of the Economic Survey Summary.

- ◆ A Non Performing asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days.
- ◆ Banks are further required to classify NPAs further into
  - Substandard,
  - Doubtful and
  - Loss assets.
- ◆ **Substandard assets:** Assets which has remained NPA for a period less than or equal to 12 months.
- ◆ **Doubtful assets:** An asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months.
- ◆ **Loss assets:** As per RBI, “Loss asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted, although there may be some salvage or recovery value.”
- ◆ It is mandatory before a loan account turns into a NPA that banks are required to identify incipient stress in the account by creating three sub-categories under the **Special Mention Account category as given in the below:**
  - 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
- ◆ **The parameters for identifying both NPA and Special Mention Accounts are decided by Reserve Bank of India.**

## Q2. What is the purpose of setting up of Small Finance Banks (SFBs) in India?

1. To supply credit to small business units
2. To supply credit to small and marginal farmers
3. To encourage young entrepreneurs to set up business particularly in rural areas.

Select the correct answer using the code given below:

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

## ANSWERS A



## EXPLANATION

- ① The objectives of setting up of small finance banks will be to further financial inclusion by
  - provision of savings vehicles, and
  - Supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganised sector entities, through high technology-low cost operations.
- ② **About Small Finance Banks**
- ③ Small Finance Banks (SFB) registered as public limited companies under the Companies Act, 2013 intend to provide financial services to the unserved and unbanked region of the country.
- ④ The RBI issued guidelines for the setting up of both Payments Banks (PBs) and Small Finance Banks (SFBs), in 2014 respectively.
- ⑤ SFBs primarily undertake basic banking activities of acceptance of deposits (both demand and time deposits) and lending (with limits) to un-served and underserved sections including small business units, small and marginal farmers, micro and small industries, and unorganized sector entities, but without any restriction in the area of operations, unlike Regional Rural Banks or Local Area Banks.
- ⑥ They are subject to all prudential norms and regulations of RBI as applicable to existing commercial banks like maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).
- ⑦ **They can issue debit cards. And the minimum paid-up capital required for small finance banks is Rs 200 crores. Hence option (a) is the correct answer.**

## ANALYSIS:

SOURCE : [https://rbi.org.in/scripts/BS\\_PressReleaseDisplay.aspx?prid=32614](https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=32614)



## Motivation/Why asked?

- ① Small Finance Banks (SFBs) have been in news.
- ② Not covered in any of the Essential Material, but such topics often appear in the newspapers and many associated regulations for the same had come (Dr. Nachiket Mor committee recommendations)

## YEAR 2018 CAPITAL ADEQUACY RATIO

### Q3. Consider the following statements:

1. Capital Adequacy Ratio (CAR) is the amount that banks have to maintain in the form of their own funds to offset any loss that banks incur if the account-holders fail to repay dues.
2. CAR is decided by each individual bank.

Which of the statements given above is/are correct?

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

### ANSWERS A

### EXPLANATION



- **Statement 1 is correct:** Capital Adequacy Ratio (CAR), which is also known as **Capital to Risk (Weighted) Assets Ratio** is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities. It is decided by central banks and bank regulators to prevent commercial banks from taking excess leverage and becoming insolvent in the process. **Simply put, it is the amount of money that a bank has in its reserve to cover any losses in its loans.** It is calculated by dividing a bank's capital by its risk-weighted assets.
- **Statement 2 is not correct:** It is the Reserve Bank of India (RBI) that sets the norms for the banks to maintain CAR. As of October 2023, the RBI has said that all the scheduled commercial banks are required to maintain a CAR of 9% while the Indian public sector banks are required to maintain a CAR of 12%.

### ANALYSIS:



### Motivation/Why asked?

- It is a basic concept in macroeconomics, and has always been in the news owing to BASEL NORMS that guide the central banks across the world to maintain the financial stability of the banks and economies. CAR can be a recurring theme as its importance remains the same especially because many globally important banks have failed in the recent past.



### Scope for elimination

- As it is a 2-statement question, there is always less scope for elimination, but statement 2 can be of some help in eliminating two of the four options. **If we assume that statement 1 is correct, then logically statement 2 should not be correct** as maintaining fiscal stability cannot be in the hands of the banks without the RBI playing any role.
- **How to cover?** These terms are often mentioned (and sometimes explained) in the standard newspapers in the context of regulatory changes made by the RBI regarding bank safety. Hence the 'economy/business' pages of the standard newspapers must be regularly read.
- The following link will lead you to article on The Hindu published in August, 2017
- Additional Information
- **Provisioning Coverage Ratio (PCR)** measures a bank's ability to cover its bad loans or non-performing assets (NPAs) with the money it has set aside for that very purpose. It is calculated by dividing the total value of the bank's provisions for bad loans by the total value of its non-performing assets.

- Loans to Deposits ratio (LDR) measures a bank's liquidity and its ability to fund its loan portfolio and is calculated by dividing a bank's total loans by its total deposits.
- Cost to Income ratio (CIR) measures how efficient a bank is in managing its costs relative to its income. The ratio is calculated by dividing a bank's operating expenses by its operating income.

**SOURCE :** <https://www.thehindu.com/opinion/op-ed/what-is-capital-adequate-ratio-in-finance/article19439978.ece>

## YEAR 2018 CAPITAL INFUSION IN BANKS

**Q4. With reference to the governance of public sector banking in India, consider the following statements:**

- Capital infusion into public sector banks by the Government of India has steadily increased in the last decade.
- To put the public sector banks in order, the merger of associate banks with the parent State Bank of India has been affected.

Which of the statements given above is/are correct?

- 1 only
- 2 only
- Both 1 and 2
- Neither 1 nor 2

### ANSWERS B

### EXPLANATION



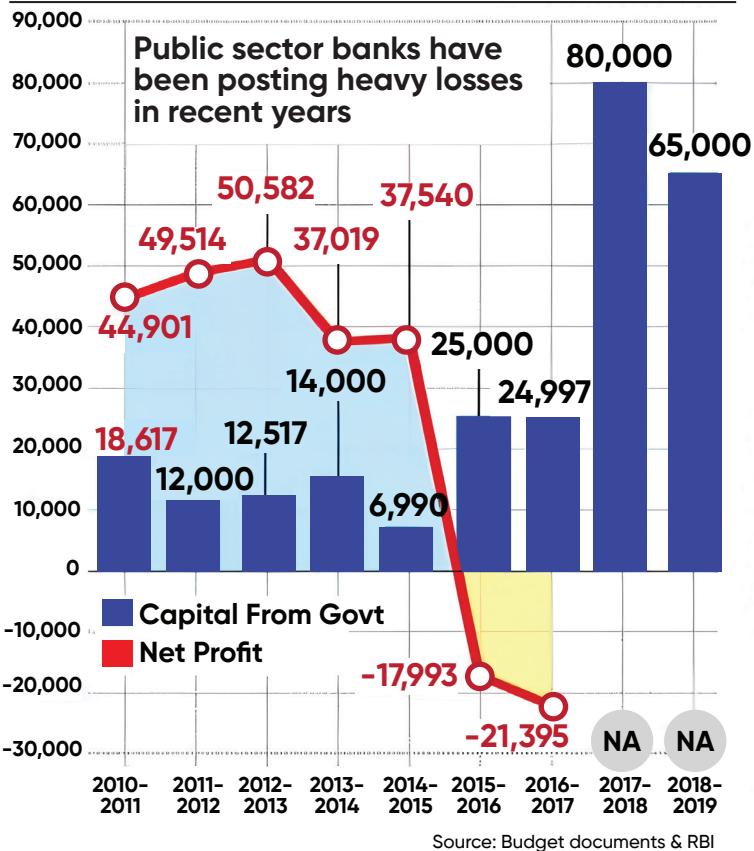
- Statement 1 is not correct as** Capital infusion into public sector banks by the Government of India has not steadily increased in the last decade.
- Statement 2 is correct:** The merger of SBI associated banks under Section 35 of the State Bank of India Act, 1955 will result in the creation of a stronger merged entity. This will minimize vulnerability to any geographic concentration risks faced by subsidiary banks. It will create improved operational efficiency and economies of scale. It will also result in improved risk management and unified treasury operations.

### ANALYSIS:

- As this question featured in 2018, 'last 10 years' means between 2008 to 2018. In 2018, several newspaper articles discussed the announcement made in the Budget 2018-19 after the Economic Survey 2015-16 emphasized that addressing the stressed assets problem would require 4 R's: Reform, Recognition, Recapitalization, and Resolution.

- ① <https://www.livemint.com/Industry/tLsIn-jul39BVBgkJuKUc-gK/The-story-of-needbased-capital-infusion.html>
- ② <https://timesofindia.indiatimes.com/india/centre-has-pumped-rs-2-6-lakh-crore-into-government-banks-over-11-years/articleshow/62974836.cms>
- ③ Shared on the right is an image from a Times of India article

## FINANCIAL WOES



**YEAR 2019**

## RESTRUCTURING OF ASSETS

**Q5. What was the purpose of Inter-Creditor Agreement signed by Indian banks and financial institutions recently?**

- The lessen the Government of India's perennial burden of fiscal deficit and current account deficit.
- To support the infrastructure projects of Central and State Governments
- To act as independent regulator in case of application for loans of Rs. 50 core or more
- To aim at faster resolution of stressed assets of Rs. 50 crore or more which are under consortium lending

## ANSWERS D



## EXPLANATION

- The Inter-Creditor Agreement or ICA is an agreement among banks that have dues from a borrower in stress. The pact mandates the lead bank to formulate a resolution plan that will be executed in a time bound manner.
- In a bid to ensure swift resolution of non-performing assets, around 22 public sector banks (including India Post Payments Bank), 19 private lenders and 32 foreign banks on Monday signed the inter-creditor agreement (ICA) to fast track the resolution of stressed assets. This happened in 2018. The then Finance Minister described the move as a 'huge step forward' in addressing the banking sector's bad loans. The agreement was also signed by 12 major financial institutions like LIC, HUDCO, among others.

- As per the ICA, "The lead lender, that is the lender with the highest exposure, shall be authorised to formulate the resolution plan, which shall be presented to the lenders for their approval." The decision-making will be by way of approval of 'majority lenders', those with 66 per cent share in the aggregate exposure. **The ICA agreement covers cases of stressed assets worth at least Rs 50 crore under consortium lending.**
- Hence option (d) is the correct answer.**

## ANALYSIS:



### Motivation/Why asked?

Had been in news frequently since 2018. Can be covered with the NPA problem, which has been widely prevalent for almost 6-7 years.

**SOURCE :** <https://economictimes.indiatimes.com/industry/banking/finance/banking/guidelines-on-inter-creditor-agreement-next-week/articleshow/65490962.cms>

- Not covered in any of the Essential Material, but topics were in news in the context of restructuring efforts.

## YEAR 2019 BANK BOARD BUREAU

### Q6. The Chairman of public sector banks are selected by the

- Banks Board Bureau
- Reserve Bank of India
- Union Ministry of Finance
- Management of the concerned bank

## ANSWERS A



### EXPLANATION

- Banks Board Bureau (or BBB) recommends for selection of heads of public Sector Banks and Financial Institutions and helps banks in developing strategies and capital raising plans. It was introduced under the **Mission Indradhanush** for banking sector launched by the Government of India in 2015. **Hence option (a) is the correct answer.**

## ANALYSIS:



### Scope for elimination

- Either you know the answer or you don't know. No scope but BBB has always been in the news.
- The Banks Board Bureau (BBB) **recently (in 2019)** identified 75 senior management personnel of public sector lenders to take over leadership roles in the future.

**SOURCE : Standard newspapers**

Link: <https://www.thehindubusinessline.com/money-and-banking/bbb-identifies-75-senior-officers-for-leadership-roles-in-psbs/article26884969.ece>

**Please Note:**

The Government has recasted the Bank Board Bureau (BBB) into Financial Services Institutions Bureau (FSIB). It happened in 2022 as the effectivenes of BBB was in question. Kindly refer to the link to know more about the same.

<https://www.thehindu.com/business/government-re-casts-banks-board-bureau-into-fsib/article65589860.ece>

**YEAR 2019 SERVICE AREA APPROACH****Q7. The Service Area Approach was implemented under the purview of**

- (a) the Integrated Rural Development Programme
- (b) Lead Bank Scheme
- (c) Mahatma Gandhi National Rural Employment Guarantee Scheme
- (d) National Skill Development Mission

**ANSWERS B****EXPLANATION**

- The Service Area Approach (SAA) introduced in April 1989, in order to bring about orderly and planned development of rural and semi-urban areas of the country, was extended to all Indian scheduled commercial banks including Regional Rural Banks (RRBs).
- The service area approach is an alternative and improved method and under the the Lead Bank Scheme for the deployment of bank credit for rural development. Under SAA, each bank branch in rural and semi-urban areas was designated to serve an area of 15 to 25 villages and the branch was responsible for meeting the needs of bank credit of its service area. **Hence option (b) is the correct answer.**
- The primary objective of SAA was to increase productive lending and forge effective linkages between bank credit, production, productivity and increase in income levels

## ANALYSIS:



### Motivation

UPSC keeps asking questions related to old but important schemes. Theme repetition (2012 question asked on lead bank)

**Source/ How to cover? - [https://rbi.org.in/scripts/BS\\_ViewMasCirculardetails.aspx?id=9853](https://rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=9853)**

## YEAR 2019 ASSETS OF A BANK

**Q8. Which of the following is not included in the assets of a commercial bank in India?**

- (a) Advances
- (b) Deposits
- (c) Investments
- (d) Money at call and short notice

## ANSWERS B



### EXPLANATION

- In simple words, bank assets are considered **anything that the bank owns**, whereas bank liabilities are anything that the bank owes to someone else.
- **A bank places its funds in assets to earn profits.** The assets include investments, loans and advances, money at call and short notice, bills discounted and purchased. It also includes the cash in hand with the banks and also the cash held with the RBI. The liabilities include deposits(both time and demand) and borrowings. **Hence (b) is the correct answer.**

## ANALYSIS:



### Scope for elimination

Although it is an ABCD type question, the answer was not difficult to get.

**SOURCE : Macroeconomics (NCERT Class 12)**

Table 3.1: Sample Balance Sheet of a Commercial Bank

Assets - Rs	Liability - Rs	
• Reserves		
– Vault Cash	15	Deposits
– Deposits with RBI	5	100
• Bank Credit		
– Loans	30	
– Investments	50	
rdr = 0.2		

## YEAR 2022 INTEREST COVERAGE RATIO

### Q9. What is the importance of the term "Interest Coverage Ratio" of a firm in India?

1. It helps in understanding the present risk of a firm that a bank is going to give loan to.
2. It helps in evaluating the emerging risk of a firm that a bank is going to give loan to.
3. The higher a borrowing firm's level of Interest Coverage Ratio, the worse is its ability to service its debt.

Select the correct answer using the code given below.

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

### ANSWERS A

#### EXPLANATION



- The interest coverage ratio is a debt ratio and profitability ratio used to determine how easily a company can pay interest on its outstanding debt. A higher coverage ratio is better, although the ideal ratio may vary by industry. **Hence statement 3 is not correct.** The Interest coverage ratio is also called “times interest earned.” Lenders, investors, and creditors often use this formula to determine a company’s riskiness relative to its current debt or for future borrowing.
- The interest coverage ratio is used to see how well a firm can pay the interest on outstanding debt. Also called the times -interest - earned ratio, this ratio is used by creditors and prospective lenders to assess the risk of lending capital to a firm. **Hence statements 1 and 2 are correct.**

#### ANALYSIS:

#### Motivation

- It is one of the risk assessment parameter of a company. During this time, NPA situation in many banks was prevalent. Also, companies declared bankruptcy and IBC code was being used. This situation stayed in news for a good 3-4 years and hence it became important.

#### Scope for elimination

- **Statement 3 can be eliminated as higher interest coverage ratio (as the term suggests) mean higher interest (to be paid)** can be covered by the firm and therefore, its ability to service its debt is better. The current risk profile of a company will also help in evaluating future risk profile of the same company. Also, note that in both the statements, general words like helps in understanding and helps in evaluating are used. Hence, no specific keyword is used, therefore, statement 1 and 2 are mostly correct

**SOURCE :** This concept is not covered in the Macroeconomics (NCERT Class 12), while it can be found in the NCERT Business Studies book

<https://ncert.nic.in/ncerts/I/lebs209.pdf>

## YEAR 2021 THE FUNCTIONING OF THE RBI

### Q10. Consider the following statements:

1. The Governor of the Reserve bank of India (RBI) is appointed by the Central Government.
2. Certain provisions in the Constitution of India give the Central Government the right to issue directions to the RBI in public interest.
3. The Governor of the RBI draws his power from the RBI Act.

Which of the above statements are correct?

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

### ANSWERS C

### EXPLANATION



- ⦿ According to Section 8 of RBI ACT 1934- A Governor and (not more than four) Deputy Governors to be appointed by the Central Government. **Hence statement 1 is correct.**
- ⦿ According to Section 7 of RBI ACT 1934- The Central Government may from time to time give such directions to the Bank as it may, after consultation with the Governor of the Bank, consider necessary in the public interest. There is no such provision in the constitution of India. **Hence statement 2 is not correct.**
- ⦿ According to Section 7 of RBI Act 1934- The Governor and in his absence the Deputy Governor nominated by him in this behalf, shall also have powers of general superintendence and direction of the affairs and the business of the Bank, and may exercise all powers and do all acts and things which may be exercised or done by the Bank. **Hence statement 3 is correct.**

### ANALYSIS:

### Motivation

Basic information about the RBI; just like a question on the Monetary Policy Committee featured.

### Scope for elimination

This is a very easy question because the Constitution of India does not give power to the Reserve Bank of India. Hence using that, we can eliminate options (a), (b) and (d).

**SOURCE :** [https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/RBIAM\\_230609.pdf](https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/RBIAM_230609.pdf)

**SOURCE :** Arthapedia



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## YEAR 2021 URBAN COOPERATIVE BANKS

**Q11. With reference to 'Urban Cooperative Banks' in India consider the following statements:**

1. They are supervised and regulated by local boards set up by the State Governments.
2. They can issue equity shares and preference shares.
3. They were brought under the purview of the Banking Regulation Act, 1949 through an Amendment in 1966.

Which of the statements given above is/are correct?

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

### ANSWERS B

### EXPLANATION



- ① Large cooperative banks with paid-up share capital and reserves of Rs.1 lakh were brought under the purview of the Banking Regulation Act 1949 with effect from 1st March, 1966 and within the ambit of the Reserve Bank's supervision. This marked the beginning of an era of duality of control over these banks. Banking related functions (viz. licensing, area of operations, interest rates etc.) were to be governed by RBI and registration, management, audit and liquidation, etc. governed by State Governments as per the provisions of respective State Acts. So the control of the RBI was partial and it shared the control with the registrar of cooperative societies of States, giving rise to the much-discussed dual control and the difficulties it posed to the central bank. **Hence statement 3 is correct.**
- ② The recent Banking Regulation (Amendment) Act 2020 enables the RBI to get all the powers, including those hitherto exclusively with the registrar of cooperative societies. However, powers of registrar continue to be with him but the powers of RBI override those of registrar. **Hence statement 1 is not correct.**
- ③ While the amendment gives the required powers to the RBI to take timely action and steps to prevent UCBs from failing so that depositors' monies are protected, which was the main purpose of the amendment, it also enjoins upon the central bank to make regulations under BR Act without compromising on the cooperative nature and cooperative principles of the banks. The Reserve Bank has given new guidelines allowing primary urban cooperative banks (UCBs) to augment capital through issuance of equity shares, preference shares and debt instruments. The UCBs, it said, could raise share capital by issue of equity to persons within their area of operation enrolled as members and also through additional equity shares to the existing members. **Hence statement 2 is correct.**

### ANALYSIS:



### Motivation

- ④ Urban Cooperative banks have been in news due to failures of various banks like Punjab and Maharashtra Cooperative Bank. The regulation changes were made recently in this context.

**SOURCE :** [https://www.business-standard.com/article/pti-stories/rbi-is-sues-draft-circular-on-allowing-ucbs-to-augment-capital-121071400994\\_1.html](https://www.business-standard.com/article/pti-stories/rbi-is-sues-draft-circular-on-allowing-ucbs-to-augment-capital-121071400994_1.html)

## YEAR 2021    ROLE OF THE RBI

**Q12. In India, the central bank's function as the 'lender of last resort' usually refers to which of the following?**

1. Lending to trade and industry bodies when they fail to borrow from other sources
2. Providing liquidity to the banks having a temporary crisis
3. Lending to governments to finance budgetary deficits

Select the correct answer using the code given below.

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

### ANSWERS B

### EXPLANATION



- The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934. Though originally privately owned, since nationalisation in 1949, the Reserve Bank is fully owned by the Government of India. The functions of the Reserve Bank can be categorised as follows:
  - Monetary policy
  - Regulation and supervision of the banking and non-banking financial institutions, including credit information companies
  - Regulation of money, forex and government securities markets as also certain financial derivatives
  - Debt and cash management for Central and State Governments
  - Management of foreign exchange reserves
  - Foreign exchange management – current and capital account management
  - Banker to banks
  - Banker to the Central and State Governments
  - Oversight of the payment and settlement systems
  - Currency management
  - Developmental role
  - Research and statistics
- As a Banker to Banks, the Reserve Bank also **acts as the 'lender of the last resort'**. It can come to the rescue of a bank that is solvent but faces temporary liquidity problems by supplying it with much needed liquidity when no one else is willing to extend credit to that bank. The Reserve Bank extends this facility to protect the interest of the depositors of the bank and to prevent possible failure of the bank, which in turn may also affect other banks and institutions and can have an adverse impact on financial stability and thus on the economy. **Hence option (b) is the correct answer.**

## ANALYSIS:

- Basic information about the Reserve Bank of India, taken directly from the syllabus

**SOURCE :** Macroeconomics (NCERT Class 12)

### 3.4 POLICY TOOLS TO CONTROL MONEY SUPPLY

Excerpt from NCERT

Reserve Bank is the only institution which can issue currency. When commercial banks need more funds in order to be able to create more credit, they may go to market for such funds or go to the Central Bank. Central bank provides them funds through various instruments. This role of RBI, that of being ready to lend to banks at all times is another important function of the central bank, and due to this central bank is said to be the **lender of last resort**.

## YEAR 2022 BANK BOARD BUREAU

**Q13. With reference to the 'Banks Board Bureau (BBB)', which of the following statements are correct?**

1. The Governor of RBI is the Chairman of BBB.
2. BBB recommends for the selection of heads of Public Sector Banks.
3. BBB helps the Public Sector Banks in developing strategies and capital raising plans.

Select the correct answer using the code given below:

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

## ANSWERS B



## EXPLANATION

- Central Government notified the amendment to the Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1980 providing the legal framework for composition and functions of the Banks Board Bureau on March 23, 2016. The Bureau accordingly started functioning from April 01, 2016 as an autonomous recommendatory body.
- The board comprises the Chairman, three ex-officio members i.e Secretary, Department of Public Enterprises, Secretary of the Department of Financial Services and Deputy Governor of the Reserve Bank of India and three expert members. The Governor of RBI is not its chairman. **Hence statement 1 is not correct.**

- The Banks Board Bureau is mandated to select and appointment Board members for various financial institutions in public sector like Public sector banks, insurance companies. It is also required to undertake activities in the sphere of governance in these institutions. The functions of the Bureau outlined in the Section 7(C) of the Scheme and in subsequent amendments as per orders of Appointment Committee of the Cabinet are:
  - To recommend the selection and appointment of Board of Directors in Mandated Institutions (Whole Time Directors and Chairman). **Hence statement 2 is correct.**
  - To advise the Central Government on matters relating to appointments, confirmation or extension of tenure and termination of services of the Directors of mandated institutions.
  - To advise the Central Government on the desired management structure of mandated institutions, at the level of Board of Directors and senior management.
  - To advise the Central Government on a suitable performance appraisal system for mandated institutions.
  - To build a data bank containing data relating to the performance of mandated institutions and its officers.
  - To advise the Central Government on the formulation and enforcement of a code of conduct and ethics for managerial personnel in mandated institutions.
  - To advise the Central Government on evolving suitable training and development programs for managerial personnel in mandated institutions.
  - To help the banks in terms of developing business strategies and capital raising plan. **Hence statement 3 is correct.**
  - Any other work assigned by the Government in consultation with Reserve Bank of India.

## ANALYSIS:

- Restructuring of Banks Board Bureau was in news as its members extended two-year term concluded on April 10. (Repeated theme - 2019)



### Scope for elimination

**Scope for elimination:** If the student knows that RBI governor is not chairman of BBB then option A, C and D can be easily eliminated.

**SOURCE :** <https://banksboardbureau.org.in/bureau-profile/>

<https://economictimes.indiatimes.com/news/economy/policy/government-to-soon-approve-recast-of-banks-board-bureau/articleshow/91574167.cms>

<https://economictimes.indiatimes.com/news/company/corporate-trends/banks-board-bureau-recommends-names-for-chiefs-of-psu-banks/articleshow/90275752.cms>

### Please Note:

In the explanation to the 2019 question, it has been mentioned that the BBB has been replaced by Financial Services Institutions Bureau (FSIB)

# PAYMENT ECOSYSTEM

## (06 Questions)

**YEAR 2017**

**NPCI**

**Q1. Consider the following statements:**

1. National Payment Corporation of India (NPCI) helps in promoting the financial inclusion in the country.
2. NPCI has launched RuPay, a card payment scheme.

Which of the statements given above is/are correct?

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

**ANSWERS** C

**EXPLANATION**



- ① (NPCI) is an umbrella organization for all retail payments system in India. It was set up with the guidance and support of the Reserve Bank of India (RBI) and Indian Banks' Association (IBA).
- ② The core objective was to consolidate and integrate the multiple systems with varying service levels into nation-wide uniform and standard business process for all retail payment systems. The other objective was to facilitate an affordable payment mechanism to benefit the common man across the country and help financial inclusion. **Hence statement 1 is correct.**
- ③ It offers many products and services which include RuPay card, BHIM app, Unified payment interface among others. **Hence statement 2 is correct.**

**ANALYSIS:**

- ④ Not covered in any of the Essential Material, but such topics often appear in the newspapers. Cover it as part of Newspaper and Current Affairs as NPCI is regularly in news for some or the other initiative. The Digital payment has continuously remained in news and NPCI is one of the most important institutions associated with it.

**SOURCE :** <http://pib.nic.in/news-site/PrintRelease.aspx?relid=160339>

<http://www.thehindu.com/business/Economy/smoothen-bhim-refund-process-it-minister-to-npci/article18185655.ece>

### NPCI operated payment platforms

- RuPay cards
- Unified Payments Interface
- Bharat Bill Payments
- Aadhaar enabled Payments
- FASTag or National Electronic Toll Collection
- National Automated Clearing House
- Immediate Payment System
- \*99#: A USSD-based payments system
- National Financial Switch
- Cheque Truncation System

**YEAR 2017**

### Unified Payment Interface

**Q2. Which of the following is a most likely consequence of implementing the 'Unified Payments Interface (UPI)?**

- (a) Mobile wallets will not be necessary for online payments.
- (b) Digital currency will totally replace the physical currency in about two decades.
- (c) FDI inflows will drastically increase.
- (d) Direct transfer of subsidies to poor people will become very effective.

**ANSWERS** **A**

**EXPLANATION**



- UPI is a payment system that allows money transfer between any two bank accounts by using a smartphone. UPI allows a customer to pay directly from a bank account to different merchants, both online and offline, without the hassle of typing credit card details, IFSC code, or net banking/wallet passwords. **Hence option (a) is the correct answer.**

**ANALYSIS:**

- Especially, since the time of Demonetization and ever since the Government's efforts to take steps towards a 'Cashless Economy', Payment Ecosystem has been a recurring theme.

**SOURCE :** <http://www.thehindu.com/business/Economy/What-is-Unified-Payment-Interface/article14593189.ece>

## YEAR 2018 MERCHANT DISCOUNT RATE

**Q3. Which one of the following best describes the term "Merchant Discount Rate" sometimes seen in news?**

- (a) The incentive given by a bank to a merchant for accepting payments through debit cards pertaining to that bank.
- (b) The amount paid back by banks to their customers when they use debit cards for financial transactions for purchasing goods or services.
- (c) The charge to a merchant by a bank for accepting payments from his customers through the bank's debit cards.
- (d) The incentive given by the Government to merchants for promoting digital payments by their customers through Point of Sale (PoS) machines and debit cards.

### ANSWERS C

### EXPLANATION



- Merchant Discount Rate is a fee charged from a merchant by a bank for accepting payments from customers through credit and debit cards in their establishments. It compensates the card issuing bank, the lender which puts the PoS terminal and payment gateways such as Mastercard or Visa for their services. MDR charges are usually shared in pre-agreed proportion between the bank and a merchant and is expressed in percentage of transaction amount. **Hence option (c) is the correct answer.**

### ANALYSIS:

- After demonetization in November 2016, the use of cashless mode of payments increased and Merchant Discount Rate has always been in the news.

**SOURCE :** <https://www.thehindu.com/business/Economy/rbi-reduces-merchant-discount-rates-for-debit-cards/article21284463.ece>

### Please Note:

\*Although the theme seems **easy** now (in 2023), it was not as prevalent a concept in 2018 as it is today.

YEAR 2018

ATMs

**Q4. Which one of the following links all the ATMs in India**

- (a) Indian Banks' Association
- (b) National Securities Depository Limited
- (c) National Payments Corporation of India
- (d) Reserve Bank of India

**ANSWERS****C****EXPLANATION**

- National Financial Switch (NFS) ATM network having 37 members and connecting about 50,000 ATMs was taken over by NPCI from Institute for Development and Research in Banking Technology (IDRBT) on December 14, 2009. Thus NFS is run by the National Payments Corporation of India (NPCI). **Hence option (c) is the correct answer.**
- Over the span of few years, NFS ATM network has grown many folds and is now the leading multilateral ATM network in the country. As on 31st August' 17, there were 941 members that includes 101 Direct, 776 Sub members, 56 RRBs and 8 WLAOs using NFS network connected to more than 2.37 Lac ATM. NFS has established a strong and sustainable operational model with in-house capabilities and today can be compared at par with other major and well-established switch networks. The operational functions and services are at par with most of the global ATM networks.

**ANALYSIS:****Scope for elimination**

**Not much scope but still if the functions and roles of the other bodies are known to some extent, one can easily eliminate options A, B and D.**

**SOURCE :** <https://www.thehindu.com/business/NPCI-tightens-security-as-criminals-target-ATMs-e-banking/article60481538.ece>

- An excerpt from the above article
- Other links: <https://www.livemint.com/Money/Gg9Z4hQBxSGKlJnY9qRP7N/Everything-to-know-about-your-ATM.html>

### NPCI tightens security as criminals target ATMs, e-banking

About 60% of 650 million cards issued in India use only magnetic strips making them vulnerable to skimming

August 13, 2016 02:39 am | Updated November 17, 2021 02:32 am IST - MUMBAI:

**YEAR 2018****BHIM****Q5. With reference to digital payments, consider the following statements:**

1. BHIM app allows the user to transfer money to anyone with a UPI-enabled bank account.
2. While a chip-pin debit card has four factors authentication, BHIM app has only two factors of authentication.

Which of the statements given above is/are correct?

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

**ANSWERS A****EXPLANATION**

- ◆ **Statement 1 is correct:** Bharat Interface for Money (BHIM) is a payment app that lets you make simple, easy and quick transactions using Unified Payments Interface (UPI). You can make direct bank payments to anyone on UPI using their UPI ID or scanning their QR with the BHIM app. You can also request money through the app from a UPI ID.
- ◆ **Statement 2 is not correct:** From a consumer point of view, there are three levels of authentication that are required in this app. One is the device ID and mobile number, then the bank account which you are linking to this app, and finally the UPI Pin which is needed to complete the transaction. There are three factors of authentication versus a normal net banking app or a chip-pin debit card which will only have two factors of authentication.

**ANALYSIS:****Scope for elimination**

**As since the demonetisation, the dependence on UPI-based payment system especially BHIM had tremendously increased,** this is more an application-type of question. Hence it tested the practical knowledge of the aspirant. Statement 2 is obviously incorrect even if we just know that a debit card has a 2-level security and statement 1 is correct.

**Motivation**

**Due to the prevalence of cashless modes of payment and also the efforts of the government to lessen the use of hard cash.**

- ◆ **How to cover?** Reliance on practical knowledge. UPSC has repeatedly tested this.

YEAR 2019

**STORAGE OF PAYMENT SYSTEM DATA****Q6. Consider the following statements:**

The Reserve Bank of India's recent directives relating to 'Storage of Payment System Data,' popularly known as data diktat, command the payment system providers that

1. they shall ensure that entire data relating to payment systems operated by them are stored in a system only in India.
2. they shall ensure that the systems are owned and operated by public sector enterprises.
3. they shall submit the consolidated system audit report to the Comptroller and Auditor General of India by the end of the calendar year

Which of the statements given above is/are correct?

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

**ANSWERS A****EXPLANATION**

- ◆ The Reserve Banks directive related to Storage of Payment System Data provides that:
- ◆ **All system providers shall ensure that the entire data relating to payment systems operated by them are stored in a system only in India.** This data should include the full end-to-end transaction details / information collected / carried / processed as part of the message / payment instruction. For the foreign leg of the transaction, if any, the data can also be stored in the foreign country, if required.
- ◆ System providers shall ensure compliance of (i) above within a period of six months and report compliance of the same to the Reserve Bank latest by October 15, 2018.
- ◆ System providers shall submit the System Audit Report (SAR) on completion of the requirement at (i) above. **The audit should be conducted by CERT-IN empaneled auditors certifying completion of activity at (i) above.**
- ◆ The SAR duly approved by the Board of the system providers should be submitted to the Reserve Bank not later than December 31, 2018. **Hence, only statement 1 is correct.**

**ANALYSIS:**

- ◆ **It was widely covered in the news in 2018-19.** Not covered in any of the Essential Material, but such topics often appear in the newspapers. Can cover it as part of Current Affairs.

**SOURCE :** <https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=11244>

# INFLATION AND RECESSION

## (04 Questions)

**YEAR 2020**

**CPI/WPI**

**Q1. Consider the following statements:**

1. The weightage of food in Consumer Price Index (CPI) is higher than that in Wholesale Price Index (WPI).
2. The WPI does not capture changes in the prices of services, which CPI does.
3. Reserve Bank of India has now adopted WPI as its key measure of inflation and to decide on changing the key policy rates.

Which of the statements given above is/are correct?

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

**ANSWERS A**

**EXPLANATION**



- Inflation can be described as the general rise in the price of goods and services in an economy over time. It is calculated by tracking the increase in prices of essentials.
- The Methods To Calculate Inflation
  - **CPI:** The primary index that tracks the change in retail prices of essential goods and services consumed by Indian households is the Consumer Price Index or CPI. It shows the impact of inflation on people. It is always used for Dearness Allowance. Now, it is also being used for monetary policy formulation.
  - Since 2010, based on the Rangarajan Committee's report, CPI (URBAN), CPI (RURAL), CPI (COMBINED) and CFPI- food indices are calculated therein. It covers both goods and services.
  - 200 Goods and services are taken- It is a selected basket of goods and services. The weightage of food in the CPI is close to 50% (The weightage for food is lower in WPI). **Hence statement 1 is correct.**
  - **WPI:** While retail inflation looks at the price at which the consumer buys the product, WPI is measured based on prices at the wholesale level. WPI measures the changes in the prices of goods sold and traded in bulk by wholesale businesses to other businesses. It reflects the inflation in the economy in general/general level of inflation or price level in the economy.
  - Another difference between the two indices is that the wholesale market is only for goods, you cannot buy services on a wholesale basis. So WPI does not include services, whereas the retail price index does. WPI, unlike the Consumer Price Index (CPI), only tracks the prices of goods purchased by consumers. **Hence statement 2 is correct.**

- 697 goods are taken: Primary goods, Fuel and power and Manufacturing goods, the latter being given the maximum weightage (64.23%).
- Wholesale prices are considered. Base year= 2012 Based on the suggestions of the Urjit Patel committee, monetary policy (MP) in India is to be formulated in reference to the CPI (instead of WPI) based inflation. (The suggestion was accepted in 2014 itself.) The reason is that: i) CPI shows the impact on the people - WPI indicates the wholesale price, whereas CPI shows the retail price i.e. the price at which people make purchases from retail market.
- WPI does not show the impact of inflation on the people. Any policy should consider the impact on the people ii) WPI does not account for the price in services iii) It is an international best practice - most of the countries have shifted to CPI. **Hence statement 3 is not correct.**

## ANALYSIS:

- ⑤ It is a standard question related to inflation



### Scope for elimination

Statement 3 is easy to eliminate. As the RBI uses CPI as the index and not WPI, but again, it requires some amount of basic knowledge to eliminate the option.

**SOURCE :** Not covered in the NCERT Macroeconomics book, but can be covered from  
[http://arthapedia.in/index.php/Consumer\\_Price\\_Index](http://arthapedia.in/index.php/Consumer_Price_Index)

## YEAR 2017 RECESSSION

### Q2. Which among the following steps is most likely to be taken at the time of an economic recession?

- (a) Cut in tax rates accompanied by increase in interest rate
- (b) Increase in expenditure on public projects
- (c) Increase in tax rates accompanied by reduction of interest rate
- (d) Reduction of expenditure on public projects

## ANSWERS B



### EXPLANATION

- ④ Recession: Technical recession is a situation which is characterized by negative growth rate of GDP in two successive quarters. Some of the indicators of a recession include slowdown in the economy, fall in investments, fall in the output of the economy etc. If an economy experiences a recession and GDP falls, tax revenues fall because firms and households pay lower taxes when they earn less. It is prudent for government as well as central bank to follow Expansionary fiscal and monetary policy respectively to stimulate the economy, but keeping in mind the inflationary pressure.

- In all the given options- **Cut in tax rates accompanied by increase in interest rate**- Increase in interest rate results into credit crunch in the economy which is not desirable at the time of recession. **Increase in expenditure on public projects**- It is one of the tools to stimulate the economy at the time of recession, as it triggers the virtuous cycle of investment, which leads to increase in GDP (production of goods & services) and income in the economy and in turn increase in demand, and thus completes the virtuous cycle. **Increase in tax rates accompanied by reduction of interest rate**- Increase in tax rate is not desirable at the time of recession as income is falling in the economy. **Reduction of expenditure on public projects**- It is not desirable at the time of recession as it will lead to less government expenditure thereby not contributing much to output. **Hence (b) is the correct answer.**

## ANALYSIS:

**SOURCE :** Macroeconomics (NCERT Class 12)

### Please Note:

Most of the measures to control inflation come under Fiscal Policy or Monetary Policy, that is why to avoid confusion regarding its classification, some questions have been put separately under a topic called 'INFLATION'

**YEAR 2021**

### DEMAND-PULL INFLATION

**Q3. With reference to Indian economy, demand-pull inflation can be caused/increased by which of the following?**

1. Expansionary policies
2. Fiscal stimulus
3. Inflation-indexing wages
4. Higher purchasing power
5. Rising interest rates

Select the correct answer using the code given below.

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

## ANSWERS A

## EXPLANATION



- ⑤ Demand Pull Inflation: This type of inflation is caused by increase in demand and when the demand in the economy outgrows the supply in the economy. This kind of inflation can be described by “too much money chasing too few goods”. One of the reasons for demand pull inflation can be the increase in money supply, by way of increased salary, increased government expenditure etc.
- ⑥ Expansionary fiscal policy is defined as an increase in government expenditures and/or a decrease in taxes. Expansionary monetary policy increases the supply of money in an economy by making credit supply easily available. so expansionary policy can cause demand pull inflation in the economy. **Hence option 1 is correct.**
- ⑦ Fiscal stimulus- it is the part of expansionary policies of the government. It is used by the government to stimulate the economy by way of tax rebates, various incentives, stimulate private sector economic activities thus job creation, etc. So it can also lead to Demand Pull Inflation in the economy. **Hence option 2 is correct.**
- ⑧ Inflation-indexing wages, wages in the economy is linked to the inflation which means wage moves as inflation changes in the economy. Such indexing is provided to reduce the effect of inflation on wages. For example- a worker is getting 100 rs as a wage and inflation in the economy increases to 5%, so wage of the worker increases by 5% i.e. 105. So effective change in the wages is zero and it does not increase/decrease purchasing power. So, it cannot lead to demand pull inflation in the economy. **Hence option 3 is not correct.**
- ⑨ If purchasing power increases in the economy (for example previously a household has an income of 100 rs and out of that 50 rs is spending, if the spending capacity of this household increases to 60 rs then it can demand more goods/services in the economy.) and it can lead to demand pull inflation in the economy. **Hence option 4 is correct.**
- ⑩ Rising interest rates: It decreases the money supply in the economy. This may result in credit crunch in the economy. It is costlier to borrow money in the economy and it leads to decreased money supply. So, it cannot cause demand pull inflation in the economy. **Hence option 5 is not correct.**

## ANALYSIS:



### Scope for elimination

Option 5 is easy to eliminate as ‘rising interest rates’ is used as a measure to tackle inflation and cannot be a cause of inflation.

**SOURCE :** **This concept has not been dealt with in the NCERT Macroeconomics book. One can refer to Britannica, Investopedia or Wikipedia.**

YEAR 2022

**TACKLING INFLATION**

**Q4. In India, which one of the following is responsible for maintaining price stability by controlling inflation?**

- (a) Department of Consumer Affairs
- (b) Expenditure Management Commission
- (c) Financial Stability and Development Council
- (d) Reserve Bank of India

**ANSWERS** D**EXPLANATION**

- ① The Reserve Bank of India (RBI) is vested with the responsibility of conducting monetary policy. This responsibility is explicitly mandated under the Reserve Bank of India Act, 1934. The primary objective of monetary policy is to maintain price stability while keeping in mind the objective of growth. Price stability is a necessary precondition to sustainable growth.
- ② The MPC (Monetary Policy Committee) determines the policy interest rate required to achieve the inflation target. The Reserve Bank's Monetary Policy Department (MPD) assists the MPC in formulating the monetary policy. Views of key stakeholders in the economy, and analytical work of the Reserve Bank contribute to the process for arriving at the decision on the policy repo rate. The Financial Markets Operations Department (FMOD) of RBI operationalises the monetary policy, mainly through day-to-day liquidity management operations. The Financial Markets Committee (FMC) meets daily to review the liquidity conditions so as to ensure that the operating target of the weighted average call money rate (WACR) is aligned with the repo rate.
- ③ There are several direct and indirect instruments that are used by RBI for implementing monetary policy for price stability by keeping check on inflation such as Repo rate, Reverse repo, Open market operations, Liquidity adjustment facility, etc. For example, RBI does it by increasing the repo rate in the economy, if inflation is high. Increase in interest rate is believed to bring down the inflation level in the economy by curtailing the amount of economic activity whereas decreasing the interest rate increases the inflation level of the economy by increasing the economic activity. **Hence option (d) is the correct answer.**

**ANALYSIS:****Scope for elimination**

**Factual question. No scope for elimination.**

**SOURCE :** [https://www.rbi.org.in/scripts/FS\\_Overview.aspx?fn=2752](https://www.rbi.org.in/scripts/FS_Overview.aspx?fn=2752)

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# FISCAL POLICY AND GOVERNMENT BUDGETING

(13 Questions)

**YEAR 2017**

**GST**

## Q1. What is/are the most likely the advantages of implementing 'Goods and Services Tax (GST)'?

1. It will replace multiple taxes collected by multiple authorities and will thus create a single market in India.
2. It will drastically reduce the 'Current Account Deficit' of India and will enable it to increase its foreign exchange reserves.
3. It will enormously increase the growth and size of economy of India and will enable it to overtake China in the near future.

Select the correct answer using the code given below.

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

**ANSWERS A**

**EXPLANATION**



- GST is one indirect tax for the whole nation, which will make India one unified common market. **Hence, statement 1 is correct.**
- There is no information which says GST will drastically reduce the CAD of India. Neither it is true that it will enable India to take over China. Hence, **statements 2 and 3 are not correct.**

# Goods and Services Tax (GST)



## What is it?

GST is a **comprehensive, multi-stage, destination based single domestic tax** on the consumption of goods and services.

### More about GST



First discussed by the **Kelkar Task Force** in 2003



Introduced through **Constitution (101 Amendment) Act, 2016**



Levied at every value addition point.



**Components of GST-**  
Central GST (CGST),  
State GST (SGST),  
Union Territory GST  
(UTGST), and Integrated  
GST (IGST)\*



## Concerning Law

**Article 246A-** Parliament and Legislature of every State has power to make laws with respect to **goods and services tax imposed by the Union or by such State.**



## Some key taxes out of GST's ambit

Excise Duty on Alcohol

Stamp Duty and Property Tax

Electricity Duty

Basic Custom Duty

Petroleum crude, Diesel, Petrol, Aviation Turbine Fuel and Natural Gas

## GST

### State Taxes

- VAT/Sales Tax
- Entertainment Tax
- Luxury Tax
- Tax on Lottery/ Betting/ Gambling
- Octroi
- Purchase Tax

### Central Taxes

- Central Excise Duty
- Additional Excise Duty
- Additional Customs duty
- Special Additional duty of of Customs
- Service Tax
- Excise duty levied under Medicinal & Toiletries preparations

## ANALYSIS:



### Motivation

As the 101st Constitutional Amendment was in the news and GST was widely covered in the newspapers in 2017.



### Scope for elimination

The 3rd statement says that it will help India overtake China in near future. Firstly, Economy of China is significantly larger (i.e., almost 6 times of India's) than India. Secondly, one single reform system can never increase the growth of an economy enormously, that too in the near future. **Therefore, 3rd statement must be wrong.** In that case, the only possible option left is option (a).

- ◆ As the NCERT books predate the GST reforms, hence the concepts were not covered in any of the Essential Material.

**SOURCE :** <http://www.gstindia.com/about/>

## YEAR 2017

### REVENUE AND EXPENDITURE

#### Q2. Consider the following statements:

1. Tax revenue as a percent of GDP of India has steadily increased in the last decade.
2. Fiscal deficit as a percent of GDP of India has steadily increased in the last decade.

Which of the statements given above is/are correct?

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

## ANSWERS D



### EXPLANATION

- ◆ Service tax, personal income tax and corporation tax have been reduced in the recent past to boost aggregate demand, so as to protect the economy from global recession.
- ◆ Excise duty rates have been reduced in the recent past to boost aggregate demand, so as to protect the economy from global recession hence tax revenue as a percent of GDP of India has steadily not increased in the last decade. **Hence statement 1 is not correct.**
- ◆ Fiscal deficit as a percent of GDP of India has not steadily increased in the last decade. **Hence statement 2 is not correct.**

## ANALYSIS:

- Government's fiscal performance is always covered in detail in the Economic Surveys. Hence going through the survey of that year as thoroughly as possible is very important.



### Scope for elimination

The word 'steadily' and that too for a period of 10 years is the biggest clue. No measure of fiscal policy can perform that steadily over a period of 10 years.

**SOURCE :** <http://www.gstindia.com/about/>

## YEAR 2018 EQUALIZATION TAX

**Q3. With reference to India's decision to levy an equalization tax of 6% on online advertisement services offered by non-resident entities, which of the following statements is/are correct?**

- It is introduced as a part of the Income Tax Act.
- Non-resident entities that offer advertisement services in India can claim a tax credit in their home country under the "Double Taxation Avoidance Agreements".

Select the correct answer using the code given below:

- 1 only
- 2 only
- Both 1 and 2
- Neither 1 nor 2

## ANSWERS D

### EXPLANATION



- Statements 1 and 2 are not correct:** Equalisation Levy was introduced in India in 2016, with the intention of taxing the digital transactions i.e. the income accruing to foreign e-commerce companies from India. It is aimed at taxing business-to-business transactions.
- As the levy was not introduced as part of the Income Tax Act but as a separate legislation under the Finance Bill,** global firms that offer such services in India cannot claim a tax credit in their home country under the double taxation avoidance agreements

## ANALYSIS:



### Motivation

- ❖ The question is factual in nature and also a 2-statement question, hence one is supposed to have adequate knowledge to get the correct answer.
- ❖ Equalisation Levy or GAFA tax (Google, Apple, Facebook and Amazon) been in the news since it was introduced in 2016. Also it was reported that the Centre's revenue from equalisation levy in 2017-18 was over Rs 700 crore, much higher than the Rs 315 crore it garnered from the tax in the previous 10-month period.

### SOURCE : From the standard newspapers

<https://www.thehindu.com/business/Economy/tax-pane-wants-68-levy-on-most-digital-services/article8381870.ece>

<https://www.financialexpress.com/opinion/equalisation-levy-not-so-equal/257045/>

<https://economictimes.indiatimes.com/tech/internet/google-and-other-digital-service-providers-generate-over-rs-560-cr-in-equalisation-levy/articleshow/63933584.cms>

YEAR 2018

FRBM

### Q4. Consider the following statements:

1. The Fiscal Responsibility and Budget Management (FRBM) Review Committee Report has recommended a debt to GDP ratio of 60% for the general (combined) government by 2023, comprising 40% for the Central Government and 20% for the State Governments.
  2. The Central Government has domestic liabilities of 21% of GDP as compared to that of 49% of GDP of the State Governments.
  3. As per the Constitution of India, it is mandatory for a State to take the Central Government's consent for raising any loan if the former owes any outstanding liabilities to the latter. Which of the statements given above is/are correct?
- (a) 1 only  
 (b) 2 and 3 only  
 (c) 1 and 3 only  
 (d) 1, 2 and 3

ANSWERS C

## EXPLANATION



- The FRBM Review Committee (Chairperson: Mr. N.K. Singh) submitted its report in January 2017. The Report was made public in April 2017. The Committee suggested using debt as the primary target for fiscal policy. A debt to GDP ratio of 60% should be targeted with a 40% limit for the centre and 20% limit for the states. The targeted debt to GDP ratio should be achieved by 2023. **Hence, statement 1 is correct.**
- The Central Government has domestic liabilities of 46.1% of GDP (2016-17) and as a per cent of GDP, States' liabilities increased to 23.2 per cent at end-March 2016. **Hence, statement 2 is not correct.**
- The Constitution of India empowers State Governments to borrow only from domestic sources (Article 293(1)). Further, as long as a State has outstanding borrowings from the Central Government, it is required to obtain Central Government's prior approval before incurring debt (Article 293 (3)). **Hence, statement 3 is correct.**

## ANALYSIS:



### Scope for elimination

Although the question is factual in nature, statement 2 is easy to eliminate as the Centre is always at the helm of India's economy, its domestic liabilities have to be greater.



### Motivation

The Government had decided to no longer target revenue deficit which brought the NK Singh Panel recommendations into focus.

**SOURCE :** Almost all the standard newspapers covered the NK Singh report submission in 2017.

<https://www.thehindu.com/business/Economy/the-hindu-ex-plains-disciplining-government-debt/article18195556.ece>

<https://dea.gov.in/sites/default/files/Status%20Paper%20final%2028.3.18.pdf> (The main report)

**Q5. Consider the following items:**

1. Cereals grains hulled
2. Chicken eggs cooked
3. Fish processed and canned
4. Newspapers containing advertising material

Which of the above items is/are exempted under GST (Goods and Services Tax)?

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

**ANSWERS** **C****EXPLANATION**

- **The Goods and Services Tax (GST) in India was implemented on July 1, 2017.** While cereals, eggs, etc are exempted from GST, the question mentions 'cooked' and 'processed and canned.' Hence due to attention needs to be paid. As an item is canned, it is surely available as a product in market and **thus surely attracts GST.** Thus using the elimination technique, we can get rid of option B and D. At the time of the exam, there was a lot of confusion between A and C. But in its official key UPSC confirmed 'C' as the answer.
- Although with reference to newspapers containing advertisements, government had recently published a clarification that these will be taxed under GST, but the answer given was C. The government had clarified that the newspapers would have to pay 5 per cent GST on the revenue earned from space selling but can avail of input tax credit for the tax paid by the advertisement agency on commission received.

**ANALYSIS:**

- **This question was asked** because the GST was prevalently in the news owing to its coming into force from July 1, 2017.

**Scope for elimination**

No scope. It was difficult to memorise the list of GST-exempted item also the elimination technique could eliminate only two options.

**SOURCE :** **Although one cannot memorize the list of items, just for the reference, the following link can be used**

<http://www.msmedinewdelhi.gov.in-/PDF2017-18/GST>List%20of%20Exempted%20Goods%20under%20GST%20with%20HSN%20Code.pdf>

**YEAR 2018****EXTERNAL DEBT****Q6. Consider the following statements:**

1. Most of India's external debt is owed by governmental entities.
2. All of India's external debt is denominated in US dollars.

Which of the statements given above is/are correct?

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

**ANSWERS D****EXPLANATION**

- ① As per the Government report on External debt by December 2018-Commercial borrowings are the largest component of external debt with a share of 37.1 percent, followed by NRI deposits (23.9 percent) and short term trade credit (19.9 percent). **Hence statement 1 is not correct.**
- ② US dollar denominated debt continued to be the largest component of India's external debt with a share of 45.9 percent at end December 2018, followed by the Indian rupee (24.8 percent), SDR (5.1 percent), yen (4.9 percent) and euro(3.1 percent). **Hence, Statement 2 is not correct.**

**ANALYSIS:**

- ③ Always in the news, sometimes covered in great detail in the Economic Surveys.

**Scope for elimination**

From our limited understanding we can infer that all of India's debt will not be denominated in one currency. From that we can eliminate statement 2.

**SOURCE :** <https://dea.gov.in/sites/default/files/India%27s%20External%20Debt%20as%20at%20the%20end%20December%202018.pdf>

**Table 2.5: Outstanding Liabilities of the Central Government**

	(₹ crore)									
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	RE	BE
1. Internal liabilities*	5484848	6045007	6691709	7207802	7985087	8813554	9920117	11690546	13158790	14749176
(a) Internal debt	4240767	4738291	5304835	5741709	6401275	7074941	8020490	9908380	11576414	13170919
i) Market borrowings	3441641	3891734	4298784	4649487	5068408	5500141	5986127	7135144	8069916	9197251
ii) Others	799126	846557	1006051	1092222	1332867	1574800	2034363	2773235	3506498	3973668
(b) Other Internal liabilities	1244081	1306716	1386874	1466093	1583812	1738613	1899627	1782166	1582377	1578257
2. External debt(outstanding)*	184581	197514	210262	228258	250090	269961	299250	388472	429403	469035
3. Total outstanding liabilities (1+2)	5669429	6242521	6901971	7436060	8235177	9083515	10219367	12079018	13588193	15218210
4. Amount due from Pakistan on account of share of pre-partition debt	300	300	300	300	300	300	300	300	300	300
5. Net liabilities (3-4)	5669129	6242221	6901671	7435760	8234877	9083215	10219067	12078718	13587893	15217910
Memorandum items										
(a) External debt@	374483	366384	406589	408069	445289	474817	544782	614447	658994	703037
(b) Total outstanding liabilities(adjusted)	5859331	6411391	7098298	7615871	8430376	9288371	10464899	12304993	13817784	15452213
(c) Internal liabilities (Non-RBI)**	4984590	5540570	6139580	6651613	7305947	8021958	8910702	10442900	11778473	13310010
(d) Outstanding liabilities (Non-RBI)**	5359073	5906761	6546166	7059682	7751236	8496775	9455484	11057347	12437467	14013047
(e) Contingent liabilities of Central Government	249503	294700	343762	366189	380173	n.a.	n.a.	n.a.	n.a.	n.a.
(f) Total assets	2253627	2555131	2872566	3165559	3563364	4073804	4625938	4901756	5495874	6137954

## Economic Survey 2022-23 Statistical Appendix

**YEAR 2020****NON-FINANCIAL DEBT**

**Q7. In the context of the Indian economy, non-financial debt includes which of the following?**

1. Housing loans owed by households
2. Amounts outstanding on credit cards
3. Treasury bills

Select the correct answer using the code given below:

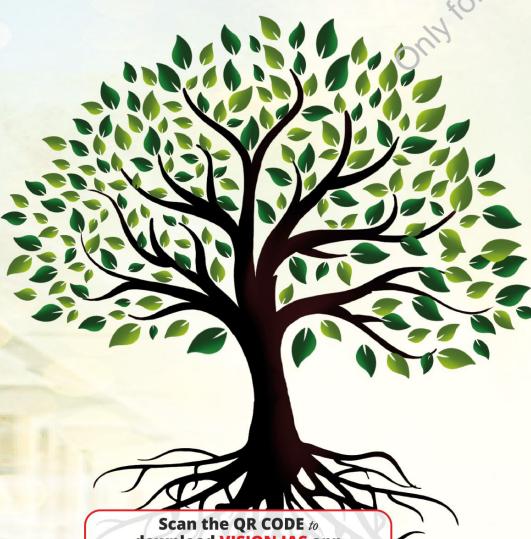
- (a) 1 only
- (b) 1 and 2 only
- (c) 3 only
- (d) 1, 2 and 3

**ANSWERS D****EXPLANATION**

- Non-financial debt consists of credit instruments issued by governmental entities, households and businesses that are not included in the financial sector. (The financial sector comprises commercial banks, insurance companies, nonbanking financial companies, cooperatives, pension funds, mutual funds and other smaller financial entities). Non-financial debt includes household or commercial loans, Treasury bills and credit card balances. They share most of the same characteristics with financial debt, except the issuers are non-financial. **Hence option (d) is the correct answer**

**ANALYSIS:**

**Source/How to Cover? - <https://www.sapling.com/6637532/nonfinancial-debt>**



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# फाउंडेशन कोर्स

## सामान्य अध्ययन

### प्रारंभिक एवं मुख्य परीक्षा 2025

इनोवेटिव क्लासरूम प्रोग्राम

- प्रारंभिक परीक्षा, मुख्य परीक्षा और निबंध के लिए महत्वपूर्ण सभी टापिक का विस्तृत कवरेज
- मौलिक अवधारणाओं की समझ के विकास एवं विश्लेषणालयक सामग्री निर्माण पर विशेष ध्यान
- एनीमेशन, पॉवर प्याइंट, वीडियो जैसी तकनीकी सुविधाओं का प्रयोग
- अंतर - विषयक समझ विकसित करने का प्रयास
- योजनाबद्द तैयारी हेतु करें ऑरिएंटेड अप्रोच
- नियमित क्लास टेस्ट एवं व्यक्तिगत मूल्यांकन

- सीसीएट कक्षाएं
- PT 365 कक्षाएं
- MAINS 365 कक्षाएं
- PT टेस्ट सीरीज
- मुख्य परीक्षा टेस्ट सीरीज
- निबंध टेस्ट सीरीज
- सीसीट टेस्ट सीरीज
- निबंध लेखन - शैली की कक्षाएं
- करेट अफेयर्स मैगजीन

नोट: ऑनलाइन छात्र हमारे पाठ्यक्रम की लाइव वीडियो कक्षाएं आपने घर पर ऑनलाइन प्लेटफॉर्म पर देख सकते हैं। छात्र लाइव टैट विकल्प के माध्यम से कक्षा के दोपहर अपने सदेह और विषय संबंधी प्रश्न पूछ सकते हैं। वे अपने सदेह और प्रश्न नोट भी कर सकते हैं और दिल्ली केंद्र में हमारे कक्षा सलाहकार को बता सकते हैं और हम फोन/मेल के माध्यम से प्रश्नों का उत्तर देंगे।

DELHI: 5 मार्च, 1 PM   20 फरवरी, 1 PM	Bhopal: 11 जून
LUCKNOW: 5 जून	JODHPUR: 7 मार्च
JAIPUR: 4 मार्च	

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YEAR 2021

**EFFECTS OF DEFICIT****Q8. Which one of the following is likely to be the most inflationary in its effects?**

- (a) Repayment of public debt
- (b) Borrowing from the public to finance a budget deficit
- (c) Borrowing from the banks to finance a budget deficit
- (d) Creation of new money to finance a budget deficit

**ANSWERS D****EXPLANATION**

- ⑤ Borrowing from public and banks will lead to a decrease in the money supply in market as in both the options money in hand is reduced for public and money to lend is reduced for banks. Creation of new money to finance a budget deficit will have more inflationary effect than repayment of debt, as it will lead to an increase in total money supply in the market.(as new money is being created). **Hence option (d) is the correct answer.**
- ⑥ During last fiscal year, option of monetization of deficit was explored but idea was dropped due to likely inflationary pressure.

**ANALYSIS:**

- ⑦ **The question featured in the CSE that year as** monetisation of deficit has been recurring in news in the context of Covid19.

**Source: Standard newspapers**

YEAR 2021

**DEBTS AND SAVINGS****Q9. With reference to the Indian economy, consider the following statements :**

1. A share of the household financial savings goes towards government borrowings.
2. Dated securities issued at market-related rates in auctions form a large component of internal debt.

Which of the above statements is/are correct ?

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

**ANSWERS C**

## EXPLANATION



- Household financial savings refer to currency, bank deposits, debt securities, mutual funds, pension funds, insurance, and investments in small savings schemes by households. The net household financial savings was 11.5 percent of GNDI (gross national disposal income) in 2020-21. A part of this financial saving goes toward government borrowing. As government borrows through the issue of government securities called G-secs and Treasury Bills. It borrows from the market, small savings funds, state provident funds, external assistance and short-term borrowings. Any adverse movement in the household savings will have a significant bearing on banks, insurance companies and mutual/provident funds, who, in turn, are key investors in government securities. **Hence statement 1 is correct.**
- The Central Government Debt includes all liabilities of Central Government contracted against the Consolidated Fund of India (defined as Public Debt). Public debt is further classified into internal and external debt. Internal debt consists of marketable debt and non-marketable debt. Marketable debt comprises of Government dated securities and Treasury Bills, issued through auctions. Non-marketable debt comprises of intermediate
- Treasury Bills (14 days ITBs) issued to State Governments/UTs as well as select Central Banks, special securities issued against small savings, special securities issued to public sector banks/EXIM Bank, securities issued to international financial institutions, and compensation and other bonds.
- All marketable securities i.e Dated securities and Treasury bills are issued through auctions as per the schedule notified through half yearly/quarterly auction calendars. As at end-March 2021, outstanding amounts under dated securities stood at 71.7 lakh crore (36.3 per cent of GDP) and accounted for 68.1 per cent of the total Public Debt. **Hence statement 2 is correct.**

## ANALYSIS:

- Internal debt & Household financial savings are important topics and often are in the news.



### Scope for elimination

Not much scope is there, especially because it is a 2-statement question

**SOURCE :** <https://dea.gov.in/sites/default/files/Final%20Status%20paper%202020-21.pdf>

**Page 8**

<https://www.financialexpress.com/opinion/how-critical-are-household-savings-for-government-borrowing/1542170/>  
<https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/0RBI-AR2021226AD1119FF6674A13865C988DF70B4E1A.PDF>

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**YEAR 2021****CAPITAL EXPENDITURE**

**Q10. With reference to the expenditure made by an organisation or a company, which of the following statements is/are correct?**

1. Acquiring new technology is capital expenditure.
2. Debt financing is considered capital expenditure, while equity financing is considered revenue expenditure.

Select the correct answer using the code given below :

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

**ANSWERS A****EXPLANATION**

- ◆ Capital expenditures (CapEx) are funds used by a company to acquire, upgrade, and maintain physical assets such as property, plants, buildings, technology, or equipment. CapEx is often used to undertake new projects or investments by a company. Costs to upgrade or purchase software, investing in new technology and computer equipment, are considered part of Capital expenditure. As they are often employed to improve operational efficiency, increase revenue in the long term, or make improvements to the existing assets of a company. **Hence statement 1 is correct.**
- ◆ When a company borrows money to be paid back at a future date with interest it is known as debt financing. It occurs when a firm sells fixed income products, such as bonds, bills, or notes. It could be in the form of a secured as well as an unsecured loan. Debt financing is the opposite of equity financing, which entails issuing stock to raise money. For example, reliance can choose debt financing, which entails selling fixed income products, such as bonds, bills, or notes, to investors to obtain the capital needed to grow and expand its operations. Both debt financing and equity financing are considered as part of capital receipts for the company, as capital receipts are receipts that create liabilities or reduce financial assets. Funds from these would be used by company for capital expenditure such as to grow or expand its operations. **Hence statement 2 is not correct.**

**ANALYSIS:****Please Note:**

Capital & revenue expenditure fundamental topic. Although we study that from the government budgeting point of view, this question was from the perspective of a firm. This question is normally covered in the Accountancy.

**SOURCE :** <https://www.investopedia.com/terms/d/debtfinancing.asp#:~:text=Debt%20financing%20occurs%20when%20a%20company%20raises%20money%20by%20selling,bonds%2C%20bills%2C%20or%20notes.>

<https://www.business-standard.com/about/what-is-capital-receipts#:~:text=Capital%20receipts%20are%20receipts%20that,crucial%20part%20of%20capital%20receipts.>

<https://www.investopedia.com/ask/answers/112814/what-are-some-examples-main-types-capital-expenditures-capex.asp>

## YEAR 2022

### INDIRECT TRANSFER

**Q11. Which one of the following situations best reflects "Indirect Transfers" often talked about in media recently with reference to India ?**

- (a) An Indian company investing in a foreign enterprise and paying taxes to the foreign country on the profits arising out of its investment
- (b) A foreign company investing in India and paying taxes to the country of its base on the profits arising out of its investment
- (c) An Indian company purchases tangible assets in a foreign country and sells such assets after their value increases and transfers the proceeds to India
- (d) A foreign company transfers shares and such shares derive their substantial value from assets located in India

### ANSWERS D

### EXPLANATION



- ① Indirect transfers refer to situations where when foreign entities own shares or assets in India, the shares of such foreign entities are transferred instead of a direct transfer of the underlying assets in India. **Hence option (d) is the correct answer.**
- ② The origin of retrospective taxation can be traced back to 2012, When Vodafone Ltd. was retrospectively taxed by the Indian tax authorities for a 2007 deal. The 2012 act had amended the IT act to impose tax liability on the income earned from the sale of shares of a foreign company on a retrospective basis (i.e., also applicable to the transactions done before May 28, 2012).
- ③ The amendments made by the 2012 Act clarified that if a company is registered or incorporated outside India, its shares will be deemed to be or have always been situated in India if they derive their value substantially from the assets located in India. As a result, the persons who sold such shares of foreign companies before the enactment of the Act (i.e., May 28, 2012) also became liable to pay tax on the income earned from such sale.
- ④ The Taxation Laws (Amendment) Act, 2021 nullifies the 'retrospective taxation' that was introduced with the Finance Act of 2012. It nullifies this tax liability imposed on such persons provided they fulfil certain conditions.

- ❖ These conditions are:
  - If the person has filed an appeal or petition in this regard, it must be withdrawn or the person must submit an undertaking to withdraw it,
  - if the person has initiated or given notice for any arbitration, conciliation, or mediation proceedings in this regard, the notices or claims under such proceedings must be withdrawn or the person must submit an undertaking to withdraw them,
  - the person must submit an undertaking to waive the right to seek or pursue any remedy or claim in this regard, which may otherwise be available under any law in force or any bilateral agreement, and
  - other conditions, as may be prescribed.
- ❖ The Act ensures that there cannot exist any future demand by the government for the collection of taxes on the basis of an amendment with retrospective effect. This Act makes the tax regime of India more predictable, increasing the scope of foreign investment into the country as it clarifies the stance of Indian Government on imposition of retrospective taxation.

## ANALYSIS:

- ❖ It was in the news because of the Taxation Laws (Amendment) Act, 2021 which nullified the retrospective taxation related to indirect transfers that was introduced with the Finance Act of 2012.

**SOURCE :** <https://prsindia.org/billtrack/the-taxation-laws-amendment-bill-2021>

<https://economictimes.indiatimes.com/industry/indl-goods/svs/cement/adani-holcim-deal-and-the-legacy-vodafone-tax-issue/articleshow/91619826.cms?from=mdr>  
<https://www2.deloitte.com/content/dam/Deloitte/in/Documents/tax/Global%20Business%20Tax%20Alert/in-tax-gbt-alert-indirect-transfer-provisions-to-apply-prospectively-from-28-may-2012-noexp.pdf>  
[https://www.nishithdesai.com/Content/document/pdf/Articles/171023\\_A\\_Indirect-Transfer-Taxation-in-India.pdf](https://www.nishithdesai.com/Content/document/pdf/Articles/171023_A_Indirect-Transfer-Taxation-in-India.pdf)

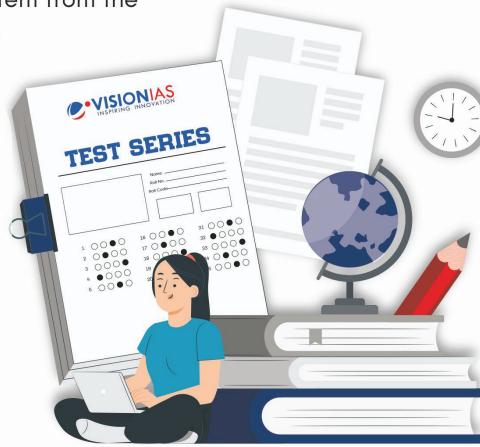
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**हिन्दी माध्यम 2025: 3 मार्च**



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## YEAR 2023 FINANCE COMMISSION

### Q12. Consider the following:

1. Demographic performance
2. Forest and ecology
3. Governance reforms
4. Stable government
5. Tax and fiscal efforts

For the horizontal tax devolution, the Fifteenth Finance Commission used how many of the above as criteria other than population area and income distance?

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

### ANSWERS B



### EXPLANATION

- Based on principles of need, equity and performance, overall devolution formula is as follows.
- Criteria Weight(%)**
  - Population - 15.0
  - Area - 15.0
  - **Forest & ecology - 10**
  - Income distance - 45
  - **Tax & fiscal efforts - 2.5**
  - **Demographic performance - 12.5**
- On horizontal devolution, while XVFC agreed that the Census 2011 population data better represents the present need of States, to be fair to, as well as reward, the States which have done better on the demographic front, XVFC has assigned a 12.5 per cent weight to the demographic performance criterion. XVFC has reintroduced tax effort criterion to reward fiscal performance. **Hence option (b) is the correct answer.**

### ANALYSIS:

- The fifteenth finance commission submitted its report in November 2020. Hence it is important for the aspirants to go through the important recommendations and the criteria that it sets for fund devolution between the states.

**SOURCE : PIB (instead of reading the entire report)**

<https://pib.gov.in/PressReleasePage.aspx?PRID=1693868>

## YEAR 2023 INTANGIBLE INVESTMENTS

### Q13. Consider the investments in the following assets:

1. Brand recognition
2. Inventory
3. Intellectual property
4. Mailing list of clients

How many of the above are considered intangible investments?

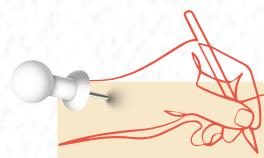
- (a) Only one
- (b) Only two
- (c) Only three
- (d) All four

## ANSWERS C

### EXPLANATION



- An intangible asset is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.
- Enterprises frequently expend resources, or incur liabilities, on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licences, intellectual property, **market knowledge and trademarks (including brand names and publishing titles)**.
- Common examples of items encompassed by these broad headings are computer software, **patents, copyrights, motion picture films, customer lists, mortgage servicing rights, fishing licences, import quotas, franchises, customer or supplier relationships, customer loyalty, market share and marketing rights.**
- Goodwill is another example of an item of intangible nature which either arises on acquisition or is internally generated. Tangible assets are typically physical assets or property owned by a company, such as equipment, buildings, and inventory. **Hence only option 2 is not correct.**



## Please Note:

Normally this topic is covered under ACCOUNTANCY.

- This is a question that is covered in Accountancy and not normally studies under economics, but if an aspirant understands the meaning of the word tangible (things that can be touched and felt), then what is intangible is not hard to guess. The word inventory has been defined in Chapter 2 of the Macroeconomics textbook (meant for Class 12).
- The following excerpt (screenshot) is from the same chapter

In economics, the stock of unsold finished goods, or semi-finished goods, or raw materials which a firm carries from one year to the next is called **inventory**. Inventory is a stock variable. It may have a value at the beginning of the year; it may have a higher value at the end of the year. In such a case

Excerpt from NCERT

- Thus, it is not a hard logic to apply. The question should not thus be regarded as difficult.
- It is difficult to pinpoint one reason as to why this question came in the CSE 2023, but UPSC has been testing and may test in the future want to test the curiosity of aspirant in knowing about the basic functioning of a firm or company.

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# THE PLANET VISION

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With the belief, that individual efforts and awareness are the key to a sustainable future, the magazine seeks to inspire and educate people to **develop a deeper understanding and appreciation for the environment, nature & planet.**

## Objectives of 'The Planet Vision'



**Sensitise the young generation:** Highlighting pressing environmental issues and their multifaceted impacts.



**Inspire Action and Promote Sustainable Lifestyle:** Inspiring stories and case studies to motivate readers to make environmentally conscious choices.



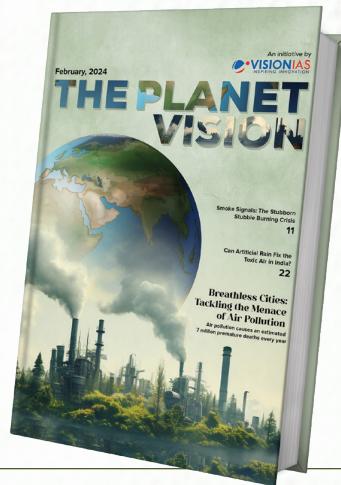
**Bridge Environmental Science and Public Understanding:** Presenting complex scientific concepts in a simple and interactive manner.



**Showcase Solutions:** Spotlight innovative technologies, projects, and initiatives that offer solutions to environmental challenges.



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## Who is the magazine for?

The Magazine is designed for students, eco-conscious individuals, educators, environmentalists, and anyone who cares about the health of our planet.

## Key elements of the 'The Planet Vision'



**Cover Stories:** Thought-provoking articles about a critical ongoing environmental issue, along with the mitigation strategies adopted at the national and international levels.



**Briefing and Developments:** Stay informed about the latest environmental news, trends, and solutions.



**Protect and Preserve:** Inspirational stories of local conservation efforts.



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-Albert Einstein



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## EXTERNAL SECTOR

**(28 Questions)**

**YEAR 2017**

**GLOBAL INFRASTRUCTURE FACILITY**

**Q1. The Global Infrastructure Facility is a/an**

- (a) ASEAN initiative to upgrade infrastructure in Asia and financed by credit from the Asian Development Bank.
- (b) World Bank collaboration that facilitates the preparation and structuring of complex infrastructure Public-Private Partnership (PPPs) to enable mobilization of private sector and institutional investor capital.
- (c) Collaboration among the major banks of the world working with the OECD and infrastructure projects that have the potential to mobilize private investment.
- (d) UNCTAD funded initiative that seeks to finance and facilitate infrastructure development in the World.

**ANSWERS** **B**



**EXPLANATION**

- The Global Infrastructure Facility (GIF) supports Governments in bringing well-structured and bankable infrastructure projects to market. GIF's project support can cover the spectrum of design, preparation, structuring and transaction implementation activities, drawing on the combined expertise of the GIF's Technical and Advisory Partners and focusing on structures that are able to attract a wide range of private investors.
- Along with the World Bank Group, Canada is co-chair of the GIF's Governing Council. **Hence option (b) is the correct answer.**

**ANALYSIS:**

- This topic and similar topics related to lesser-known organisations are not covered in any of the Essential Material, but often appear in the newspapers. Students can identify key global themes like global finance, climate change etc. which are relevant for UPSC and be conscious of bodies and news connected with them.

**SOURCE :** <http://www.thehindu.com/business/Economy/gif-launched-to-help-india-bridge-infra-deficit/article6486440.ece>

- It was in the news then, and an expected theme considering the focus on infrastructure and its financing in India.

### GIF launched, to help India bridge infra deficit

October 10, 2014 02:56 am | Updated May 23, 2016 04:38 pm IST - Washington:

PUJA MEHRA

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World Bank President Jim Yong Kim, while launching the Global Infrastructure Facility (GIF) here on Thursday, said the potential economic impact of the Ebola epidemic could be as high as \$32.6 billion, if not quickly contained.

**YEAR 2017****BTIA**

**Q2. Broad-based Trade and Investment Agreement (BTIA)' is sometimes seen in the news in the context of negotiations held between India and**

- (a) European Union
- (b) Gulf Cooperation Council
- (c) Organization for Economic Cooperation and Development
- (d) Shanghai Cooperation Organization

**ANSWERS****A****EXPLANATION**

- ❖ The FTA talks with EU have been deadlocked since 2013 after 16 rounds of negotiations. Last year EU raised its concern over what it called India's "unilateral termination" of existing Bilateral Investment Treaties (BITs) with "a significant number of" EU-member countries. **Hence option (a) is the correct answer.**

**ANALYSIS:**

**SOURCE : The FTA negotiations with EU has remained continuously in news.**

<http://pib.nic.in/newsite/PrintRelease.aspx?relid=160131>

<http://www.thehindu.com/business/Industry/India-EU-aim-to-break-Free-Trade-Agreement-impasse/article14378438.ece>

**YEAR 2017****WTO**

**Q3. Consider the following statements:**

1. India has ratified to Trade Facilitation Agreement (TFA) of WTO.
2. TFA is a part of WTO's Bali Ministerial Package of 2013.
3. TFA came into force in January 2016.

Which of the statements given above is/are correct?

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

**ANSWERS****A**

## EXPLANATION



- ⑤ The Trade Facilitation Agreement (TFA) is the WTO's first-ever multilateral accord that aims to simplify customs regulations for the cross-border movement of goods. It was outcome of WTO's 9th Bali (Indonesia) ministerial package of 2013. **Hence statement 2 is correct.**
- ⑥ India ratified it in April 2016. The TFA aims to expedite the movement and clearance of goods. The TFA was handed over to the WTO Director-General by India. The TFA was supposed to enter into force once two-thirds of the WTO members had complied with the domestic rectification process. **Hence statement 1 is correct.**
- ⑦ It came into force in February 2017. **Hence statement 3 is not correct. Hence option (a) is the correct answer.**

## ANALYSIS:

- ⑧ India and WTO has always have been the favourite topic of the UPSC. Time and again, UPSC has asked questions from this area.

**SOURCE :** <http://pib.nic.in/newsite/PrintRelease.aspx?relid=159992>

<http://www.thehindu.com/business/Economy/india-tables-legally-vetted-proposal-on-global-services-pact-at-wto/article17355734.ece>



## Motivation

- ⑨ TFA has remained regularly in news for last 3 years.

## YEAR 2017

## DOMESTIC CONTENT REQUIREMENT

**Q4. The term 'Domestic Content Requirement' is sometimes seen in the news with reference to**

- (a) Developing solar power production in our country
- (b) Granting licenses to foreign T.V. channels in our country
- (c) Exporting our food products to other countries
- (d) Permitting foreign educational institutions to set up their campuses in our country

## ANSWERS

A

## EXPLANATION



- ⑩ 'Domestic Content Requirement' (DCR), has often been in the news, and is related to development of solar power production.
- ⑪ Domestic Content Requirements (DCR) are generally promulgated for protecting infant industries, especially in developing countries, until they can compete on the international market. It does not lead to lowering of prices of these commodities.
- ⑫ The **World Trade Organization (WTO)** had ruled against India's domestic content policy for solar cells and modules; India appealed the ruling in a bid to keep DCR rules in place for government procurement. The case against India was originally filed in 2013, following the announcement of DCR in JNNSM Phase II policy and after India decided to file an anti-dumping case against the U.S., China, Malaysia and Taiwan.

## ANALYSIS:

- The WTO ruling against India was in the news then

**SOURCE :** <http://economictimes.indiatimes.com/industry/energy/power/removal-of-domestic-content-requirement-in-solar-not-a-big-blow/articleshow/54412591.cms>

**YEAR 2017**

## INTELLECTUAL PROPERTY RIGHTS

**Q5. With reference to the 'National Intellectual Property Rights Policy', consider the following statements:**

- It reiterates India's commitment to the Doha Development Agenda and the TRIPS Agreement.
- Department of Industrial Policy and Promotion is the nodal agency for regulating intellectual property rights in India.

Which of the above statements is/are correct?

- 1 only
- 2 only
- Both 1 and 2
- Neither 1 nor 2

**ANSWERS** C

## EXPLANATION



- The Union Cabinet approved the National Intellectual Property Rights (IPR) Policy in 2016 that will lay the future roadmap for intellectual property in India. This policy shall weave in the strengths of the Government, research and development organizations, educational institutions, corporate entities including MSMEs, start-ups and other stakeholders in the creation of an innovation-conducive environment, which stimulates creativity and innovation across sectors, as also facilitates a stable, transparent and service-oriented IPR administration in the country.
- The Policy recognizes that India has a well-established TRIPS-compliant legislative, administrative and judicial framework to safeguard IPRs, which meets its international obligations while utilizing the flexibilities provided in the international regime to address its developmental concerns. It reiterates India's commitment to the Doha Development Agenda and the TRIPS agreement. **Hence statement 1 is correct.**
- These objectives are sought to be achieved through detailed action points. The action by different Ministries/ Departments shall be monitored by DIPP which shall be the nodal department to coordinate, guide and oversee implementation and future development of IPRs in India. **Hence statement 2 is correct.**

## ANALYSIS:

**SOURCE :** <http://pib.nic.in/newsite/PrintRelease.aspx?relid=138891>

## YEAR 2017 ASIA-PACIFIC MINISTERIAL CONFERENCE

**Q6. With reference to 'Asia Pacific Ministerial Conference on Housing and Urban Development (APMCHUD)', consider the following statements:**

1. The first APMCHUD was held in India in 2006 on the theme 'Emerging Urban Forms – Policy Responses and Governance Structure'.
2. India hosts all the Annual Ministerial Conferences in partnership with ADB, APEC and ASEAN.

Which of the statements given above is/are correct?

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

### ANSWERS D



### EXPLANATION

- ① The 1st APMCHUD was held in New Delhi, India from 13th-16th December, 2006 on the theme of 'A Vision for Sustainable Urbanization in the Asia-Pacific by 2020'. 'Emerging Urban Forms – Policy Responses and Governance Structure' was the theme of the 6th Asia Pacific Conference on Housing and Urban Development held in December 2016. **Hence statement 1 is not correct.**
- ② 2nd APMCHUD was held in Tehran, Islamic Republic of Iran, 3rd in Solo, Republic of Indonesia, 4th in Amman, Hashemite Kingdom of Jordan and 5th in Seoul, Republic of Korea. **Hence statement 2 is not correct.**
- ③ Further, APMCHUD is a consultative mechanism on the promotion of sustainable development of Housing and Urban Development in the Asia-Pacific Region established under the aegis and support of UN-Habitat.

### ANALYSIS:



### Scope for elimination

There is no scope for elimination though statement 2 sounds slightly unbelievable as one country cannot host all the annual conferences, but it still carries certain amount of risk. Such questions can be easily left unanswered if one has no clue.

**SOURCE :** [http://mhupa.gov.in/writereaddata/6thAsia\\_Pacific\\_Vigyan\\_bhawan.pdf](http://mhupa.gov.in/writereaddata/6thAsia_Pacific_Vigyan_bhawan.pdf)

**Q7. Which of the following gives 'Global Gender Gap Index' ranking to the countries of the world?**

- (a) World Economic Forum
- (b) UN Human Rights Council
- (c) UN Women
- (d) World Health Organization

### ANSWERS A

## EXPLANATION



- Global Gender Gap Index is released by World Economic Forum. As per the Global Gender Gap Report 2016, India ranks at 87th in respect of Global Gender Gap Index (GGI) among 144 countries of the World. As per the GGR, India climbed 21 spots to rank 87th in 2016, which is an improvement from being ranked at 108th in 2015.

## ANALYSIS:

**SOURCE :** <http://pib.nic.in/newsite/PrintRelease.aspx?relid=155103>



## Motivation

- India's performance in Global Gender Gap Report has always been discussed and also it was one of the important global indicators alongside HDI, MPI Index, Ease of doing business (EoDB) etc.

## Additional Information

### ORGANISATION

### REPORT

WEF (World Economic Forum)	1. Global Competitiveness Report (GCR) 2. Global Gender Gap Report 3. Travel and Tourism Competitiveness Report 4. Global Information Technology Report	
UNCTAD (United Nations Conference on Trade and Development)	1. World Investment Report	
IMF (International Monetary Fund)	1. World Economic Outlook 2. Global Financial Stability Report 3. Fiscal Monitor	
Financial Action Task Force	1. Global Money Laundering Report	
WIPO (World Intellectual Property Organization)	1. World Intellectual Property Report (WIPR)	
World Bank	1. Ease of Doing Business 2. World Development Report	
International Labour Organisation (ILO)	1. World Social Protection Report Global 2. Wage Report 3. World Employment and Social Outlook 4. World of Work Report	
United Nations Development Programme (UNDP)	1. Human Development Report	

**YEAR 2017 WTO (GOODS ACT)**

**Q8. India enacted the Geographical Indications of Goods (Registration and Protection) Act, 1999 in order to comply with the obligations to**

- (a) ILO
- (b) IMF
- (c) UNCTAD
- (d) WTO

**ANSWERS**

**D**

**EXPLANATION**



- Geographical Indications of Goods are defined as that aspect of industrial property which refer to the geographical indication referring to a country or to a place situated therein as being the country or place of origin of that product. **Typically, such a name conveys an assurance of quality and distinctiveness which is essentially attributable to the fact of its origin in that defined geographical locality, region or country.** Under Articles 1 (2) and 10 of the Paris Convention for the Protection of Industrial Property, geographical indications are covered as an element of IPRs. They are also covered under Articles 22 to 24 of the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement, which was part of the Agreements concluding the Uruguay Round of GATT negotiations. India, as a member of the World Trade Organization (WTO), enacted the Geographical Indications of Goods (Registration & Protection)Act, 1999 has come into force with effect from 15th September 2003. **Hence option (d) is the correct answer.**

**ANALYSIS:**

- GI tagging of Indian goods has always been in the news. Though GI tagged products are covered under Indian Art and Culture, IPR comes under Economics. This question is very basic in nature and it is a recurring theme in the newspapers.
- Please find below an excerpt from The Hindu**

### **Path to introduction**

India implemented a sui generis legislation on GI in 1999, a prime reason being its obligation to have a law on GI as a member of the World Trade Organisation-Trade-Related Aspects of Intellectual Property Rights (WTO-TRIPS).

**27 November, 2017**

The politics behind the incorporation of GI in TRIPS is revealing. The United States was not a supporter of GI, and it was lobbying by the European Union (EU) that ensured its inclusion in TRIPS. The EU already had its domestic mechanisms in place to protect GIs and was keen to protect its products in international markets.

**Q9. With reference to Asian Infrastructure Investment Bank (AIIB), consider the following statements:**

1. AIIB has more than 80 member nations.
2. India is the largest shareholder in AIIB.
3. AIIB does not have any members from outside Asia.

Which of the statements given above is/are correct?

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

**ANSWERS A**

**EXPLANATION**



- **Statement 1 is correct and statement 3 is not correct:** It is a multilateral development bank with a mission to improve social and economic outcomes in Asia and beyond. Currently it has 97 approved members with India as a founding member.
- **Statement 2 is not correct:** India is the second largest shareholder in AIIB with 7.5% voting shares while China holds 26.06% voting shares being the largest.

**ANALYSIS:**

- The reason why this question was asked was recently third annual meeting of AIIB was held in Mumbai where Asian Infrastructure Forum was launched.
- Also, it is important to go through the basic information related to globally important financial organizations like the World Bank, the IMF, the WTO, the ADB (Asian Development Bank), the New Development Bank (backed by BRICS), the AIIB, especially those organizations of which India is a member.
- **Scope for elimination:** The first statement and the third statement contradict each other as if AIIB has 80 members then they all cannot be from outside Asia (There are only 48 countries in Asia). Thus, 1 and 3 cannot be both correct. Logically, option (C) and option (D) can be eliminated. Another logic can be applied (but it has element of risk) which is there are two Asian powers bigger than India which are China and Japan. Thus, India cannot be believed to be the largest shareholder. Hence option (B) can be eliminated. We are left with only one option that is option (A) and it is the correct answer.

**SOURCE :** <https://www.aiib.org/en/about-aiib/index.html>

**YEAR 2019 REPORTS**

**Q10. Which one of the following is not a sub-index of the World Bank's 'Ease of Doing Business Index'?**

- (a) Maintenance of law and order
- (b) Paying taxes
- (c) Registering property
- (d) Dealing with construction permits

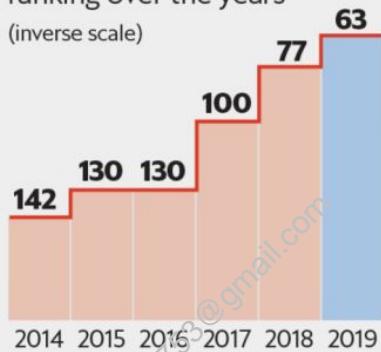
**ANSWERS A**

**EXPLANATION**

- Doing Business measures regulations affecting 11 areas of the life of a business. Ten of these areas are included in this Doing Business 2019 ranking on the ease of doing business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. Doing Business also measures labour market regulation, which is not included in this year's ranking. Hence option (a) is the correct answer.

### A steady climb

India's Doing Business ranking over the years  
(inverse scale)



### India ranking in categories

THE GOOD	2018	2019
Dealing with construction permits	52	27
Trading across borders	80	68
Resolving insolvency	108	52
THE BAD		
Protecting minority investors	7	13
Getting credit	22	25
Enforcing contracts	163	163

Source: World Bank

**ANALYSIS:**

- The Doing Business Report 2019 was released recently.

**SOURCE :** <http://www.doingbusiness.org/en/reports/global-reports/doing-business-2019>

**YEAR 2019 REPORTS**

**Q11. The Global Competitiveness Report is published by the**

- (a) International Monetary Fund
- (b) United Nations Conference on Trade and Development
- (c) World Economic Forum
- (d) World Bank

**ANSWERS C**

## EXPLANATION



- The Global Competitiveness Report (GCR) is a yearly report published by the World Economic Forum.

## ANALYSIS:

- Students should cover this as part of Major Global Indices in news and connected to India.
- Hence option (c) is the correct answer.**

**SOURCE :** <https://www.thehindubusinessline.com/economy/india-ranks-58th-most-competitive-economy-in-wef-index/article25244640.ece>

## YEAR 2019 CURRENCY CRISIS

**Q12. In the context of India, which of the following factors is/are contributors/contributors to reducing the risk of a currency crisis?**

1. The foreign currency earnings of India's IT sector
2. Increasing the government expenditure
3. Remittances from Indians abroad

Select the correct answer using the code given below.

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

## ANSWERS B

- A currency crisis is brought on by a decline in the value of a country's currency. This decline in value negatively affects an economy by creating instabilities in exchange rates, meaning that one unit of a certain currency no longer buys as much as it used to in another currency
- A substantial amount of foreign exchange reserves can help to cushion against any risks of currency crisis.
- The foreign currency earnings of India's IT sector and remittances from abroad would lead to more inflow of foreign currencies in the economy and boost the foreign exchange reserves. **Hence statements 1 and 3 are correct.**
- Statement 2 is not correct** as increasing the government expenditure is not related to changes in foreign exchange reserves or any currency fluctuations.

## ANALYSIS:



## Scope for elimination

With our general understanding we can infer that if govt increases the expenditure then the value of money will decrease as supply is more, so here the 2nd statement is contradicting with the solution the question is asking. So the second statement can be eliminated.

**SOURCE : Macroeconomics (NCERT Class 12)**

**YEAR 2019****PPP****Q13. Consider the following statements:**

1. Purchasing Power Parity (PPP) exchange rates are calculated by comparing the prices of the same basket of goods and services in different countries.
2. In terms of PPP dollars, India is the sixth-largest economy in the world.

Which of the statements given above is/are correct?

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

**ANSWERS A****EXPLANATION**

- ① In purchasing power parity (PPP) exchange rate – the rate at which the currency of one country would have to be converted into that of another country to buy the same amount of goods and services in each country. For example-If a burger is selling in India for Rs100 and in New York for \$2, this would imply a PPP exchange rate of 1 dollar to Rs50. **Hence statement 1 is correct.**
- ② On the PPP basis, China is world's largest economy in 2018. Total wealth of china is estimated at 25.3 trillion international dollar. China is followed by United States with figure 19.4 trillion. India is the third largest economy , in terms of PPP dollars. **Hence, Statement 2 is not correct.**

**ANALYSIS:**

- ③ PPP should be covered under basic of economics, it is a very important topic and theme is also repetitive.
- ④ **Scope for elimination:** If one knows the simple fact that in terms of PPP, India's rank is number 3, then 2 options can be eliminated. Also, the definition of PPP is a basic fact.

**SOURCE :** <https://www.bustoday.in/current/economy-politics/india-pips-japan-in-gdp-based-on-purchasing-power-parity/story/282226.html>

**Gross domestic product 2022, PPP**

Ranking	Economy	(millions of international dollars)
1	China	30,327,320
2	United States	25,462,700
3	India	11,874,583
4	Japan	5,702,287
5	Russian Federation	5,326,855
6	Germany	5,309,606
7	Indonesia	4,036,901
8	Brazil	3,837,261
9	France	3,769,924
10	United Kingdom	3,656,809

**YEAR 2020****FINANCIAL CRISIS**

**Q14. If another global financial crisis happens in the near future, which of the following action/policies are most likely to give some immunity to India?**

1. Not depending on short-term foreign borrowings
2. Opening up to more foreign banks
3. Maintaining full capital account convertibility

Select the correct answer using the code given below:

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

**ANSWERS A****EXPLANATION**

- ① If a global financial crisis happens in the future, lesser exposure to the foreign financial markets is likely to give some immunity to India. **Hence option 1 is correct.**
  - ② Short-term borrowings would lead to the burden of paying back the debt, and could result in stressful conditions for the borrowing economy/ India. **Hence option 2 is not correct.**
  - ③ Opening up to more foreign banks would lead to an enhanced exposure to the global economy, and hence an increased risk. **Hence option 3 is not correct.**
  - ④ Currency convertibility refers to a situation in which a currency can be converted into a foreign currency, and vice-versa at the prevailing exchange rate without any government intervention. In India, we cannot completely convert rupees to dollars as there are restrictions to the same.
  - ⑤ Now, capital account convertibility is the freedom to convert domestic currency into a foreign currency, and vice-versa wrt capital account transactions of the Balance of Payments accounts. It could also be the freedom to convert domestic financial assets (like rupees) / liabilities into foreign assets / liabilities and vice-versa. It is more risky, as the foreign investors can withdraw all their money at once which called capital flight.
- Risks associated with full capital account convertibility:**
- ⑥ It increases the vulnerability of the domestic economy to external economic shocks. Hence the economy becomes unstable. For example, during the American recession - countries that were more connected were affected more.
  - ⑦ Flight of capital: i.e. the withdrawal of huge foreign exchange within a short period of time. If full convertibility is not there, the RBI can check the complete withdrawal of funds. (This flight of capital happened in the South East Asian crisis of 1997. For these Asian tigers - the fastest growing economies of the world - the current account was in a deficit, but there was significant inflow in their capital accounts. However, as interest rates in America increased, people withdrew their money and foreign exchange began to deplete. The people began to fear that they would not be able to take their money out. Out of this fear, everybody started to withdraw their investments- FDI was also withdrawn and the recession set in- they collapsed in one go!)
  - ⑧ It increases volatility in the domestic financial markets

The capital Account is potentially more volatile than the current account- People cannot start consuming double/ triple/ four times the previous amount. But investment in shares accumulates, and the entire money.

## ANALYSIS:

- The Global Financial Crisis and the ripple effect were considered to be a negative landmark in the world -polito - economic history. **Scope for Elimination:** In this question, we need to understand that less exposure to global financial markets will ensure some immunity to India – In this case, options 2 and 3 (**refer to more exposure**) are opposite to option 1 (as it highlights less exposure), therefore, statement 1 cannot come together with statement 2 and 3, hence we can easily eliminate options (b) and (c), **and option (a) will be the answer.**

**SOURCE :** Macroeconomics (NCERT Class 12) can be referred to for some help

## YEAR 2020 IMF (GOLD TRANCHE)

### Q15. "Gold Tranche" (Reserve Tranche) refers to

- a loan system of the World Bank
- one of the operations of a Central Bank
- a credit system granted by WTO to its members
- a credit system granted by IMF to its members

## ANSWERS D

### EXPLANATION



- A reserve tranche is a portion of the required quota of currency each member country must provide to the International Monetary Fund (IMF) that can be utilized for its own purposes without a service fee or economic reform conditions.
- The IMF is funded through its members and their quota contributions. The reserve tranche is basically an emergency account that IMF members can access at any time without agreeing to conditions or paying a service fee.
- The reserve tranches that countries hold with the IMF are considered their facilities of first resort, meaning they will tap into the reserve tranche at a short notice before seeking a formal credit tranche. The reserve tranche represents the member's unconditional drawing right on the IMF, created by the foreign exchange portion of the quota subscription, plus increase (decrease) through the IMF's sale (repurchase) of the member's currency to meet the demand for use of IMF resources by other members in need of balance of payments financing.

## ANALYSIS:

- This topic remains has always remained in the news. Hence, with respect to international bodies, this question should have been prepared.



### Scope for elimination

No scope for elimination as it is a direct question and in such question, we either know the answer or don't know the answer.

**SOURCE :** <https://www.imf.org/external/pubs/ft/bop/2018/pdf/Clarification0218.pdf>

**Q16. Consider the following statements:**

1. The value of Indo-Sri Lanka trade has consistently increased in the last decade.
2. "Textile and textile articles" constitute an important item of trade between India and Bangladesh.
3. In the last five years, Nepal has been the largest trading partner of India in South Asia.

Which of the statements given above is/are correct?

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

**ANSWERS****B****EXPLANATION**

- ① Bilateral trade between India and Sri Lanka has increased by around 9 times between 2000-01 and 2018-19. Total trade between the two countries was US\$ 6.2 billion in 2018-19, out of which India's exports to Sri Lanka were US\$ 4.7 billion and imports were US\$ 1.5 billion. Although India has always had a trade surplus with Sri Lanka, the gap has widened since 2008-09. In 2012-13 and 2016-17 the trade slumped, thus disturbing the steady increase in the graph. **Hence statement 1 is not correct.**
- ② Bangladesh is India's biggest trade partner in South Asia. Bilateral trade between India and Bangladesh has grown steadily over the last decade. India's exports to Bangladesh in FY 2018-19 stood at \$9.21 billion and imports during the same period was at \$1.04 billion. **Hence statement 3 is not correct.**
- ③ According to the World Bank, India exports \$2.25 billion-worth textile and clothing products to Bangladesh. In turn, it imports \$336 million-worth textile and clothing products from Dhaka. **Hence statement 2 is correct.**

**ANALYSIS:****Scope for elimination**

One could have applied a simple logic to eliminate 'statement 1'. It is rare for two countries like India and Sri Lanka (although neighbours but Sri Lanka's inclination towards China is well-known and the maritime issues) to have a bilateral trade relationship that grew every year. Thus the word 'consistently' can be used as a hint to infer that the statement is not correct. Thus options (a) and (d) are eliminated. Statement 2 seems more believable as one must have seen the 'Made in Bangladesh' tag in many textile items (again there is some amount of risk involved). **Hence option (b) is the correct answer.** But one could be more sure about the error in statement 3 as India and Nepal relations got embittered during the Nepali Constitutional Crisis.

**SOURCE :** <https://diplomatist.com/2020/03/03/india-sri-lanka-trade-relations/>

<https://economictimes.indiatimes.com/news/economy/foreign-trade/india-plans-to-enhance-trade-with-bangladesh/articleshow/76881534.cms>

**YEAR 2020****FDI**

**Q17. With reference to Foreign Direct Investment in India, which one of the following is considered its major characteristic?**

- (a) It is the investment through capital instruments essentially in a listed company.
- (b) It is a largely non-debt creating capital flow.
- (c) It is the investment which involves debt-servicing.
- (d) It is the investment made by foreign institutional investors in the Government Securities.

**ANSWERS****B****EXPLANATION**

- Foreign Direct Investment (FDI) is the investment by a non-resident entity/person resident outside India in the capital of an Indian company under Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2017. The investment is done through capital instruments in (1) an unlisted Indian company; or (2) 10% or more of the post issue paid-up equity capital on a fully diluted basis of a listed Indian company. **Hence, option a is incorrect.**
- The investment can be made in equities or equity linked instruments or debt instruments issued by the company. Thus, FDI isn't directly associated with government securities, and **hence option (d) is incorrect.**
- Generally, FDI takes place when an investor establishes foreign business operations or acquires foreign business assets, including establishing ownership or controlling interest in a foreign company (investments linked with equities), transfer of technology. This means they aren't just bringing money with them, but also knowledge, skills and technology. Debt servicing is the regular repayment of interest and principal on a debt for a particular period. **Hence option (c) is incorrect.**
- A non-debt creating capital flow is the one where there is no direct repayment obligation for the residents. FDI is largely a non-debt creating capital flow, and **therefore option (b) is correct.**

**ANALYSIS:**

- It is again a basic term which is used in common day to day discussions on Economy. Hence, it is one of the most simple terms that any student must know.

**SOURCE :** <https://www.investopedia.com/terms/f/fdi.asp>

**YEAR 2020****TRIMS**

**Q18. With reference to Trade-Related Investment Measures (TRIMS), which of the following statements is/are correct?**

1. Quantitative restrictions on imports by foreign investors are prohibited.
2. They apply to investment measures related to trade in both goods and services.
3. They are not concerned with the regulation of foreign investment.

Select the correct answer using the code given below:

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

**ANSWERS****C****EXPLANATION**

- Under the Agreement on Trade - Related Investment Measures of the World Trade Organization (WTO), (TRIMs Agreement), WTO members have agreed not to apply certain investment measures related to trade in goods that restrict or distort trade. (TRIMs Agreement is a multilateral agreement on trade in goods, and not services). **Hence statement 2 is not correct.**
- The TRIMs Agreement prohibits certain measures that violate the national treatment (Article III) and quantitative restrictions requirements (Article XI) of the General Agreement on Tariffs and Trade (GATT) 1994. The list of TRIMs agreed to be inconsistent with these articles includes measures which require: - particular levels of local procurement by an enterprise ("local content requirements"), - restrict the volume or value of imports such an enterprise can purchase, - use to an amount related to the level of products it exports ("trade balancing requirements"). **Hence statement 1 is correct.**
- TRIMs Agreement stipulates that certain measures adopted by Governments to regulate FDI can cause trade-restrictive and distorting effects. However, the agreement is only concerned with the trade effects of investment measures. It is not intended to deal with the regulation of investment as such and does not impact directly on WTO members' ability to regulate and place conditions upon the entry and establishment of foreign investment. **Hence statement 3 is correct**

**ANALYSIS:**

**SOURCE :** [https://www.wto.org/english/tratop\\_e/invest\\_e/trims\\_e.htm](https://www.wto.org/english/tratop_e/invest_e/trims_e.htm)

**YEAR 2020****WEST TEXAS INTERMEDIATE**

**Q19. The term 'West Texas Intermediate', sometimes found in news, refers to a grade of**

- (a) Crude oil
- (b) Bullion
- (c) Rare earth elements
- (d) Uranium

**ANSWERS****A****EXPLANATION**

West Texas Intermediate (WTI) crude oil is a specific grade of crude oil and one of the main three benchmarks in oil pricing, along with Brent and Dubai Crude. WTI is known as a light sweet oil because it contains 0.24% sulfur and has a low density, making it "light." **Hence option (a) is the correct answer.**

**ANALYSIS:**

**SOURCE :** <https://www.investopedia.com/terms/w/wti.asp>

**YEAR 2021****FDI**

**Q20. Consider the following:**

1. Foreign currency convertible bonds
2. Foreign institutional investment with certain conditions
3. Global depository receipts
4. Non-resident external deposits

Which of the above can be included in Foreign Direct Investments?

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

**ANSWERS****A**

## EXPLANATION



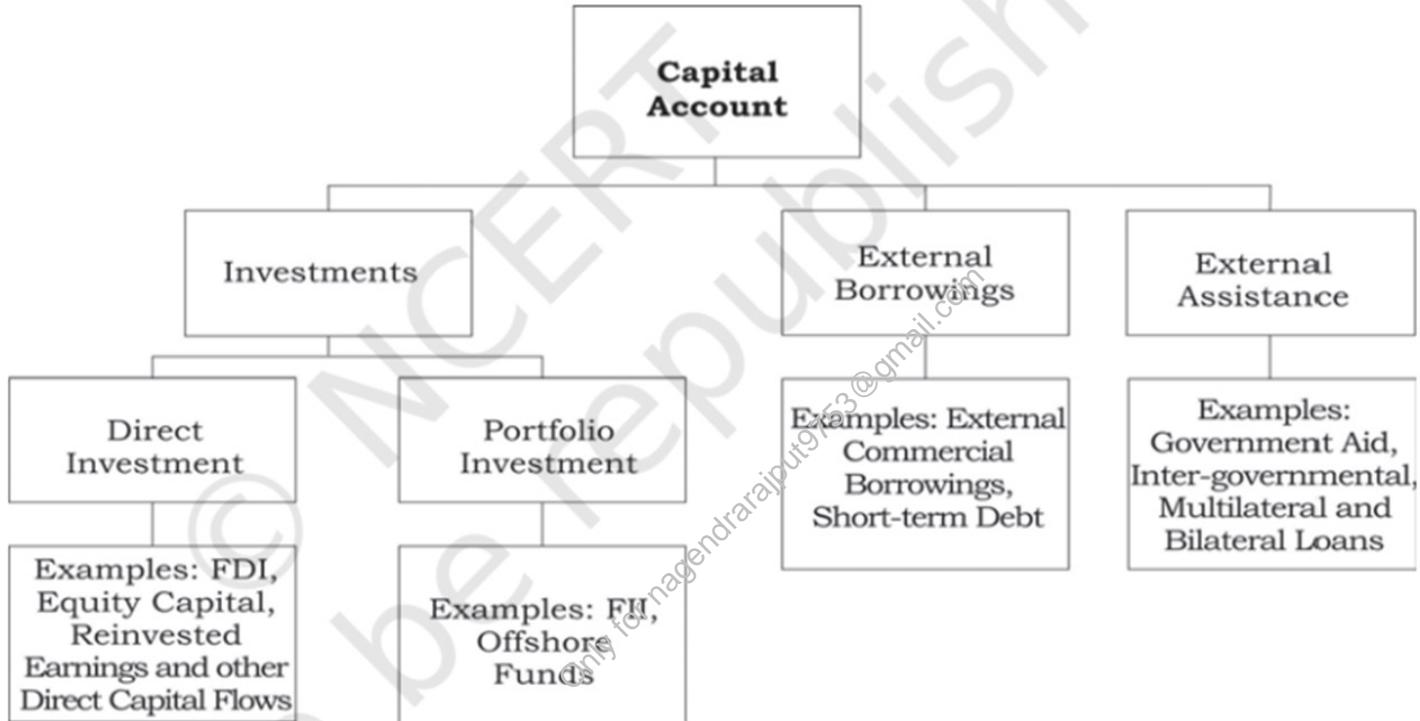
- In Capital Account of Balance of Payment, we can classify into Investment, Borrowings and External Assistance. Investment includes Equity flow in the economy. Foreign Currency Convertible Bonds (FCCB), Foreign Institutional Investment with certain conditions (subject to the overall limit of 24%), and Global Depository Receipts (GDR) are the instruments for the foreign investment in India. **Hence options 1, 2, and 3 are correct.**
- Non-Resident external deposits are a 'debt creating' flow in balance of payments accounts** and therefore, not part of Foreign Direct investments. **Hence statement 4 is not correct.**

## ANALYSIS:

- Conceptual question to check the basic understanding of terms in Economics.

**SOURCE :** The question is based on the conceptual understanding of FDI. Hence, it can be covered from multiple sources including.

Excerpt from NCERT



**YEAR 2021****CURRENCY DEVALUATION****Q21. Consider the following statements:**

The effect of devaluation of a currency is that it necessarily

1. improves the competitiveness of the domestic exports in the foreign markets.
2. increases the foreign value of domestic currency.
3. improves the trade balance.

Which of the above statements is/are correct?

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

**ANSWERS A****EXPLANATION**

- ① Devaluation means official lowering of the value of a country's currency within a fixed exchange rate system. Devaluation of a currency happens in countries with a fixed exchange rate (or also where it is managed floating rate). Example- Let us assume that prevailing exchange rate of \$1 is 10 rs. So currently 1 rs is worth of \$0.1. If devaluation of currency is done and now exchange rate of \$1 is 20 rs, this means 1 rs is worth of \$0.05. So the value of domestic currency (rs) is decreased in terms of value of foreign currency (\$). **Hence, statement 2 is not correct.**
- ② Let us take another example to understand statement 1- If a shirt costs \$8 in the US and Rs 400 in India, the rupee-dollar exchange rate should be Rs 50. To see why, at any rate higher than Rs 50, say Rs 60, it costs Rs 480 per shirt in the US but only Rs 400 in India. In that case, all foreign customers would buy shirts from India. So devaluation of currency improves the competitiveness of the domestic exports (India) in the foreign markets. **Hence, statement 1 is correct.**
- ③ Balance of Trade (BOT) is the difference between the value of exports and value of imports of goods of a country in a given period of time. Regarding third statement, with the devaluation of currency competitiveness of the export improves, but trade balance depends upon both export as well as imports and it is not necessarily true that devaluation of currency improves trade balance. (Let us take a possibility in Indian economy, our economy is heavily dependent upon the import of crude oil, and at the time of devaluation of currency, export increases but for the same period, demand for crude oil also increases due to increased growth in the economy, and the value of this increase in import is more than the value of increase in export. So, in this scenario again we have deficit trade balance). **Hence statement 3 is not correct.**

**ANALYSIS:**

- ④ Exchange rate has always been in the news. Dollar-rupee comparison is one of the important indicators of the working of Indian economy.

**SOURCE :** Macroeconomics (NCERT Class 12)

### 6.2.1 Foreign Exchange Rate

Foreign Exchange Rate (also called Forex Rate) is the price of one currency in terms of another. It links the currencies of different countries and enables comparison of international costs and prices. For example, if we have to pay Rs 50 for \$1 then the exchange rate is Rs 50 per dollar.

To make it simple, let us consider that India and USA are the only countries in the world and so there is only one exchange rate that needs to be determined.

#### *Demand for Foreign Exchange*

People demand foreign exchange because: they want to purchase goods and services from other countries; they want to send gifts abroad; and, they want to purchase financial assets of a certain country.

A rise in price of foreign exchange will increase the cost (in terms of rupees) of purchasing a foreign good. This reduces demand for imports and hence demand for foreign exchange also decreases, other things remaining constant.

#### *Supply of Foreign Exchange*

Foreign currency flows into the home country due to the following reasons: exports by a country lead to the purchase of its domestic goods and services by the foreigners; foreigners send gifts or make transfers; and, the assets of a home country are bought by the foreigners.

A rise in price of foreign exchange will reduce the foreigner's cost (in terms of USD) while purchasing products from India, other things remaining constant. This increases India's exports and hence supply for foreign exchange may

**YEAR 2021**

**WATER CREDIT**

#### **Q22. With reference to 'Water Credit', consider the following statements:**

1. It puts microfinance tools to work in the water and sanitation sector.
2. It is a global initiative launched under the aegis of the World Health Organization and the World Bank.
3. It aims to enable the poor people to meet their water need without depending on subsidies.

Which of the statements given above are correct?

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

**ANSWERS**

**C**

**EXPLANATION**



- Water.org is a global non-profit organization working to bring water and sanitation to the world. It started the initiative of Water Credit loan program to address the barrier of affordable financing for safe water and sanitation. **Hence, statement 2 is not correct.**
- Water Credit is a powerful solution and the first to put microfinance tools to work in the water and sanitation sector.** Water Credit helps bring small loans to those who need access to affordable financing and expert resources to make household water and toilet solutions a reality.

## EXPLANATION

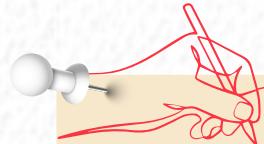


- How it works
  - It identifies a region where people need access to water and sanitation and that is ready for a microfinance solution.
  - It partners with carefully selected institutions to provide affordable financing for water and sanitation to families in need.
  - These microfinance partners establish water and sanitation loans in their portfolio of offerings. It supports them by providing technical assistance, connections and resources to get them started.
  - People in need use these small, affordable loans to put a tap or toilet in their homes and access local resources to do the work. It enables poor households to meet their water and sanitation needs without depending on subsidies.
  - Every repaid loan can be lent to another family in need of safe water or sanitation.
- Thus statements 1 and 3 are correct. Hence option (c) is the correct answer.

## ANALYSIS:

- This theme was slightly offbeat as it is not a very popular organisation like the WTO or the IMF. Logically, these kind of topics can be prepared. One can only apply his intelligence on the spot.

**SOURCE :** <https://water.org/solutions/watercredit/>



### Please Note:

If one goes by the theme of this question, it is slightly dilemmatic to classify it. It could be safely classified under a head 'Miscellaneous', but as the initiative is that of an international organisation, we have put it under '**External Sector: International Organisations'**

**YEAR 2022**

**IMF**

**Q23. "Rapid Financing Instrument" and "Rapid Credit Facility" are related to the provisions of lending by which one of the following?**

- (a) Asian Development Bank
- (b) International Monetary Fund
- (c) United Nations Environment Programme Finance Initiative
- (d) World Bank

**ANSWERS**

**B**

## EXPLANATION



- ⑤ **Recent context:** The Finance minister of Sri Lanka has started bailout talks with the lender of last resort (IMF) and seeking the IMF's rapid financial assistance to tackle growing shortages of food, fuel and medicines.
- ⑥ The **Rapid Financing Instrument (RFI)** provides rapid financial assistance, which is available to all member countries facing an urgent balance of payments need. The RFI was created as part of a broader reform to make the IMF's financial support more flexible to address the diverse needs of member countries. The RFI replaced the IMF's previous emergency assistance policy and can be used in a wide range of circumstances. Financial assistance under the RFI is provided in the form of outright purchases without the need for a full-fledged program or reviews. A member country requesting RFI assistance is required to cooperate with the IMF to make efforts to solve its balance of payments difficulties and to describe the general economic policies that it proposes to follow. Prior actions may be required where warranted.
- ⑦ The **Rapid Credit Facility (RCF) of IMF** provides rapid concessional financial assistance to low-income countries (LICs) facing an urgent balance of payments (BoP) need with no ex post conditionality where a full-fledged economic program is neither necessary nor feasible. The RCF was created under the Poverty Reduction and Growth Trust (PRGT) as part of a broader reform to make the Fund's financial support more flexible and better tailored to the diverse needs of LICs, including in times of crisis.
- ⑧ **Hence option (b) is the current answer.**

## ANALYSIS:

- ⑨ Recently these provisions of lending were in news, due to Sri Lankan economic crisis.

**SOURCE :** [https://www.imf.org/en/About/Fact-sheets/Sheets/2016/08/19/55/Rapid-Financing-Instrument#:~:text=The%20Rapid%20Financing%20Instrument%20\(RFI,diverse%20needs%20of%20member%20countries.](https://www.imf.org/en/About/Fact-sheets/Sheets/2016/08/19/55/Rapid-Financing-Instrument#:~:text=The%20Rapid%20Financing%20Instrument%20(RFI,diverse%20needs%20of%20member%20countries.)

<https://www.imf.org/en/About/Fact-sheets/Sheets/2016/08/21/08/Rapid-Credit-Facility>

<https://economictimes.indiatimes.com/news/international/world-news/technical-level-discussions-with-sri-lanka-will-continue-imf/articleshow/91487174.cms?from=mdr>

**YEAR 2022**

**REER/NEER**

### Q24. With reference to the Indian economy, consider the following statements :

1. An increase in Nominal Effective Exchange Rate (NEER) indicates the appreciation of rupee.
2. An increase in the Real Effective Exchange Rate (REER) indicates an improvement in trade competitiveness.
3. An increasing trend in domestic inflation relative to inflation in other countries is likely to cause an increasing divergence between NEER and REER.

Which of the above statements are correct?

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

## ANSWERS

**C**

- ④ **Nominal Effective Exchange Rate (NEER)** is a measure of the value of a currency against a weighted average of several foreign currencies. The nominal exchange rate is the amount of domestic currency needed to purchase foreign currency. If a domestic currency increases against a basket of other currencies inside a floating exchange rate regime, NEER is said to appreciate. If the domestic currency falls against the basket, the NEER depreciates. An increase in NEER indicates an appreciation of the local currency against the weighted basket of currencies of its trading partners. **Hence statement 1 is correct.**
- ④ **The Real Effective Exchange Rate (REER)** is the real effective exchange rate (a measure of the value of a currency against a weighted average of several foreign currencies) divided by a price deflator or index of costs. In simple words, a nation's nominal effective exchange rate (NEER), adjusted for inflation in the home country, equals its real effective exchange rate (REER). An increase in REER implies that exports become more expensive and imports become cheaper; therefore, an increase indicates a loss in trade competitiveness. **Hence statement 2 is not correct.**
- ④ REER is the NEER after factoring in relative inflation (consumer price-based index) using some measure of relative prices or costs; changes in the REER thus take into account both nominal exchange rate changes and the inflation differential vis-à-vis trading partners. Soaring inflation will impact REER, which, in turn, would inevitably push up the cost of merchandise and affect the competitiveness of Indian exports. Thus, if inflation is in an increasing trend in the domestic nations relative to inflation in other countries, it is likely to be an increasing divergence between NEER and REER. For instance, considering NEER and REER values between April 2019 and May 2021 in India, the NEER has been mostly declining, whereas, REER remains in sync with the inflationary trends—the upward biases in REER due to inflation were already being felt in May 2021. The increasing difference between trends of NEER and REER in the last 26 months was due to India's domestic inflation being higher relative to the six major currencies considered. **Hence statement 3 is correct.**

## ANALYSIS:

**SOURCE :** <https://datahelp.imf.org/knowledgebase/articles/537469-what-is-nominal-effective-exchange-rate-neer>

<https://datahelp.imf.org/knowledgebase/articles/537472-what-is-real-effective-exchange-rate-reer>

### Please Note:

Certain concepts have been well explained in websites like Investopedia or one can refer to the official websites of IMF for concepts related to exchange rate, etc.

YEAR 2023

**UNOPS (GLOBAL ORGANISATIONS)****Q25. Consider the following infrastructure sectors:**

1. Affordable housing
2. Mass rapid transport
3. Health care
4. Renewable energy

On how many of the above does UNOPS Sustainable Investments in Infrastructure and Innovation (S3i) initiative focus for its investments?

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

**ANSWERS****C****EXPLANATION**

- Sustainable Investments in Infrastructure and Innovation ('S3i') In March 2020, Sustainable Investments in Infrastructure and Innovation (S3i) was formally established as a stand-alone business unit in the UNOPS governance structure, making UNOPS the first United Nations organization able to make direct investments from its own balance sheet.
- In line with the UNOPS Strategic Plan, 2022-2025, the S3i office will seek to enhance and accelerate the effort of engaging public and private sector investors to work collectively to scale up infrastructure investments and consider co-creating innovative financing options. The UNOPS S3i will continue rolling out the initiative across its three focus-areas: (a) affordable housing; (b) renewable energy; and (c) health infrastructure. **Hence only three are correct.**

**ANALYSIS:****Scope for elimination**

If one applies logic and is ready take some risk, then one should see that 'rapid mass transport' as a need or requirement is one step higher than the basic requirements in the form of Housing, Health and Energy. **Otherwise, this is a tough theme because it was not widely covered by the standard newspapers.**

- Under the S3i scheme, a British businessman was in the news as he was the sole businessman dealing with the S3i related housing sector in Goa and there was a scandal reported in 2022. Although the Indian Express covered it, but the criteria (in the question) were not mentioned.

**SOURCE :** <https://indianexpress.com/article/india/in-60-million-dollar-un-scandal-a-2-5-million-dollar-housing-investment-in-goa-and-no-house-to-show-for-it-7919071/>

YEAR 2023

TRADE

**Q26. Consider the following statements:**

Statement-I : India accounts for 3.2% of global export of goods.

Statement-II : Many local companies and some foreign companies operating in India have taken advantage of India's 'Production-linked Incentive' scheme.

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

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

**ANSWERS****D****EXPLANATION**

- ① **Statement I is incorrect:** India's share in global merchandise trade is only 1.8% and 4% in global services. India plans to increase its export share in global trade from 2.1% to 3% by 2027 and 10% by 2047.
- ② **Statement II is correct:** The PLI scheme is open to both domestic and international manufacturers. Samsung as well as Indian firms such as Dixon Technologies, UTL, Neolyncs, Lava International, Optiemus Electronics and Micromax are also expanding their factories to take advantage of the PLI scheme.

**ANALYSIS:**

- ③ **Scope for elimination:** **On the face of it there is no scope for elimination**, but if the aspirants are able to figure out that any of the two statements is incorrect, then they can easily get the correct answer. In this question, the second statement has a word, 'some' which in general is suggestive of its correctness. Caution: That assumption also carries an element of risk.
- ④ On the reasons why it was asked could be the PLI scheme which has always been in the news and India's trade with the world is also an important theme. India's global share in service exports is considerable (4.4%). This year good's exports was asked, in the coming years' service exports may be asked.

**SOURCE :** Standard newspapers

<https://www.hindustantimes.com/india-news/indias-merchandise-exports-to-seven-top-trading-partners-contract-101668627916014.html>

**Difficulty level:** Difficult (as factual in nature)

**Q27. Consider the following statements:**

Statement-I: Recently, the United States of America (USA) and the European Union (EU) have launched the 'Trade and Technology Council'

Statement-II: The USA and the EU claim that through this they are trying to bring technological progress and physical productivity under their control.

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

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

**ANSWERS****C****EXPLANATION**

- Recently the United States of America and the European Union have launched the Trade and Technology Council, a strategic coordination mechanism to tackle challenges at the nexus of trade, trusted technology and security. **Hence statement 1 is correct.** It serves as a forum for the United States and European Union to coordinate approaches to key global trade, economic, and technology issues and to deepen transatlantic trade and economic relations based on these shared values.
- Through the Council, the EU and the US are working together to ensure that trade and technology serve our societies and economies, while upholding our common values strengthen our technological and industrial leadership expand bilateral trade and investment. The aim is not about bringing technological progress and physical productivity under their control, but rather about coordinating approaches with respect to same. **Hence statement 2 is not correct.**

**ANALYSIS:**

- This is not a conventional theme that is covered in Economics but it was asked as recently EU set up a Trade and Technology Council with India along the lines of the EU-US Trade and Technology Council. The same was covered in The Hindu (Feb., 2023)

### **EU sets up Trade & Technology Council with India after similar partnership with U.S.**

The TTC with India is the European Union's second such technology partnership after the first one with the United States that was firmed up in June 2021

February 07, 2023 12:45 am | Updated 07:43 am IST - New Delhi

- Statement II hints at it being a wrong statement as the two cannot claim to bring technological progress under control. (It is an extreme statement).



### **Scope for elimination**

If one can sense the extremeness of the statement and thus its incorrectness, then 3 options can be got rid of, A, B and D

**YEAR 2023 GLOBAL INSTITUTIONS**

**Q28. Consider the following statements:**

The 'Stability and Growth Pact' of the European Union is a treaty that

1. limits the levels of the budgetary deficit of the countries of the European Union
2. makes the countries of the European Union to share their infrastructure facilities
3. enables the countries of the European Union to share their technologies

How many of the above statements are correct?

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

**ANSWERS A**

**EXPLANATION**



- The **Stability and Growth Pact (SGP)** is a set of rules designed to ensure that countries in the European Union pursue sound public finances and coordinate their fiscal policies. Described as the Eurozone's fiscal rulebook, the SGP is a set of fiscal rules designed to prevent EU countries from spending beyond their means. Since 1997, member states have agreed that they should keep GDP ratios of deficit and debt below 3% and 60% respectively. The European Commission and the Council finance ministers have the main duty of surveillance. They issue an annual recommendation on policy measures every year and also monitor EU countries to ensure each nation is compliant with budget regulations. Countries that break the rules for three consecutive years are fined a maximum of 0.5% of their GDP. The SGP does not make countries of the European Union share their infrastructure facilities or technologies. **Hence only statement 1 is correct and option (a) is the correct answer.**

**ANALYSIS:**

- The European Union (EU) has been tested by three great external events, the Syrian refugee crisis, the Coronavirus, and the Russian invasion of Ukraine. Each of these events challenges the EU's Stability and Growth Pact (SGP) that sanctions member states incurring excessive budgetary deficits. Hence this was in the news.
- As the standard newspapers did not widely cover the topic, this theme was lesser-known and slightly difficult.
- **Scope for elimination: Not applicable**

**SOURCE :** <https://www.euronews.com/business/2022/01/18/what-is-the-eu-s-stability-and-growth-pact-and-why-is-it-important>

## FINANCIAL MARKET

### (11 Questions)

**YEAR 2018**

**T-BILLS**

**Q1. Consider the following statements:**

1. The Reserve Bank of India manages and services Government of India Securities but not any State Government Securities.
2. Treasury bills are issued by the Government of India and there are no treasury bills issued by the state governments.
3. Treasury bills offer are issued at a discount from the par value.

Which of the statements given above is/are correct?

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

**ANSWERS**

**C**

**EXPLANATION**



- The Reserve Bank of India (RBI) manages public debt and issues Indian currency denominated loans on behalf of the central and the state governments under the powers derived from the Reserve Bank of India Act. The RBI is the debt manager for both the Central Government and the State Governments. The RBI manages the debt of state governments on the basis of separate agreements. **Hence, statement 1 is not correct.**
- Treasury bills or T-bills, which are money market instruments, are short term debt instruments issued by the Government of India and are presently issued in three tenors, namely, 91 day, 182 day and 364 day. Treasury bills are zero coupon securities and pay no interest. They are issued at a discount and redeemed at the face value at maturity. For example, a 91 day Treasury bill of 100/- (face value) may be issued at say 98.20, that is, at a discount of say, 1.80 and would be redeemed at the face value of 100/-. The return to the investors is the difference between the maturity value or the face value (that is 100). **Hence, statements 2 and 3 are also correct.**

**ANALYSIS:**

- Although it is a topic categorised under macroeconomics, it is not covered in the Introductory Macroeconomics book, but it has comprehensively covered in the chapter **Financial Markets of the Business Studies** Class 12 book. Kindly refer to the image shared below.

## MONEY MARKET INSTRUMENTS

**1. Treasury Bill:** A Treasury bill is basically an instrument of short-term borrowing by the Government of India maturing in less than one year. They are also known as Zero Coupon Bonds issued by the Reserve Bank of India on behalf of the Central Government to meet its short-term requirement of funds. Treasury bills are issued in the form of a promissory note. They are highly liquid and have assured yield and negligible risk of default. They are issued at a price which is lower than their face value and repaid at par. The difference between the price at which the treasury bills are issued and their redemption value is the interest receivable on them and is called discount. Treasury bills are available for a minimum amount of Rs 25,000 and in multiples thereof.

*Example:* Suppose an investor purchases a 91 days Treasury bill with a face value of Rs. 1,00,000 for Rs. 96,000. By holding the bill until the maturity date, the investor receives Rs. 1,00,000. The difference of Rs. 4,000 between the proceeds received at maturity and the amount paid to purchase the bill represents the interest received by him.

**2. Commercial Paper:** Commercial paper is a short-term unsecured promissory note, negotiable and

It usually has a maturity period of 15 days to one year. The issuance of commercial paper is an alternative to bank borrowing for large companies that are generally considered to be financially strong. It is sold at a discount and redeemed at par. The original purpose of commercial paper was to provide short-terms funds for seasonal and working capital needs. For example companies use this instrument for purposes such as bridge financing.

*Example:* Suppose a company needs long-term finance to buy some machinery. In order to raise the long term funds in the capital market the company will have to incur floatation costs (costs associated with floating of an issue are brokerage, commission, printing of applications and advertising etc.). Funds raised through commercial paper are used to meet the floatation costs. This is known as Bridge Financing.

**3. Call Money:** Call money is short term finance repayable on demand, with a maturity period of one day to fifteen days, used for inter-bank transactions. Commercial banks have to maintain a minimum cash balance known as cash reserve ratio. The Reserve Bank of India changes the cash reserve ratio from time to time which in turn affects the amount of funds available to be given as loans by commercial banks. Call money is a method by which banks borrow from each other to be able to maintain the

YEAR 2019

**PARTICIPATORY NOTES**

**Q2. Which of the following is issued by registered foreign portfolio investors to overseas investors who want to be part of the Indian stock market without registering themselves directly?**

- (a) Certificate of Deposits
- (b) Commercial Paper
- (c) Promissory Note
- (d) Participatory Note

**ANSWERS****D****EXPLANATION**

- **A Participatory Note** (or P-Note) is a derivative instrument issued in foreign jurisdictions, by a SEBI-registered Foreign Institutional Investor (FII) or its sub-accounts or one of its associates, against underlying Indian securities. The underlying Indian security instrument may be equity, debt, derivatives or may even be an index.
- **A Promissory Note** is a financial instrument that contains a written promise by one party to pay another party a definite sum of money, either on demand or at a specified future date.
- **Commercial Paper (CP)** is an unsecured money market instrument issued in the form of a promissory note. CPs are short-term instruments and the maturity period varies from seven days to up to one year. It was introduced to enable highly rated corporate borrowers to diversify their sources of short-term borrowings and also to provide an additional instrument to investors.
- **Certificate of Deposits** is a saving certificate with a fixed maturity date at the fixed interest rate. It is issued by commercial banks and financial institutions. It is issued in the form of a promissory note in exchange of funds deposited in banks for a specified period. **Hence option (d) is the correct answer.**

**ANALYSIS:**

- P-Notes is a basic concept in the Financial Market. As financial market, as a chapter, is not there in the Macroeconomics NCERT book, the same can be studied from arthapedia

**SOURCE :** [http://www.arthapedia.in/index.php/Participatory\\_Notes\\_\(PNs\)](http://www.arthapedia.in/index.php/Participatory_Notes_(PNs))

YEAR 2020

**MISCELLANEOUS (FINANCIAL MARKET)****Q3. With reference to the Indian economy, consider the following statements:**

1. 'Commercial Paper' is a short-term unsecured promissory note.
2. 'Certificate of Deposit' is a long-term instrument issued by the Reserve Bank of India to a corporation.
3. 'Call Money' is a short-term finance used for interbank transactions.
4. 'Zero-Coupon Bonds' are the interest bearing short-term bond issued by the Scheduled Commercial Banks to corporations.

Which of the statements given above is/are correct?

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

**ANSWERS****C****EXPLANATION**

- ① **Commercial Paper (CP)** is an unsecured money market instrument issued in the form of a promissory note. It can be issued for maturities between a minimum of 7 days and a maximum of up to one year from the date of issue (short-term). **Hence statement 1 is correct.**
- ② Certificate of Deposit (CD) is a negotiable money market instrument and is issued in dematerialised form against funds deposited at a bank or other eligible financial institution for a specified time period. Issued by the Federal Deposit Insurance Corporation (FDIC) and regulated by the Reserve Bank of India, the CD is a promissory note, the interest on which is paid by the financial institution. **Hence statement 2 is not correct.**
- ③ Call money rate is the rate at which short term funds are borrowed and lent in the money market among banks on a day-to-day basis. Banks resort to this type of loan to fill the asset liability mismatch, comply with the statutory CRR and SLR requirements and to meet the sudden demand of funds. **Hence statement 3 is correct.**
- ④ Bonds are a type of debt instrument. Zero Coupon Bonds are issued at a discount and redeemed at par. No interest payment is made on such bonds at periodic intervals before maturity. **Hence statement 4 is not correct.**

**ANALYSIS:****Scope for elimination**

The question is checking the fundamental knowledge about the basic terms in a given topic. It is more of a factual question and therefore, there is no scope of elimination until and unless one knows some of these terms.

## SOURCE : Business Studies (NCERT Class 12)

(RBI), Commercial Banks, Non-Banking Finance Companies, State Governments, Large Corporate Houses and Mutual Funds.

### MONEY MARKET INSTRUMENTS

**1. Treasury Bill:** A Treasury bill is basically an instrument of short-term borrowing by the Government of India maturing in less than one year. They are also known as Zero Coupon Bonds issued by the Reserve Bank of India on behalf of the Central Government to meet its short-term requirement of funds. Treasury bills are issued in the form of a promissory note. They are highly liquid and have assured yield and negligible risk of default. They are issued at a price which is lower than their face value and repaid at par. The difference between the price at which the treasury bills are issued and their redemption value is the interest receivable on them and is called discount. Treasury bills are available for a minimum amount of Rs 25,000 and in multiples thereof.

**Example:** Suppose a company needs long-term finance to buy some machinery. In order to raise the long term funds in the capital market the company will have to incur floatation costs (costs associated with floating of an issue are brokerage, commission, printing of applications and advertising etc.). Funds raised through commercial paper are used to meet the floatation costs. This is known as Bridge Financing.

**3. Call Money:** Call money is short term finance repayable on demand, with a maturity period of one day to fifteen days, used for inter-bank transactions. Commercial banks have to maintain a minimum cash balance known as cash reserve ratio. The Reserve Bank of India changes the cash reserve ratio from time to time which in turn affects the amount of funds available to be given as loans by commercial banks. Call money is a method by which banks borrow from each other to be able to maintain the

transferable by endorsement and delivery with a fixed maturity period. It is issued by large and creditworthy companies to raise short-term funds at lower rates of interest than market rates. It usually has a maturity period of 15 days to one year. The issuance of commercial paper is an alternative to bank borrowing for large companies that are generally considered to be financially strong. It is sold at a discount and redeemed at par. The original purpose of commercial paper was to provide short-term funds for seasonal and working capital needs. For example companies use this instrument for purposes such as bridge financing.

**Example:** Suppose a company needs long-term finance to buy some machinery. In order to raise the long term funds in the capital market the company will have to incur floatation costs (costs associated with floating of an issue are brokerage, commission, printing of applications and advertising etc.). Funds raised through commercial paper are used to meet the floatation costs. This is known as Bridge Financing.

**2. Commercial Paper:** Commercial paper is a short-term unsecured promissory note, negotiable and

### BUSINESS STUDIES

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cash reserve ratio. The interest rate paid on call money loans is known as the call rate. It is a highly volatile rate that varies from day-to-day and sometimes even from hour-to-hour. There is an inverse relationship between call rates and other short-term money market instruments such as certificates of deposit and commercial paper. A rise in call money rates makes other sources of finance such as commercial paper and certificates of deposit cheaper in comparison for banks raise funds from these sources.

**4. Certificate of Deposit:** Certificates of deposit (CD) are unsecured, negotiable, short-term instruments in bearer form, issued by commercial banks and development financial institutions. They can be issued to individuals, corporations and companies during periods of tight liquidity when the deposit growth of banks is slow but the demand for

credit is high. They help to mobilise a large amount of money for short periods.

**5. Commercial Bill:** A commercial bill is a bill of exchange used to finance the working capital requirements of business firms. It is a short-term, negotiable, self-liquidating instrument which is used to finance the credit sales of firms. When goods are sold on credit, the buyer becomes liable to make payment on a specific date in future. The seller could wait till the specified date or make use of a bill of exchange. The seller (drawer) of the goods draws the bill and the buyer (drawee) accepts it. On being accepted, the bill becomes a marketable instrument and is called a trade bill. These bills can be discounted with a bank if the seller needs funds before the bill matures. When a trade bill is accepted by a commercial bank it is known as a commercial bill.

#### Q4. Indian Government Bond Yields are influenced by which of the following?

1. Actions of the United States Federal Reserve
2. Actions of the Reserve bank of India
3. Inflation and short-term interest rates

Select the correct answer using the code given below.

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

#### ANSWERS D



#### EXPLANATION

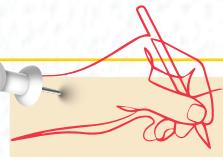
- **Bond yield is the return an investor gets on that bond or on a particular government security.** It depends on the price of the bond which is impacted by its demand. The major factors affecting the yield is the monetary policy of the **Reserve Bank of India**, especially the course of interest rates, the fiscal position of the government and its borrowing programme, global markets, economy, and inflation.
- Actions of the United States Federal Reserve can impact the investments flowing in India. The investments by foreign players in government securities can be effected by this. This will lead to change in demand of government securities and thereby impacting its yield. **Hence option 1 is correct.**
- Actions of Reserve bank determine the liquidity and also the cost of funds available in the economy through its various inflation management tools. The cost of funds will directly impact the demand of government securities in the market and thereby influencing its yield. **Hence option 2 is correct.**
- Inflation and short term rates determine the purchasing capacity of the people in the economy. Therefore, this also has impact on the demand and price of the government -securities thereby influencing the yield. **Hence option 3 is correct.**

#### ANALYSIS:

**SOURCE :** <https://indianexpress.com/article/explained/explained-what-rise-in-bond-yield-means-for-investors-and-govt-7205054/> , NCERT – Introductory Macroeconomics, Chapter – Money and Banking, Page number – 45, 46

##### Why do bond yields rise?

Bond yield is the return an investor gets on that bond or on a particular government security. The major factors affecting the yield is the monetary policy of the Reserve Bank of India, especially the course of interest rates, the fiscal position of the government and its borrowing programme, global markets, economy, and inflation. With the pandemic upsetting the calculations, Finance Minister Nirmala Sitharaman has pegged the fiscal deficit for 2021-22 at 6.8% of GDP (the original target was 3.5%), and aims to bring it back under 4.5% by 2025-26.



#### Please Note:

Yield is a general term that relates to the return on the capital you invest in a bond. Price and yield are inversely related: As the price of a bond goes up, its yield goes down, and vice versa.

**Q5. With reference to India, consider the following statements:**

1. Retail investors through demat account can invest in 'Treasury Bills' and 'Government of India Debt Bonds' in primary market.
2. The 'Negotiated Dealing System-Order Matching' is a government securities trading platform of the Reserve Bank of India.
3. The 'Central Depository Services Ltd' is jointly promoted by the Reserve Bank of India and the Bombay Stock Exchange.

Which of the statements given above is/are correct?

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

**ANSWERS**

**B**

**EXPLANATION**



- In February, 2021, RBI allowed retail investors to directly purchase government bonds by opening gilt accounts with RBI. RBI has provided retail investors with online access to the government securities market (primary and secondary) through the RBI (Retail Direct). **Hence statement 1 is correct.**
- Previously, retail investors can purchase government bonds by registering themselves on stock exchanges for non-competitive bids. Other route for retail investors is to buy government bonds is government securities (gilt) mutual funds. These are mutual funds which in turn invest in government securities. Negotiated Dealing System-Order Matching (NDS-OM) is a screen based electronic anonymous order matching system for secondary market trading in Government securities owned by RBI. The membership of the system is open to entities like Banks, Primary Dealers, Insurance Companies, Mutual Funds etc. i.e. entities who maintain SGL accounts with RBI. **Hence, statement 2 is correct.**
- Central Depository Services Ltd (CDSL) was promoted by BSE Ltd. jointly with leading banks such as State Bank of India, Bank of India, Bank of Baroda, HDFC Bank, Standard Chartered Bank and Union Bank of India. CDSL was set up with the objective of providing convenient, dependable and secure depository services at affordable cost to all market participants. A Depository facilitates holding of securities in the electronic form and enables securities transactions to be processed by book entry. **Hence, statement 3 is not correct.**

**ANALYSIS:**

- Participation of retail investors in primary market has been in news. The numbers are exponentially increasing in 2023 also.

**SOURCE :** <https://www.livemint.com/money/personal-finance/all-you-need-to-know-about-government-bonds-purchase-11612514003080.html>

<https://m.rbi.org.in/scripts/FAQView.aspx?Id=86>

## All you need to know about government bonds purchase

3 min read • 05 Feb 2021, 02:29 PM IST

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Neil Borate

*Bond yields fluctuate according to the size of the government's borrowing programme and the RBI's monetary policy outlook*



In a bid to clean up election funding, the government had in January introduced electoral bonds that can be bought from specified branches of State Bank of India and used to donate money to political parties. Photo: iStockphoto

The RBI, while announcing its policy statement on Friday, said it will allow retail investors to directly purchase government bonds by opening gilt accounts with it. *Mint* explains the current methods of buying these bonds, how they are taxed and what returns they give.

TOP NEWS WEB

### 1. What is NDS-OM?

NDS-OM is a screen based electronic anonymous order matching system for secondary market trading in Government securities owned by RBI. Presently the membership of the system is open to entities like Banks, Primary Dealers, Insurance Companies, Mutual Funds etc. i.e entities who maintain SGL accounts with RBI. These are Primary Members (PM) of NDS and are permitted by RBI to become members of NDS-OM. Gilt Account Holders which have gilt account with the PMs are permitted to have indirect access to the NDS-OM system i.e they can request their Primary Members to place orders on their behalf on the NDS-OM system.

**YEAR 2022****Inflation-indexed Bonds**

**Q6. With reference to the Indian economy, what are the advantages of "Inflation-Indexed Bonds (IIBs)"?**

1. Government can reduce the coupon rates on its borrowing by way of IIBs.
2. IIBs provide protection to the investors from uncertainty regarding inflation.
3. The interest received as well as capital gains on IIBs are not taxable.

Which of the statements given above are correct?

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

**ANSWERS A****EXPLANATION**

- Inflation-indexed bonds in India were issued by the Reserve Bank of India (RBI) in 2013 and were benchmarked to Wholesale Price Index (WPI).
- Inflation-indexed bonds are financial instruments that attempt to protect the bonds' purchasing power by tying interest and principal payments to an index of price changes. Indexed bonds include two types of compensation, a real rate of return plus a compensation for the erosion of purchasing power. Inflation component on principal will not be paid with interest but the same would be adjusted in the principal by multiplying principal with index ratio (IR). At the time of redemption, adjusted principal or the face, whichever is higher, would be paid. Interest rate will be provided protection against inflation by paying fixed coupon rate on the principal adjusted against inflation. **Hence statement 2 is correct.**
- Economists have argued that inflation indexed bonds could reduce government borrowing costs. If the market overestimates future inflation, government will reduce borrowing costs by issuing inflation indexed bonds rather than nominal bonds. This may occur because, for example, investors' expectations are not completely forward-looking or rational. Alternatively, the government, because it is able to influence inflation through its policies, may have better information about the future course of inflation, or perhaps has more faith in its commitment to contain it than the public does. In these cases a treasury can lower its costs by issuing indexed bonds. For example, if coupon rate of IIBs is fixed 1.5 % above WPI (Whole sale price index) and current WPI is 4%, so effective rate will be 5.5% (4+1.5). In future, when WPI falls from 4% to 2%, then effective coupon rate will become 3.5% (i.e 2+1.5) and thus government can reduce the coupon rates on its borrowing by way of IIBs through reducing inflationary trends. **Hence statement 1 is correct.**
- Extant tax provisions will be applicable on interest payment and capital gains on IIBs. There will be no special tax treatment for these bonds. **Hence statement 3 is not correct.**

**ANALYSIS:**

- IIBs were in news, as RBI tries to gauge demand for the same due to increasing inflation.

**SOURCE :** <https://m.rbi.org.in/Scripts/FAQView.aspx?Id=91>

**Q7. Consider the following statements:**

1. In India, credit rating agencies are regulated by Reserve Bank of India.
2. The rating agency popularly known as ICRA is a public limited company.
3. Brickwork Ratings is an Indian credit rating agency.

Which of the statements given above are correct.

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

**ANSWERS****B****EXPLANATION**

- ① Credit rating agencies in India are regulated by SEBI. The SEBI (Credit Rating Agencies) Regulations, 1999 govern the credit rating agencies and provide for eligibility criteria for registration of credit rating agencies, monitoring and review of ratings, requirements for a proper rating process, avoidance of conflict of interest and inspection of rating agencies by SEBI, amongst other things. **Hence statement 1 is not correct.**
- ② ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. **Hence statement 2 is correct.**
- ③ Brickwork Ratings (BWR), is a SEBI registered Indian Credit Rating Agency founded by bankers, credit rating professionals, former regulators as well as professors, is committed to promoting Financial Literacy. Brickwork Ratings has Canara Bank, a leading Public Sector Bank, as its promoter and strategic partner. **Hence statement 3 is correct.**

**ANALYSIS:**

- ④ Recently, SAT sets aside Rs 1 crore penalty imposed on Brickwork Ratings by the SEBI

**Scope for elimination**

It is not difficult to guess that credit rating agencies in India are regulated under the SEBI (as it is related to the capital market). Thus, there is evidently a scope of elimination.

**SOURCE :** [https://www.sebi.gov.in/sebi\\_data/faqfiles/oct-2021/1634902664371.pdf](https://www.sebi.gov.in/sebi_data/faqfiles/oct-2021/1634902664371.pdf)

[https://www.business-standard.com/article/companies/sat-sets-aside-rs-1-cr-penalty-imposed-on-brickwork-ratings-by-sebi-122032801153\\_1.html](https://www.business-standard.com/article/companies/sat-sets-aside-rs-1-cr-penalty-imposed-on-brickwork-ratings-by-sebi-122032801153_1.html)

<https://www.brickworkratings.com/Aboutus.aspx>

<https://www.icra.in/Home/Profile#:~:text=ICRA%20is%20a%20Public%20Limited,and%20the%20National%20Stock%20Exchange>

**YEAR 2022****CONVERTIBLE BONDS****Q8. With reference to Convertible Bonds, consider the following statements:**

1. As there is an option to exchange the bond for equity, Convertible Bonds pay a lower rate of interest.
2. The option to convert to equity affords the bondholder a degree of indexation to rising consumer prices.

Which of the statements given above is/are correct?

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

**ANSWERS****C****EXPLANATION**

- A convertible bond is a fixed-income corporate debt security that yields interest payments, but can be converted into a predetermined number of common stock or equity shares. It offers investors a type of hybrid security that has features of a bond, such as interest payments, while also having the option to own the underlying stock.
- Issuing convertible bonds can help companies minimize negative investor sentiment that would surround equity issuance. Further, issuing convertible bonds can also help provide investors with some security in the event of default. A convertible bond protects investors' principal on the downside, but allows them to participate in the upside should the underlying company succeed. However, convertible bonds tend to offer a lower coupon rate or rate of return in exchange for the value of the option to convert the bond into common stock. Companies benefit since they can issue debt at lower interest rates than with traditional bond offerings. However, not all companies offer convertible bonds. **Hence statement 1 is correct.**
- The option to convert to equity affords the bondholder a degree of indexation to rising consumer prices. As indexation will ensure that prices are adjusted with inflation over a period of time. With the help of indexation, bondholders will be able to lower their long-term capital gains (as their investment will be adjusted with inflation) even when converting bonds into equity, which brings down their taxable income. **Hence statement 2 is correct.**

**ANALYSIS:**

- There is no scope for elimination as it is a 2-statement question.

**SOURCE :** <https://www.investopedia.com/terms/c/convertiblebond.asp#:~:text=However%2C%20convertible%20bonds%20tend%20to,all%20companies%20offer%20convertible%20bonds.>

<https://www.economist.com/finance-and-economics/2021/07/10/why-convertible-bonds-are-the-asset-class-for-the-times>

YEAR 2023

**CAPITAL MARKET****Q9. Consider the following markets:**

1. Government Bond Market
2. Call Money Market
3. Treasury Bill Market
4. Stock Market

How many of the above are included in capital markets?

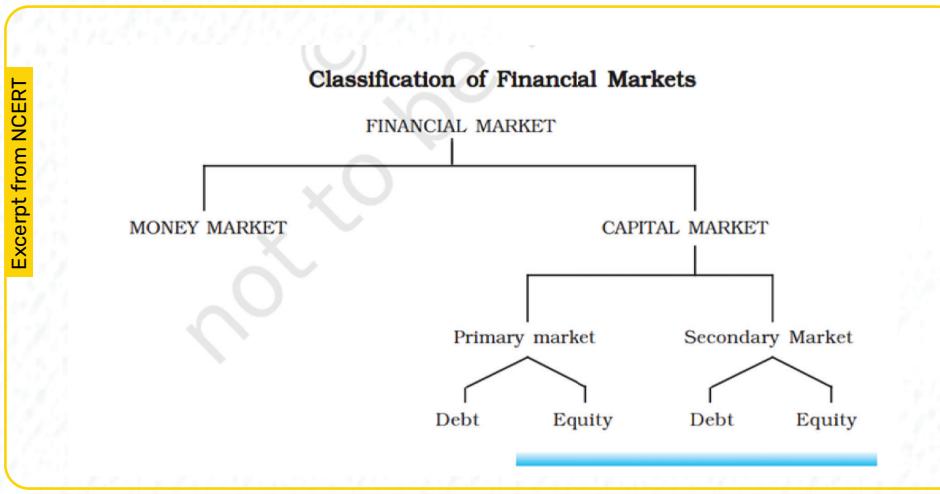
- (a) Only one
- (b) Only two
- (c) Only three
- (d) All four

**ANSWERS****B****EXPLANATION**

- A capital market is a financial market where long-term debt or equity-backed securities are bought and sold. It includes 1. Government Bonds - In India, fall under the broad category of government securities (G-Sec) and are primarily long term investment tools issued for periods ranging from 5 to 40 years. It can be issued by both Central and State governments of India. 2. Capital market refers to a broad spectrum of tradeable assets that includes the stock market as well as other venues for trading different financial products. **Treasury bills are money market instruments issued by the Government of India and call money market is an essential part of the Indian Money Market**, where the day-to-day surplus funds (mostly of banks) are traded.
- Hence option (b) is the correct answer.

**ANALYSIS:****Scope for elimination**

This is a basic level question; hence the two money market instruments can be easily eliminated. The question intends to test the basic understanding of the candidate.

**SOURCE : Business Studies (NCERT Class 12)**

YEAR 2023

## TERMS USED IN FINANCIAL MARKET

**Q10. In the context of finance, the term 'beta' refers to**

- (a) the process of simultaneous buying and selling of an asset from difference platforms.
- (b) an investment strategy of a portfolio manager to balance risk versus reward.
- (c) a type of systemic risk that arises where perfect hedging is not possible.
- (d) a numeric value that measures the fluctuations of a stock to changes in the overall stock market.

**ANSWERS D****EXPLANATION**

- ⑤ Beta ( $\beta$ ) is a measure of the volatility—or systematic risk—of a security or portfolio compared to the market as a whole. Equities having a beta value larger than one, or high beta stocks, are often known as volatile stocks. The slightest adjustments in stock market indicators have a big influence on them. A security that is comparatively more stable is a low beta stock i.e. has a beta rating below 1. **Hence option (d) is the correct answer.**

**ANALYSIS:****Scope for elimination**

- ⑥ No scope as it is a factual question.
- ⑦ It has always been in the news but such terms and concepts easily escape the notice of the aspirants as 'stock markets' is not conventionally studied under UPSC-related economics, but as the craze for stock markets and mutual funds are increasing and the youth is finding it more appealing, thus UPSC has begun making foray into that domain.

**SOURCE : The Hindu had explained the term 'beta' extensively but long ago in article in an article in June 2017,**

<https://www.thehindu.com/opinion/oped/what-does-beta-means-in-finance/article19165973.ece?homepage=true>

YEAR 2023

## Infrastructure Investment Trusts (InvITs)

**Q11. Consider the following statements:**

Statement-I: Interest income from the deposits in Infrastructure Investment Trusts (InvITs) distributed to their investors is exempted from tax, but the dividend is taxable.

Statement-II: InvITs are recognized as borrowers under the 'Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002'.

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

- (a) Both Statement-I and Statement-II are correct and Statement-II is the correct explanation for Statement-I
- (b) Both Statement-I and Statement-II are correct and Statement-II is not the correct explanation for Statement-I
- (c) Statement-I is correct but Statement-II is incorrect
- (d) Statement-I is incorrect but Statement-II is correct

**ANSWERS D**

## EXPLANATION



- **Statement I is incorrect:** The Finance (No.2) Act, 2014 introduced a special taxation regime for Real Estate Investment Trust (REIT) and Infrastructure Investment Trust (InVIT) (commonly referred to as business trusts). InVITs provide two different types of returns to investors – **Dividend Income and Capital Gains.** **Each type of income has a different tax treatment.** Any dividend or interest income that you get from an InVIT is completely taxable as per your Income Tax Slab rate. This income has to be declared every year in your Income Tax Return under the head “Income from Other Sources”.
- **Statement II is correct:** As per the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, “borrower” means [any person who, or a pooled investment vehicle as defined in clause (da) of section 2 of the Securities Contracts (Regulation) Act, 1956 (42 of 1956) which,] has been granted financial assistance by any bank or financial institution or who has given any guarantee or created any mortgage or pledge as security for the financial assistance granted by any bank or financial institution [and includes a person who, or a pooled investment vehicle which,] becomes borrower of a [asset reconstruction company] consequent upon acquisition by it of any rights or interest of any bank or financial institution in relation to such financial assistance.

## ANALYSIS:



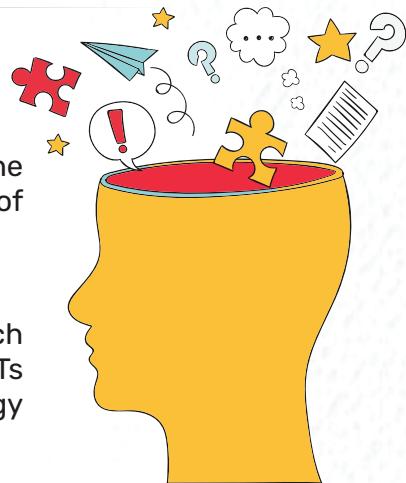
### Scope for elimination

- Again, elimination technique is more dependent on knowledge, if one knows that statement I is wrong that is both ‘interest income’ and ‘dividend’ receive the same tax treatment, then it is wrong. And as Statement I is wrong, option (d) is the correct answer.
- **How to cover? InVITs and REITS are neither covered in the Introductory Macroeconomics book (NCERT Class 12) nor in the NCERT Business Studies book. However, standard newspapers cover them from time to time.**

## Additional Information

- **What is interest income and dividend income?**
- While interest income is earned by a lender from a borrower (company) on the funds given by the lender, dividend is the amount received by the shareholder of a company from the profits made by a company.
- **Difference between InVITs and REITs**
- In simple words, both InVITs and REITs are mutual funds like instruments which take money from the investors and invest them in different projects. InVITs invest them in infrastructure projects like road construction, renewable energy projects while REITs invest them in the construction of buildings, offices, etc.

Onlyspoonfeedrajpurohit9753@gmail.com



# Answer Writing for **CIVIL SERVICES** **MAINS EXAMINATION**

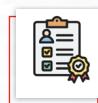


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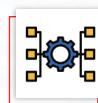
**Identification of Context:** Understanding the specific theme or topic of the question, and situating the response within its relevant context.



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**An impactful Introduction:** Engagingly setting the stage for the answer, capturing the examiner's attention while providing a brief overview of the discussion to follow.



**Structure and Presentation:** Organizing the answer coherently with clear headings, subheadings, or bullet points, and presenting information logically and aesthetically for easy comprehension.



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# INDIAN ECONOMY

## LAND REFORMS

(1 Questions)

**YEAR 2019**

### LAND REFORMS AFTER INDEPENDENCE

**Q1. With reference to land reforms in independent India, which one of the following statements is correct?**

- (a) The ceiling laws were aimed at family holdings and not individual holdings.
- (b) The major aim of land reforms was providing agricultural land to all the landless.
- (c) It resulted in cultivation of cash crops as a predominant form of cultivation.
- (d) Land reforms permitted no exemptions to the ceiling limits.

**ANSWERS**

**B**

**EXPLANATION**



- The unit of application of ceiling differs from state to state. In Andhra Pradesh, Assam, Bihar, Punjab, Haryana, Uttar Pradesh, West Bengal, Madhya Pradesh and Maharashtra, it is on the basis of an 'land holder', whereas in the other States it is on the basis of a 'family'.
- Moreover, there were a list of exemptions to ceiling limits by different states.
- In order to bring about uniformity, a new policy was evolved in 1971. The main features were:
  - Lowering of ceiling to 28 acres of wet land and 54 acres of unirrigated land
  - A change over to family rather than the individual as the unit for determining land holdings lowered ceiling for a family of five.
  - Fewer exemptions from ceilings
  - Retrospective application of the law for declaring benami transactions null and void; and
  - No scope to move the court on ground of infringement of fundamental rights.**■ Hence options (a) and (d) are not correct.**
- After Independence, the immediate goal of the Government was to increase the production of foodgrains by
  - switching over from cash crops to food crops;
  - intensification of cropping over already cultivated land; and
  - increasing cultivated area by bringing cultivable and fallow land under plough.
- Therefore, land reforms were not focussed on cash crops and hence it did not lead to cash crops being predominant form of cultivation. Also, the Land reforms in Haryana and Punjab were the reason for introducing Green Revolution. It focussed more on food crops production as predominant form of cultivation and not cash crops. **Hence option (c) is not correct.**
- The Land Reforms in India aimed at the redistribution of ownership holdings and reorganising operational holdings from the view point of optimum utilisation of land. It has also aimed at providing security of tenure, fixation of rents and conferment of ownership. **Hence option (b) is the correct answer.**

## ANALYSIS:



### Scope for elimination

No scope for elimination but option (b) is convincingly true.

**SOURCE :** Indian Economic Development (NCERT Class 11)

## AGRICULTURE

(17 Questions)

YEAR 2017

SOIL HEALTH CARD

#### Q1. The nation-wide 'Soil Health Card Scheme' aims at

1. expanding the cultivable area under irrigation.
2. enabling the banks to assess the quantum of loans to be granted to farmers on the basis of soil quality.
3. checking the overuse of fertilizers in farmlands.

Which of the above statements is/are correct?

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

## ANSWERS

B

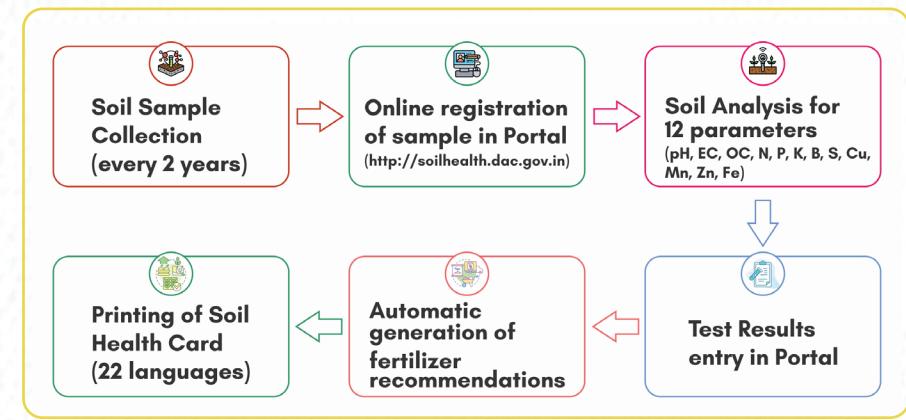
### EXPLANATION



- Launched by the central government in February 2015, the scheme is tailor-made to issue 'Soil card' to farmers which will carry crop-wise recommendations of nutrients and fertilizers required for the individual farms. This is aimed to help farmers to improve productivity through judicious use of inputs. **Hence only statement 3 is correct.**
- Under the scheme, the government issues Soil Health Cards (SHC) to farmers. A SHC provide soil nutrient status of his holding to each farmer and advise him/ her on the dosage of fertilizers and also the needed soil amendments that should be applied to maintain soil health in the long run.

## ANALYSIS:

- Soil Health Card was a recent theme then. And also the phase I of the scheme ended in 2017. Students are advised to maintain a list of Flagship Schemes and Policies of the Government. Follow developments associated with them and thoroughly go through their features.



**SOURCE :** <http://pib.snic.in/newsite/PrintRelease.aspx?relid=159441>  
[https://informatics.nic.in/uploads/pdfs/1a479603\\_soilhealthcard.pdf](https://informatics.nic.in/uploads/pdfs/1a479603_soilhealthcard.pdf)

**YEAR 2017**

## NATIONAL AGRICULTURAL MARKET

**Q2. What is/are the advantage/advantages of implementing the 'National Agriculture Market' scheme?**

1. It is a pan-India electronic trading portal for agricultural commodities.
2. It provides the farmers access to nationwide market, with prices commensurate with the quality of their produce.

Select the correct answer using the code given below:

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

**ANSWERS** C

**EXPLANATION**



- ① National Agriculture Market (NAM) is a pan-India electronic trading portal which networks the existing APMC mandis to create a unified national market for agricultural commodities. **Hence, statement 1 is correct.**
- ② NAM promotes uniformity, streamlining of procedures across the integrated markets, removes information asymmetry between buyers and sellers and promotes real time price discovery, based on actual demand and supply, promotes transparency in auction process, and access to a nationwide market for the farmer, with prices commensurate with quality of his produce and online payment and availability of better quality produce and at more reasonable prices to the consumer. **Hence, statement 2 is correct.**

**ANALYSIS:**

- ③ Farmers distress has always been in the news. Their lack of getting adequate prices for their produce is a perennial problem.

**SOURCE :** <https://www.enam.gov.in/web/>

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YEAR 2017

## AGRICULTURAL TRADE

**Q3. Consider the following statements:**

1. The quantity of imported edible oils is more than the domestic production of edible oils in the last five years.
2. The Government does not impose any customs duty on all the imported edible oils as a special case.

Which of the statements given above is/are correct?

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

**ANSWERS** A**EXPLANATION**

- Please note: Dynamic tools like taxes, duties, expenditure keep changing from year to year. The question was asked in 2018. Hence, in this context, 'last five years' means 2013-2018 or 2012-13 to 2017-18.
- Statement 1 is correct: India occupies a prominent position in the world oilseeds industry with contribution of around 10% in worldwide production. But the demand of edible oils (extracted from oilseeds in addition to palm oil) is significantly higher than the domestic production, leading to dependence on imports (About 56 % of domestic demand of edible oils is met through imports out of which palm oil/palmolein constitutes about 54%).
- Statement 2 is not correct: Government imposes customs duty on edible oils to safeguard the interests of domestic oil crushing industry. The duty on two major edible oils, namely crude sunflower seed oil and crude canola/rapeseed/mustard is 25 per cent (in 2018), while crude soyabean oil attracts 30 per cent duty (in 2018). The basic duty on Refined Soybean oil and Refined Sunflower Oil was reduced to 17.5% from 32.5% and the basic duty on Refined Palm Oils was reduced from 17.5% to 12.5% on 21.12.2021. This duty has been extended up to 31st March, 2024.

**ANALYSIS:**

- Edible oil import scenario in India has been regularly covered by the standard newspapers. Here is an excerpt from the Hindu (November 9, 2017)

R.B.N. Prasad of IICT, Hyderabad.

Nov 9, 2017,  
The Hindu

India is producing 7 to 8.5 million metric tonnes of edible oil annually from 28 million hectares of land. But the country is still heavily dependent on imports with last year alone, 15 million metric tonnes of edible oil imported. This imbalance is a dangerous scenario.

- In 2019, UPSC had asked a question related to the world's largest rice exporter (Answer: India). It is important to remember the basic facts related to the agro-economics e.g. edible oils, pulses (India is the largest producer and surprisingly the largest importer of pulses), rice. Millets, the cultivation of which is being promoted is another important theme. UPSC may ask more questions on this theme in the years to come.
- Such topics can be covered mostly through the newspapers (The Hindu and The Indian Express and from the Economic Survey)

**Q4. Consider the following:**

1. Areca nut
2. Barley
3. Coffee
4. Finger millet
5. Groundnut
6. Sesamum
7. Turmeric

The Cabinet Committee on Economic Affairs has announced the Minimum Support Price for which of the above?

- (a) 1, 2, 3 and 7 only
- (b) 2, 4, 5 and 6 only
- (c) 1, 3, 4, 5 and 6 only
- (d) 1, 2, 3, 4, 5, 6 and 7

**ANSWERS** B**EXPLANATION**

- ◆ Minimum Support Price (MSP) is a form of market intervention by the Government of India to insure agricultural producers against any sharp fall in farm prices.
- ◆ The MSP is fixed on the recommendations of the Commission for Agricultural Costs and Prices (CACP).
- ◆ The CACP is a statutory body and submits separate reports recommending prices for Kharif and Rabi seasons.
- ◆ Initially, MSP covered paddy, rice, wheat, jowar, bajra, maize, ragi (Finger Millet), barley, gram, tur, moong, urad, sugarcane, groundnut, soybean, sunflower seed, rapeseed and mustard, cotton, jute and tobacco.
- ◆ From 1994-95 onwards, Nigerseed and Sesame were included under MSP Scheme of CACP, in addition to the edible oilseeds already covered by the Commission. Similarly, during 2001-2002, the government enhanced the terms of reference of the Commission by including lentil (masur). **Hence option (b) is the correct answer.**

**ANALYSIS:****Scope for elimination**

Coffee is not one of the 23 crops that are covered under the MSP. Thus options (a), (c) and (d) could be eliminated.

**MSP VALUE OF PRODUCTION**

CROP	VALUE
Paddy	3,20,821.57
Wheat	2,07,110.75
Sugarcane	97,817.50
Cotton	95,117.65
Chana	55,331.25
Groundnut	51,388.64
Maize	50,406.40
Soyabean	41,607.65
Mustard	40,338.30
Arhar	22,214.00
Bajra	20,560.00
Moong	17,343.00
Jowar	12,061.50
Urad	11,628.00
Copra	7,140.75
Jute	6,691.93
Masur	5,664.00
Ragi	5,481.00
Sesamum	4,863.75
Barley	2,577.25
Sunflower	1,226.05
Nigerseed	249.48
Safflower	156.45
<b>TOTAL Value</b>	<b>10,77,796.88</b>

(Prices in Rs crore; for 2019-20)

**SOURCE :** <https://vikaspedia.in/agriculture/market-information/minimum-support-price>

## YEAR 2018 AGRICULTURAL SURVEY

**Q5. As per the NSSO 70th Round "Situation Assessment Survey of Agricultural Households", consider the following statements:**

1. Rajasthan has the highest percentage share of agricultural households among its rural households.
2. Out of the total agricultural households in the country, a little over 60 percent belong to OBCs.
3. In Kerala, a little over 60 percent of agricultural households reported to have received maximum income from source other than agricultural activities.

Which of the statements given above is/are correct?

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

## ANSWERS C



## EXPLANATION

- **Statement 1 is correct:** Among the major States, Rajasthan had highest percentage of agricultural households (78.4 percent) among its rural households followed by Uttar Pradesh (74.8 percent) and Madhya Pradesh (70.8 percent). Kerala had the least percentage share of agricultural households (27.3 percent) in its rural households preceded by other southern States like Tamil Nadu (34.7 percent) and Andhra Pradesh (41.5 percent).
- **Statement 2 is not correct:** During the reference period of July 2012- June 2013, about 45 percent out of the total agricultural households in the country belonged to Other Backward Classes (OBC). About 16 percent of agricultural households were from Scheduled Castes (SC) and 13 percent were from Scheduled Tribes (ST).
- **Statement 3 is correct:** Agricultural activity (cultivation, livestock and other agricultural activities) was reported to be the principal source of income for majority of the households in all the major States, except Kerala where about 61 percent of the agricultural households reported to have earned maximum income from sources other than agricultural activities.

## ANALYSIS:



## Scope for elimination

This question is tough because the information used in the statements of the question were not from any of the conventional sources, but if due attention is given, then the second statement is incorrect and options (a), (b) and (d) **can be eliminated** as (60 +)% OBC agricultural households would look seemingly doubtful at a time when reservation offered by the central government is around 27%.

**SOURCE :** [https://mospi.gov.in/sites/default/files/national\\_data\\_bank/ndb-rpts-70.htm](https://mospi.gov.in/sites/default/files/national_data_bank/ndb-rpts-70.htm)

YEAR 2018

ORGANIC FARMING

**Q6. With reference to organic farming in India, consider the following statements:**

1. 'The National Programme for Organic Production' (NPOP) is operated under the guidelines and directions of the Union Ministry of Rural Development.
2. 'The Agricultural and Processed Food Products Export Development Authority' (APEDA) functions as the Secretariat for the implementation of NPOP.
3. Sikkim has become India's first fully organic State.

Which of the statements given above is/are correct?

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

**ANSWERS****B****EXPLANATION**

- ① Ministry of Commerce has implemented the National Programme for Organic Production (NPOP) since 2001. **Hence statement 1 is not correct.**
- ② Agricultural and Processed Food Products Export Development Authority (APEDA) functions as the Secretariat for the implementation of the NPOP. **Hence statement 2 is correct.**
- ③ Sikkim has become India's first fully organic state, in 2016, by implementing organic practices on around 75,000 hectares of agricultural land. **Hence statement 3 is correct.**

**ANALYSIS:**

- ① Topic: Agriculture and Food-processing
- ② Sub-topic: Organic Food Production and APEDA
- ③ **Scope for elimination:** Statement 1 is incorrect as even if one does not know which is the exact ministry (Ministry of Commerce or the Ministry of Agriculture) one surely knows which ministries cannot be. Going by that logic, we can easily eliminate options (a) and (d), but we cannot go further as it is difficult to predict the correctness of statement 2.
- ④ Thus difficulty level: **Medium** (not easy)
- ⑤ **(Motivation, why asked?):** It has always been in the news especially the fact that Sikkim became India's first organic state.

**SOURCE :** <https://www.thehindu.com/news/national/label-mandatory-for-food-certified-as-organic-from-july/article22378459.ece>

<https://www.thehindu.com/news/national/Sikkim-becomes-India%E2%80%99s-first-organic-state/article13999445.ece>

YEAR 2019

**FOOD CORPORATION OF INDIA (FCI)**

**Q7. The economic cost of food grains to the Food Corporation of India is the Minimum Support Price and bonus (if any) paid to the farmers plus**

- (a) transportation cost only
- (b) interest cost only
- (c) procurement incidentals and distribution cost
- (d) procurement incidentals and charges for godowns

**ANSWERS****C****EXPLANATION**

- **The Public Distribution System (or PDS) in India aims at targeting and curing the problem of food scarcity.** It is jointly managed by the Centre and the state governments. While the centre handles the food procurement, storage, transport and bulk distribution part, the state governments have the operational responsibility and intra-state allocational responsibilities. It is the responsibilities of the state governments to issue the ration cards and supervise the functioning of the fair price shops.
- The economic cost comprises the procurement price of foodgrains, costs related to procurement (such as statutory taxes, labour costs, mandi fees, and so on) and costs of distribution (including freight, storage and administration). **Hence option (c) is the correct answer.**

**ANALYSIS:**

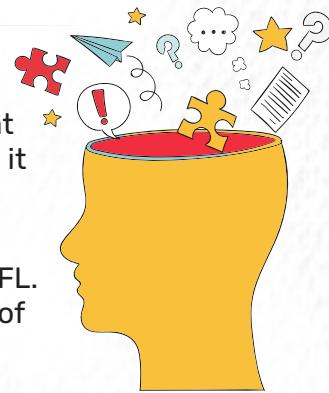
- Not covered in the NCERT books, but such topics often appear in the newspapers. Also, it was in the News in that year and was a major point of discussion in the election manifesto.
- **Scope of elimination:** A normal approach to reach the correct answer is to narrow down the focus on similar options (though there is some element of risk). In this question, there are two similar options, options (c) and (d). Thus two options can be easily eliminated.

**SOURCE :** <https://www.financialexpress.com/opinion/reforming-fci-not-a-piece-of-cake/1586038/>

**Additional Information****MSP FORMULA**

- The National Commission of Farmers/Swaminathan Commission recommended that the MSP should at least be 50 per cent more than the weighted average CoP, which it refers to as the C2 cost.
- The government maintains that the MSP was fixed at a level of at least 1.5 times of the all-India weighted average CoP, but it calculates this cost as 1.5 times of A2+FL. However farmers from time to time demanded to implement Swaminathan Method of C2 instead of present methodology of A2+FL.
- Components under these methodology are:
  - A2: Costs incurred by the farmer in production of a particular crop. It includes several inputs such as expenditure on seeds, fertilisers, pesticides, leased-in land, hired labour, machinery and fuel
  - A2+FL: Costs incurred by the farmer and the value of family labour
  - C2: A comprehensive cost, which is A2+FL cost plus imputed rental value of owned land plus interest on fixed capital, rent paid for leased-in land.

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YEAR 2019

## AGRICULTURAL TRADE

**Q8. Among the agricultural commodities imported by India, which one of the following accounts for the highest imports in terms of value in the last five years?**

- (a) Spices
- (b) Fresh fruits
- (c) Pulses
- (d) Vegetable oils

ANSWERS D

## EXPLANATION



- ⑥ The question asks about the value of agricultural imports in the 'last five years'. As this question was asked in 2019, that means the **time period in the context is 2014-2019**.
- ⑥ The total value of agricultural commodities imported during the same time period is roughly between (**Rs 1,20,000 - 1,40,000 crores**)
- ⑥ The value of pulses imported during that time period is roughly between (**Rs 15000 - Rs 30000 crores**).
- ⑥ The value of fresh fruits imported during the same time period is roughly between (**Rs 15000 crores**).
- ⑥ The value of spices imported during the same time period is roughly between (**Rs 5000 - 11000 crores**).
- ⑥ The value of vegetable oils imported during the same time period is roughly between (**Rs 65000 - 85000 crores**). Hence option (d) is the correct answer.

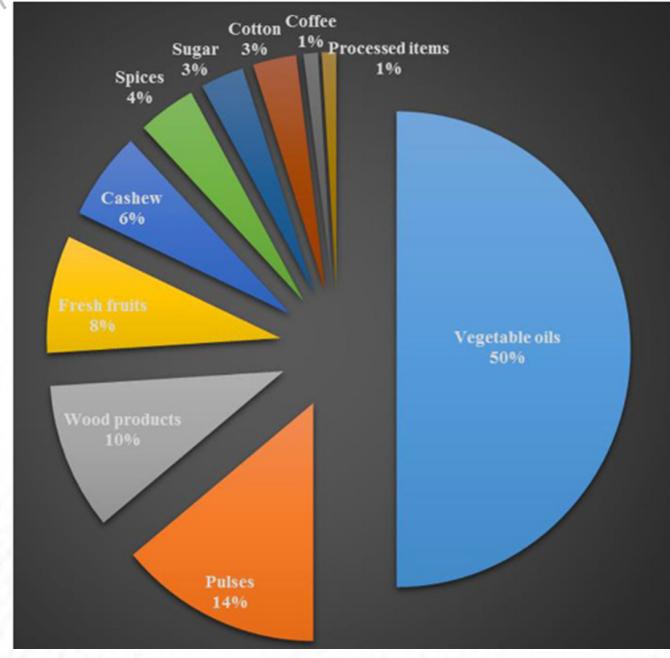
## ANALYSIS:



## Scope for elimination

Only a little bit of scope for elimination was there, spices and fresh fruits could have been eliminated, but without an exact idea, choosing between two options could have been difficult, pulses and vegetable oils.

- ⑥ India is the largest importer of the edible oils. The other important commodities in relation to which questions can be asked are millets (**regarding pulses there was a question in 2018**).
- ⑥ It is common knowledge that India is the world's largest importer of vegetable oils with an annual import volume of 14-15 million tonnes valued at \$12-13 billion and that the country faces compulsion to import because domestic production has persistently failed to meet the burgeoning consumption demand. We also know that India is the largest importer of pulses. A logic could have been applied, as 'oil' is a more important ingredient than 'pulses' as without 'oil' no cooking can be done.



**SOURCE :** Please note Economic Survey did not cover all the agricultural commodities. Refer to the Agricultural Statistics At a Glance <https://desagri.gov.in/wp-content/uploads/2021/07/Agricultural-Statistics-at-a-Glance-2021-English-version.pdf>

YEAR 2019

## AGRICULTURAL TRADE

**Q9. Among the following which one is the largest exporter of rice in the world in the last five years?**

- (a) China
- (b) India
- (c) Myanmar
- (d) Vietnam

**ANSWERS****B****EXPLANATION**

- ① India has been the world's top rice exporter since the beginning of this decade. (2011-12)
- ② India's share in world exports of rice in recent years (2014-18) has stayed at 25-26 per cent, Thailand's has fluctuated between 22 and 25 per cent, and Vietnam's between 13 and 16 per cent.
- ③ **Hence option (b) is the correct answer.**

**ANALYSIS:****Scope for elimination**

Although this is a factual question, since the exports of both Basmati and non-Basmati grade rice has been very high, India is the largest exporter of rice. This has always been in the news.

**SOURCE :** <https://www.thehindubusinessline.com/opinion/columns/c-p-chandrasekhar/the-dynamics-of-indias-rice-export-boom/article25994349.ece>

Also refer to the Agricultural Statistics At A Glance (15 to 20 pages are important and not the entire book)

<https://desagri.gov.in/wp-content/uploads/2021/07/Agricultural-Statistics-at-a-Glance-2021-English-version.pdf>

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**Q10. With reference to chemical fertilizers in India, consider the following statements:**

1. At present, the retail price of chemical fertilizers is market-driven and not administered by the Government.
2. Ammonia, which is an input of urea, is produced from natural gas.
3. Sulphur, which is a raw material for phosphoric acid fertilizer, is a by -product of oil refineries.

Which of the statements given above is/are correct?

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

**ANSWERS B****EXPLANATION**

- The Government of India subsidizes fertilizers to ensure that fertilizers are easily available to farmers and the country remains self -sufficient in agriculture. The same has been achieved largely by controlling the price of fertilizer and the amount of production. For example, as per the New Urea Policy of 2015, the government fixes the market price of urea. Also, there is a fixed subsidy component as well. Similarly, for Phosphorous and Potassium, as per the Nutrient Based Subsidy Scheme of 2010, subsidy is provided based on nutrient content per kg of fertilizer. **Hence statement 1 is not correct.**
- Fertilizer production uses 1.2% of the world's total energy out of which 90% is used for ammonia production, which is a key ingredient in the production of nitrogen fertilizers. Ammonia can be produced from natural gas. **Hence statement 2 is correct**
- Sulfur is a major by-product of oil refining and gas processing. Most crude oil grades contain some sulfur, most of which must be removed during the refining process to meet strict sulfur content limits in refined products. Industries, for instance, the Mathura oil refinery, have been responsible for producing pollutants like sulphur dioxide and nitrogen dioxide. Also, Sulphur is used in phosphoric acid fertilizer (There is a process known as 'The Wet Process' for producing the same). **Hence statement 3 is correct.**

**ANALYSIS:**

- Fertilizer subsidy is an important component of the syllabus. Also, it is one of the regularly discussed topics in WTO (has always been in the news).

**Scope for elimination**

From our understanding of Agriculture in Indian Economy, we know that most fertilisers are available to the farmers at a subsidised rate. Hence, market driven prices are not possible. Imagine during the sowing season, demand will increase and most probably the price will also increase – which might go above the purchasing power of the farmer. In such a case, it will have a direct impact on the food production of the year. That is why, many raw materials including fertilisers are made available to the farmers at a subsidised rate. Hence, statement 1 is wrong. Therefore, the answer would be either option (b) or (c) – we need to test the credibility of statement 3 only.

**SOURCE : <https://pib.gov.in/PressReleasePage.aspx?PRID=1580828>**

Cabinet Committee on Economic Affairs (CCEA)

## Cabinet approves Nutrient Based Subsidy (NBS) rates for Phosphatic and Potassic (P&K) fertilizers for the year 2019-20

Posted On: 31 JUL 2019 3:39PM by PIB Delhi

The Cabinet Committee on Economic Affairs, chaired by Prime Minister Shri Narendra Modi has approved the proposal of the Department of Fertilizers for fixation of Nutrient Based Subsidy Rates for P&K Fertilizers for the year 2019-20. The approved rates for NBS effective from the date of notification will be as under:

Per Kg Subsidy rates (in Rs.)			
N (Nitrogen)	P(Phosphorus)	K(Potash)	S(Sulphur)
18.901	15.216	11.124	3.562

The per kg. subsidy rates prior to notification will remain same as that of year 2018-19.

## YEAR 2020 AGRICULTURAL INVESTMENT

### Q11. In India, which of the following can be considered as public investment in agriculture?

- 1. Fixing Minimum Support Price for agricultural produce of all crops.
- 2. Computerization of Primary Agricultural Credit Societies
- 3. Social Capital development
- 4. Free electricity supply to farmers
- 5. Waiver of agricultural loans by the banking system
- 6. Setting up of cold storage facilities by the governments.

Select the correct answer using the code given below.

- (a) 1, 2 and 5 only
- (b) 1, 3, 4 and 5 only
- (c) 2, 3 and 6 only
- (d) 1, 2, 3, 4, 5 and 6

## ANSWERS C

## EXPLANATION



- ◆ Public Investment here refers to the creation of either physical infrastructure or intangible capital.
- ◆ Hence in this context, investment is understood as either infrastructure-related capital as given in options 2 and 6 or social capital as given in option 3.
- ◆ Subsidies and loan waivers are not investments. **Hence option 1 is not correct** (There is scope for elimination here). Hence option (c) is the correct answer. Similarly, option 4 (subisdy) and 5 are not correct.

## ANALYSIS:



### Scope for elimination

Here, if we are able to distinguish between public investment and subsidies, then we can easily find the answer through elimination. Investment generally relates to the creation of an infrastructure (physical or social). Hence, statements 1, 4 and 5 are a form of subsidies/support/waiver to the farmers and not an investment. Hence, option (c) is the correct answer.

**SOURCE :** <https://www.downtoearth.org.in/news/agriculture/private-and-government-who-is-investing-how-much-on-agriculture--65296>

The student should be mindful of all the aspects of the Agriculture and hence cover it holistically. Also, the knowledge of Agriculture from Economics and Geography can be used interchangeably.

**YEAR 2020**

**PRICE OF RICE**

**Q12. Which of the following factors/policies were affecting the price of rice in India in the recent past?**

1. Minimum Support Price
2. Government's trading
3. Government's stockpiling
4. Consumer subsidies

Select the correct answer using the code given below.

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

**ANSWERS**

**D**

Only for nagendrajput9753@gmail.com

## EXPLANATION



- ⑤ **Option 1 is correct:** MSP results in a diversion of stocks from the open market, thus, driving up the price for the ultimate consumers. Further, MSP prevents the prices from going down (directly). Price will not go below the MSP- The farmer can sell the produce to the government at the MSP. It will also prevent the price from going up (indirectly)- The price will shoot up only when the production is less, but if the production will increase, then the prices will not be too high.
- ⑥ **Option 2 is correct:** Though factors like climatic shocks determine rice production and prices in the short run, the future scenario of rice prices must be based on long-term projections of rice demand and supply. Trading results in an increased demand in the international markets, which affects the price of rice in India.
- ⑦ **Option 3 is correct:** Low stock levels constrain the ability to buffer the price rise resulting from other factors.
- ⑧ **Option 4 is correct:** Subsidies lower the prices for the ultimate consumer. Hence all the given factors affect/ have affected.

## ANALYSIS:



### Scope for elimination

As we know that whenever government intervenes in a free market, the discovery of price is affected (whether it is increased or decreased is not important for this question). Hence, we can come to answer in this question that whichever option is directly or indirectly related with the action of the Government, the price of any good (here rice) will be affected. Government is involved in MSP and subsidies. Also options 2 and 3 directly hints at the action of the government, therefore, option (d) is the correct answer.

**SOURCE :** <https://shs.hal.science/halshs-02275376/document>

Agriculture is an important topic and under the topic of intervention of the government in agriculture, this question must have been covered.

**YEAR 2020**

**KISAN CREDIT CARD**

**Q13. Under the Kisan Credit Card scheme, short-term credit support is given to farmers for which of the following purposes?**

1. Working capital for maintenance of farm assets
2. Purchase of combine harvesters, tractors and mini trucks.
3. Consumption requirements of farm households
4. Post-harvest expense
5. Construction of family house and setting up of village cold storage facility.

Select the correct answer using the code given below:

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

**ANSWERS**

**B**

## EXPLANATION



- ① Kisan Credit Card Scheme (KCC): It is a type of loan given to farmers. The scheme was introduced in 1998. It is not a credit card for farmers. **Hence options 2 and 5 are not correct.**
- ② It is like an overdraft scheme for farmers- One can overdraw up to a limit. And interest has to be paid on the amount so overdrawn. Also, the limit of overdraft is fixed on the basis of the value of land, though the value of crop may also be considered.
- ③ **The Features of This Scheme:**
  - Farmers need money before sowing. For example, to buy seeds, fertilisers etc.
  - In this scheme, they have to pay back the loan amount/ overdraft after the harvest.
  - Also, interest charged is concessional- 4.5,6%- But if they fail to payback post the harvest, then the interest charged increases to 13-14%- The subsidy component is, thus, removed.
  - The scheme has been very successful- More than 10 crore KCCs have already been issued.
  - Commercial, cooperative, Regional Rural Banks- All types of banks issue KCCs
  - Also, the loans given to farmers through KCC are counted in Priority Sector Lending - It is a means of giving loans to farmers.
  - It is very helpful and beneficial for farmers, as in order to increase agricultural production, the farmers need to buy various inputs such as seeds, fertilisers etc. This not only leads to an increase in farmers' income but also in an increase in agricultural production.
  - Objectives/Purpose Kisan Credit Card Scheme aims at providing adequate and timely credit support from the banking system under a single window to the farmers for their cultivation & other needs as indicated below:
    - To meet the short term credit requirements for cultivation of crops
    - Post harvest expenses
    - Produce Marketing loan
    - Consumption requirements of farmer household
    - Working capital for maintenance of farm assets and activities allied to agriculture, like dairy animals, inland fishery etc.
    - Investment credit requirement for agriculture and allied activities like pump sets, sprayers, dairy animals etc.
- ④ Hence statements 1, 3 and 4 are correct. Hence option (b) is the correct answer.

## ANALYSIS:



### Scope for elimination

The very basic understanding was enough to answer this question. KCC is not like a personal credit card rather a government scheme, therefore, statement 2 and 5 are not correct. Once you remove statement 2 and 5, we will be left with only one option, that is, option (b), which is the correct answer.

#### The scheme takes care of the following:

- ① To meet the short term credit requirements for cultivation of crops
- ② Post harvest expenses
- ③ Produce Marketing loan
- ④ Consumption requirements of farmer household
- ⑤ Working capital for maintenance of farm assets and activities allied to agriculture, like dairy animals, inland fishery etc.
- ⑥ Investment credit requirement for agriculture and allied activities like pump sets, sprayers, dairy animals

**SOURCE :** <https://sbi.co.in/web/agri-rural/agriculture-banking/crop-loan/kisan-credit-card>

YEAR 2019

**AGRICULTURAL COMMODITIES****Q14. Consider the following statements:**

1. In the case of all cereals, pulses and oil-seeds, the procurement at Minimum Support Price (MSP) is unlimited in any State/UT of India.
2. In the case of cereals and pulses, the MSP is fixed in any State/UT at a level to which the market price will never rise.

Which of the statements given above is/are correct?

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

**ANSWERS D****EXPLANATION**

- Based on the recommendations of the Commission for Agricultural Costs and Prices (CACP), the Department of Agriculture and Cooperation, Ministry Of Agriculture And Farmers' Welfare, declares Minimum Support Prices (MSP) for **more than 20 mandated crops**, and Fair and Remunerative Price (FRP) for Sugarcane.
- Cereals (7) - paddy, wheat, barley, jowar, bajra, maize and ragi
- Pulses (5) - gram, arhar/tur, moong, urad and lentil
- Oilseeds (8) - groundnut, rapeseed/mustard, toria, soyabean, sunflower seed, sesamum, safflower seed and nigerseed,
- Raw cotton,
- Raw jute, Copra
- The idea behind MSP is to give guaranteed price and assured market to the farmers and protect them from the price fluctuations and market imperfections. CACP considers various factors such as the cost of cultivation and production, productivity of crops, and market prices for the determination of MSPs. MSP fixed for each crop is uniform for the entire country. However, there is no instance of MSP being fixed in any State/UT at a level to which the market price will never rise. **Hence statement 2 is not correct.**
- While the government announces **MSP for crops**, effective **MSP linked procurement occurs mainly for wheat, rice and cotton**. The procurement is also limited to a few states. Due to limitations on the procurement side (both crop wise and state-wise) and even after having an open-ended procurement at MSP, all farmers do not receive benefits of an increase in MSP. **Hence statement 1 is not correct**

## ANALYSIS:

- MSP has always stayed in news as it is one of the most contentious matter for both Government and Farmers. The MSP was also in news during the massive farm protests in India. It has stayed in news since the inception of MSP. Hence, it is a recurring theme in UPSC; questions related to MSP have been asked in **2018, 2019, 2020 and 2023**



### Scope for elimination

If we carefully notice the first statements, it says ALL cereals, pulses and oilseeds and UNLIMITED procurement which are extreme statements and any entity that is procuring (even without MSP) will have some capacity which it can not breached. The same is true for government also, It can not have UNLIMITED procurement of ALL cereals, pulses and oilseeds. Hence statement 1 is wrong. MSP is the minimum support price, market price can be lower (and that is the case when farmer would want to sell at MSP) and higher also (when the farmer would want to see to the market) and the same as MSP also (farmer will have the option where to sell). This statement also has an extreme condition 'WILL NEVER RISE' which has no base to it. **Hence both statements are wrong.**

**SOURCE :** This theme was covered in the Economic Survey 2017-18.

## Additional Information

### MSP and Foodgrains Procurement

7.48 The Minimum Support Price (MSP) is announced for 22 crops before the sowing season. The objective is to give guaranteed prices and assured market to the farmers and protect them from price fluctuations. In 2018-19, the government raised the MSP of both kharif and rabi crops to ensure a return of at least 50 per cent above the cost of production to enhance farmers' income. An increase in MSP leads to increase in production, but only about one-third of the total production of foodgrains are procured. The rest of the foodgrains are sold in the open market (Table 8).



YEAR 2020

**AGRICULTURAL BANKING****Q15. Consider the following statements:**

1. In terms of short-term credit delivery to the agriculture sector, District Central Cooperative Banks (DCCBs) deliver more credit in comparison to Scheduled Commercial Banks and Regional Rural Banks.
2. One of the most important functions of DCCBs is to provide funds to the Primary Agriculture Credit Societies.

Which of the statements given above is/are correct?

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

**ANSWERS****B****EXPLANATION**

- ① District Central Co -operative Banks (DCCBs) are a type of rural co -operatives, along with State Co -operative Banks (StCBs) and Primary Agricultural Credit Societies (PACS). Short -term co - operatives are arranged in a three -tier structure in most of the states, with StCBs at the apex level, DCCBs at the intermediate level and PACS at the grassroots level.
- ② Although the focus of rural cooperative lending is agriculture, the share in credit flow to agriculture of rural cooperatives is only 12.1%, as compared to 76% of Scheduled Commercial Banks (SCBs), and 11.9% of Regional Rural Banks. **Hence statement 1 is not correct.**
- ③ DCCBs mobilise deposits from the public and provide credit to the public and PACS. **Hence statement 2 is correct.**

**ANALYSIS:**

- ④ This was not a very common theme, if we compare this with Regional Rural Banks or the NABARD, but not out of the syllabus.

**SOURCE :** <https://www.rbi.org.in/scripts/PublicationsView.aspx?Id=19366>



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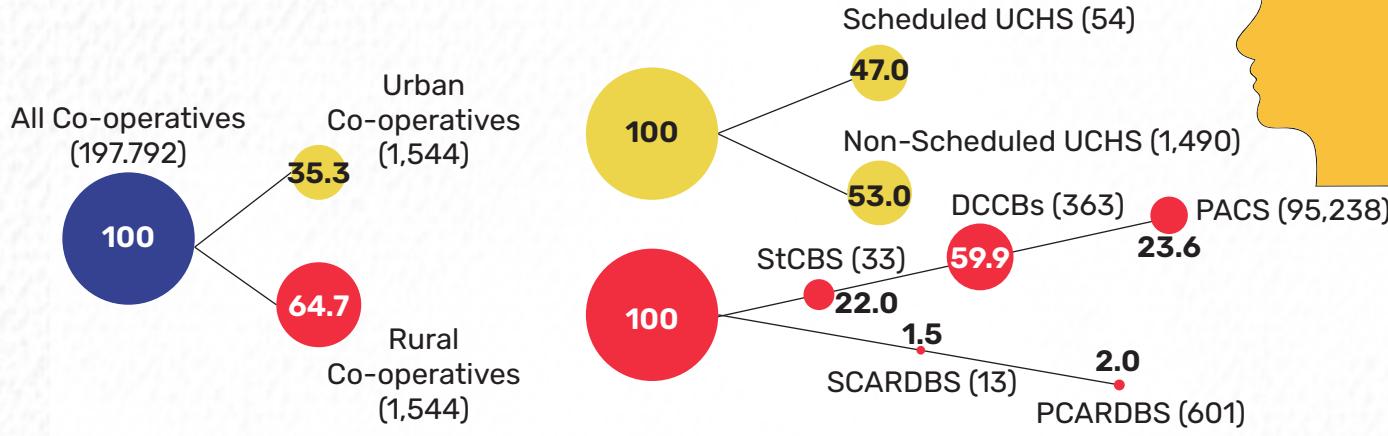


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## Additional Information

### The Structure of Co-operatives by Asset Size



The above figure shows the asset-size (in circles) and number of branches (in brackets)

## YEAR 2023 SMALL FARMER LARGE FIELD

### Q16. Which one of the following best describes the concept of 'Small Farmer Large Field'?

- (a) Resettlement of a large number of people, uprooted from their countries due to war, by giving them a large cultivable land which they cultivate collectively and share the produce
- (b) Many marginal farmers in an area organize themselves into groups and synchronize and harmonize selected agricultural operations
- (c) Many marginal farmers in an area together make a contract with a corporate body and surrender their land to the corporate body for a fixed term for which the corporate body makes a payment of agreed amount to the farmers
- (d) A company extends loans, technical knowledge and material inputs to a number of small farmers in an area so that they produce the agricultural commodity required by the company for its manufacturing process and commercial production

## ANSWERS

B

## EXPLANATION



- Small Farmers Large Field (SFLF) is a collective action model to overcome the disadvantages faced by millions of small and marginal farmers due to diseconomies of scale and lack of bargaining power in the supply chain. This model is participatory and flexible and allows small farmers to benefit from achieving economies of scale by organizing themselves into groups and synchronizing and harmonizing selected operations. It was piloted in two villages of Odisha, with 112 farmers (35 females and 77 males). These farmers organized themselves into groups and synchronized their operations such as nursery bed management, transplanting, and harvesting collectively to achieve economies of scale. The SFLF farmers purchased inputs (seed and fertilizer) and sold paddy as a group to increase their bargaining power in price negotiations. The results from this pilot study showed that the participating farmers almost doubled their profits. Apart from the monetary benefits, these farmers saved time in many joint activities, including input (seed and fertilizer) purchase, paddy sale, and nursery bed management. Other important benefits of the harmonization and synchronization of farming operations were social harmony and sustainability of the farming system. Hence option (b) is the correct answer.

## ANALYSIS:



### Scope for elimination

Although option (b) and option (c) would catch the attention of the candidates (if one applies adequate logic), it might be risky to settle for one of the two options. If the question is not difficult, it is not very easy either.

**SOURCE :** It was explained in a November 2018 Indian Express article. Please find the screenshot of the article below.

## Agricultural economics: How doubling of farmers' income is possible even with small landholdings

A unique 'small farmers, large field' model experiment in Odisha shows the way forward for achieving economies of scale and reducing cost of cultivation.

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YEAR 2023

Niger

**Q17. Consider the following statements:**

1. The Government of India provides Minimum Support Price for niger (*Guizotia abyssinica*) seeds.
2. Niger is cultivated as a Kharif crop.
3. Some tribal people in India use niger seed oil for cooking.

How many of the above statements are correct?

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

**ANSWERS C****EXPLANATION**

- ① One of the 14 kharif crops for which the Centre releases a minimum support price (MSP) every year is an unlikely plant **called niger or ramtil (*Guizotia abyssinica*)**. This lesser known oilseed commands one of the highest MSPs, fixed on the basis of the cost of production and market demand. Yet, the area under its cultivation has been steadily shrinking over the past three decades. In 1985-86, niger was cultivated on around 0.6 million hectares (ha). **Hence statement 1 and statement 2 is correct.**
- ② In 2020-21, the cultivated area shrunk by 80 per cent to a little over 0.1 million ha, the lowest among the 14 kharif crops with MSP. The primary reason such a sparsely grown crop is part of the exclusive MSP list is because niger seed has traditionally "been the lifeline of tribal agriculture and economy in several states across India.
- ③ The tribal population uses niger seed oil for cooking, the press cake post oil-extraction as livestock feed, and also consume the seeds as a condiment. Niger seed oil has medicinal properties, which is the reason for its commercial demand by the cosmetics, perfumeries and other allied industries. **Hence statement 3 is correct.**

**ANALYSIS:****Scope for elimination**

No scope as the question is purely factual and the UPSC's new pattern has eliminated the scope for elimination applying the classic elimination technique.

- ④ Normally, MSP is always in the news and has been very important from the CSE point of view.
- ④ Apart from that, nigerseed was in the news for the decline in area under production.

**SOURCE :** Standard newspaper or magazines (Down To Earth) as this current affairs-derived  
<https://www.downtoearth.org.in/news/agriculture/illusive-oil-seed-india-s-niger-seed-cultivation-is-declining-here-is-why-84380>



## DownToEarth



Niger seeds have 32-40 per cent oil content and 18-24 per cent protein (Photographs: Raju Sajwan)

One of the 14 kharif crops for which the Centre releases a minimum support price (MSP) every year is an unlikely plant called niger or *ramtil* (*Guizotia abyssinica*). This lesser known oilseed commands one of the highest MSPs, fixed on the basis of the cost of production and market demand.

Yet, the area under its cultivation has been steadily shrinking over the past three decades. In 1985-86, niger was cultivated on around 0.6 million hectares (ha), according to a 2013 report by the All India Coordinated Research Project on Sesame and Niger (AICRP), Jabalpur.

In 2020-21, the cultivated area shrunk by 80 per cent to a little over 0.1 million ha, the lowest among the 14 kharif crops with MSP. Paddy, the most widely grown kharif crop, is cultivated on almost 40 million ha.

The primary reason such a sparsely grown crop is part of the exclusive MSP list is because niger seed has traditionally "been the lifeline of tribal agriculture and economy in several states across India," the 2013 AICRP report stated.



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## FOOD PROCESSING: INDUSTRIES

### (2 Questions)

**YEAR 2022**

**E-COMMERCE**

**Q1. With reference to foreign-owned e-commerce firms, operating in India, which of the following statements is/are correct?**

1. They can sell their own goods in addition to offering their platforms as market-places.
2. The degree to which they can own big sellers on their platforms is limited.

Select the correct answer using the code given below:

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

**ANSWERS**

**D**

- ① Consumer Protection (E-Commerce) Rules, 2020 define e-commerce entity (also foreign owned) as any person who owns, operates or manages digital or electronic facility or platform for electronic commerce, but does not include a seller offering his goods or services for sale on a marketplace e-commerce entity. **Hence statement 1 is not correct.**
- ② **Marketplace based model of e-commerce** means providing an IT platform by an e-commerce entity on a digital & electronic network to act as a facilitator between buyer and seller.
- ③ On other hand, **Inventory based model of e-commerce** means an e-commerce activity where inventory of goods and services is owned by e-commerce entity and is sold to the consumers directly. However, FDI is not permitted in inventory based model of e-commerce.
- ④ According to guidelines for FDI (Foreign Direct Investment) on E-Commerce, E-commerce entity providing a marketplace will not exercise ownership or control over the inventory i.e. goods purported to be sold. **Such an ownership or control over the inventory will render the business into inventory based model.** Inventory of a vendor will be deemed to be controlled by e-commerce marketplace entity if more than 25% of purchases of such vendor are from the marketplace entity or its group companies. **There are no guidelines on the limit of the big sellers that such an e-commerce platform have. Hence statement 2 is not correct.**

**ANALYSIS:**

- ⑤ Draft of proposed amendments to the Consumer Protection (E-commerce) Rules, 2020 were in the news.



## Scope for elimination

**Scope for elimination:** No scope as the statements are factual in nature.

- ⑥ **Market-place model:** The marketplace model refers to the business strategy in which e-commerce marketplaces provide numerous vendors with a centralized platform where they may sell their items while engaging with potential buyers.
- ⑦ **Inventory model:** The Inventory-based model is one in which e-commerce platforms hold inventory from brands, merchants, and sellers and sell it directly to customers. Inventory-based marketplaces manage the stockpiles of their vendors, assisting them in order fulfilment.

**SOURCE :** <https://consumeraffairs.nic.in/sites/default/files/E%20commerce%20rules.pdf>  
[https://dpiit.gov.in/sites/default/files/pn3\\_2016\\_0.pdf](https://dpiit.gov.in/sites/default/files/pn3_2016_0.pdf)  
<https://pib.gov.in/Pressreleaseshare.aspx?PRID=1595850>

**YEAR 2023 MSME**

### Q2. Consider the following statements with reference to India:

1. According to the 'Micro Small and Medium enterprises Development (MSMED) Act, 2006, the 'medium enterprises' are those with investments in plant and machinery between Rs. 15 crore and Rs. 25 crore.
2. All bank loans to the Micro, Small and Medium Enterprises qualify under the Priority sector.

Which of the statements given above is/are correct?

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

**ANSWERS D**

**EXPLANATION** 

- ⑥ Union Ministry of Micro, Small and Medium Enterprises (M/o MSMEs) has issued Gazette notification to pave way for the implementation of the upward revision in the definition and criteria of MSMEs in the country. The new definition and criterion will come into effect from 1st July, 2020.
- ⑦ As per the new criteria, a medium enterprise is where the investment in Plant and Machinery or Equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees. In terms of Master Direction on 'Priority Sector Lending (PSL) - Targets and Classification' dated September 4, 2020, all bank loans to MSMEs conforming to the conditions prescribed therein qualify for classification under priority sector lending.
- ⑧ According to these directions, MSMEs should be engaged in the manufacture or production of goods, in any manner, pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 or engaged in providing or rendering of any service or services. All bank loans to MSMEs conforming to the above guidelines qualify for classification under priority sector lending. Hence both statements are not correct.

## ANALYSIS:

- ❖ MSMEs were reclassified and MSMEs and PSL are often seen in the news.
- ❖ How to cover? Standard newspaper
- ❖ <https://www.thehindu.com/business/msmes-not-static-but-growing-in-size-assets-finmin/article66660980.ece>
- ❖ A screenshot of the above article in which MSMEs have been categorised is shared below

"The Udyam data is wrongly interpreted," Mr. Raghunathan told *The Hindu*. "The classification of an applicant into micro or small or medium is by self-declaration and is not taken from the IT and GST portals as claimed. The registration has been so poor, which is evident from the fact that the number of MSMEs was 6.15 crore, even as per the old classification," he added.

The government had in 2020 tweaked the investment and turnover norms for MSME classification. A micro unit is one with an annual turnover of up to ₹5 crore and investments in plant and machinery of up to ₹1 crore. The turnover threshold is ₹50 crore and ₹250 crore for small and medium enterprises, respectively, while the investment threshold is pegged at ₹10 crore and ₹50 crore, respectively.

- ❖ Although the second statement also includes PSL, but overall the question is related to MSMEs and not banking in general.



### Scope for elimination

- ❖ No scope as the question is factual.
- ❖ The second statement is a blanket statement and therefore seemingly wrong, but again the word 'all' may be a trap. The Reserve Bank of India's website answers the doubt related to eligibility of the MSMEs for Priority Sector Lending (PSL).

**SOURCE :** <https://msme.gov.in/know-about-msme>

#### Q.2. What is the status of lending by banks to this sector?

Bank's lending to the Micro, Small and Medium enterprises as under is eligible to be reckoned for priority sector advances:

(i) The definition of MSMEs will be as per Government of India, **Gazette Notification S.O. 2119 (E) dated June 26, 2020** read with **circulars FIDD.MSME & NFS.BC.No.3/06.02.31/2020-21 dated July 2, 2020, FIDD.MSME & NFS. BC. No.4/06.02.31/2020-21 dated August 21, 2020, FIDD.MSME & NFS.BC.No.13/06.02.31/2021-22 dated July 07, 2021** and updated from time to time.

(ii) Further, such MSMEs should be engaged in the manufacture or production of goods, in any manner, pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 or engaged in providing or rendering of any service or services. All bank loans to MSMEs conforming to the above guidelines qualify for classification under priority sector lending.

Detailed guidelines on lending to the Micro, Small and Medium enterprises are available in our **Master Direction FIDD.MSME & NFS.12/06.02.31/2017-18 dated July 24, 2017**. The instructions issued by RBI, to banks, on various matters are available on our website [www.rbi.org.in](http://www.rbi.org.in).

Classification	Micro	Small	Medium
<b>Manufacturing Enterprises and Enterprises</b>	Investment in Plant and Machinery or Equipment:	Investment in Plant and Machinery or Equipment:	Investment in Plant and Machinery or Equipment:
<b>rendering Services</b>	Not more than Rs.1 crore and Annual Turnover ; not more than Rs. 5 crore	Not more than Rs.10 crore and Annual Turnover ; not more than Rs. 50 crore	Not more than Rs.50 crore and Annual Turnover ; not more than Rs. 250 crore

## INFRASTRUCTURE

(2 Questions)

YEAR 2017 NIIF

**Q1. With reference to 'National Investment and Infrastructure Fund', which of the following statements is/are correct?**

1. It is an organ of NITI Aayog.
2. It has a corpus of Rs. 4,00,000 crore at present.

Select the correct answer using the code given below.

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

**ANSWERS D**

**EXPLANATION**



- ◆ National Investment and Infrastructure Fund (NIIF) is a fund created by the Government of India for enhancing infrastructure financing in the country. Its creation was announced in the Union Budget 2015-16. Governing Council of NIIF is an advisory body - chaired by the Finance Minister. It is not an organ of NITI Aayog. **Hence statement 1 is not correct.**
- ◆ The proposed corpus of NIIF is Rs. 40,000 Crores (around USD 6 Billion). **Hence statement 2 is also not correct.**

## ANALYSIS:

- Infrastructure has been a very important focus area of the government and therefore NIIF had remained continuously in news in the 2017. The topic is also important from the perspective of covering key financial institutions of the country.



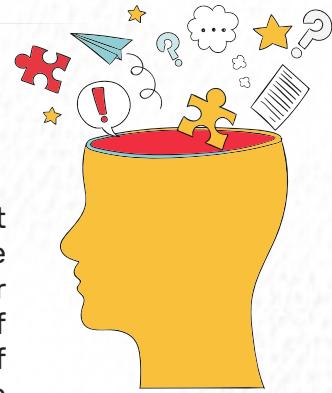
### Scope for elimination

Not much scope is there as it is a purely factual question, but one could have thought how NITI Aayog, a deliberative and planning body, could create such a fund to boost infrastructure. Thus by assuming that statement 1 is not correct, one could have got rid of options (a) and (c).

**SOURCE :** <http://www.thehindu.com/business/Industry/Govt.-mulls-%E2%80%98out-come-linked%E2%80%99-incentive-for-NIIF-chief/article14378399.ece>  
[http://arthapedia.in/index.php%3Ftitle%3DNational\\_Investment\\_and\\_Infrastructure\\_Fund\\_\(NIIF\)](http://arthapedia.in/index.php%3Ftitle%3DNational_Investment_and_Infrastructure_Fund_(NIIF))  
<http://niifindia.com/index.html>

## Additional Information

### DIFFERENCE BETWEEN NIF AND NIIF



- NIF: National Investment Fund (NIF)** was established 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 & capital investment requirements of profitable and revivable PSUs. This fund was kept outside the consolidated fund of India. The fund became operational in 2005. Entire disinvestment proceeds are to be credited to the existing 'Public Account' under the head NIF and they would remain there until withdrawn/invested for the approved purpose. The allocations out of the NIF will be decided in the annual Government Budget.
- NIIF: National Investment and Infrastructure Fund** is India's first infrastructure specific investment fund. This is different from the National Investment Fund. The objective of NIIF would be to maximize economic impact mainly through infrastructure development in commercially viable projects, both greenfield and brownfield, including stalled projects. The corpus of NIIF is Rs. 40,000 Crores. The government can provide up to 20000 crores per annum into these funds. Government's contribution/share in the corpus will be 49% in each entity set up as an alternate Investment Fund (AIF) and will neither be increased beyond nor allowed to fall below, 49%. The whole of 49% would be contributed by the Government directly. Rest is open for contribution from others.

**YEAR 2023****PORTS****Q2. Consider the following pairs:**

<b>Port</b>	<b>Well known as</b>
1. Kamarajar Port :	First major port in India registered as a company
2. Mundra Port :	Largest privately owned port in India
3. Visakhapatnam:	Largest container port in India

How many of the above pairs are correctly matched?

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

**ANSWERS****B****EXPLANATION**

- ① **Pair 1 is correctly matched:** Kamarajar Port, located on the Coromandel Coast about 24 km north of Chennai Port, Chennai, it is the 12th major port of India, and the first port in India which is a public company. The port was declared as a major port under the Indian Ports Act, 1908 in March 1999 and incorporated as Ennore Port Limited under the Companies Act, 1956 in October 1999. The Kamarajar Port is the only corporatized major port and is registered as a company.
- ② **Pair 2 is correctly matched:** Port of Mundra is India's biggest private port. Located in the Kutch district of the state of Gujarat, Mundra lies on the north shores of the Gulf of Kutch.
- ③ **Pair 3 is not correctly matched:** As of May 2023, the Javanarlal Nehru Port Authority (JNPA) at Navi Mumbai was the premier container handling port in India, accounting for around 50% of the total containerized cargo volume, across the major ports of India. Commissioned on 26 th May 1989, in three decades of its operations, JNPA has transformed from a bulk- cargo terminal to become the premier container port in the country. JNPA is connected to over 200 ports in the world and is ranked 26th in the list of top 100 Container Ports globally. **As per the recent findings it is believed that that Mundra port is the biggest container port.**

**ANALYSIS:**

- ④ The ports often appear in the news, especially Mundra port which is a privately owned port of the Adani group.

Chennai Port Authority (ChPA) and the Kamarajar Port Ltd. (KPL) recorded a 24% year-on-year increase in car exports during FY23, a top official said.

The ports exported 3.8 lakh cars during FY23 against 3.06 lakh units in the year-earlier period. While ChPA's car exports climbed 36%, KPL witnessed a 9% increase in volumes.

**Scope for elimination**

- ⑤ **There is no scope for elimination** as any number of pairs may be correctly matched.
- ⑥ **Source:** An article in The Hindu (April, 2023) discusses the profit of the Kamarajar Port Ltd. **This 'Ltd'** means that the port is registered as a company. If an aspirant pays greater attention to how terms are mentioned in the articles, then definitely they could answer (It is not easy though). Please find below the screenshot of that article

## ENERGY SECTOR

### (3 Questions)

**YEAR 2019**

**REGULATORY BOARD**

**Q1. Consider the following statements:**

1. Petroleum and Natural Gas Regulatory Board (PNGRB) is the first regulatory body set up by the Government of India.
2. One of the tasks of PNGRB is to ensure competitive markets for gas.
3. Appeals against the decisions of PNGRB go before the Appellate Tribunals for Electricity.

Which of the statements given above are correct?

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

**ANSWERS**

**B**

**EXPLANATION**



- ① **Statement 1 is not correct:** The Petroleum and Natural Gas Regulatory Board (PNGRB) was constituted under The Petroleum and Natural Gas Regulatory Board Act, 2006.
- ② **Statement 2 is correct:** The Act provide for the establishment of Petroleum and Natural Gas Regulatory Board to protect the interests of consumers and entities engaged in specified activities relating to petroleum, petroleum products and natural gas and to promote competitive markets and for matters connected therewith or incidental thereto.
- ③ **Statement 3 is correct:** The Appellate Tribunal established under section 110 of the Electricity Act, 2003 (36 of 2003) is the Appellate Tribunal for the purposes of Petroleum and Natural Gas Regulatory Board Act, 2006.

**ANALYSIS:**

- ④ The Government has envisaged to develop the National Gas Grid. For this the Petroleum and Natural Gas Regulatory Board (PNGRB) is the authority to grant authorization to the entities for the development of City Gas Distribution (CGD) network in Geographical Areas (GAs) as per PNGRB Act, 2006.



### **Scope for elimination**

The regulatory body is of recent origin. The Atomic Energy Regulatory Board was constituted on 15 November 1983. Therefore, clearly statement 1 is not correct. Using that logic, we can reach the correct answer.

**SOURCE :** <http://www.pngrb.gov.in/about-us.html>

## YEAR 2019 COAL SECTOR

### Q2. Consider the following statements:

1. Coal sector was nationalized by the Government of India under Indira Gandhi.
2. Now, coal blocks are allocated on lottery basis.
3. Till recently, India imported coal to meet the shortages of domestic supply, but now India is self-sufficient in coal product.

Which of the statements given above is/are correct?

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

### ANSWERS A



### EXPLANATION

- **Statement 1 is correct:** Adequate capital investment to meet the burgeoning energy needs of the country was not forthcoming from the private coal mine owners. Unscientific mining practices adopted by some of them and poor working conditions of labour in some of the private coal mines became matters of concern for the Government. On account of these reasons, the Central Government took a decision to nationalise the private coal mines. The nationalisation was done in two phases, the first with the coking coal mines in 1971-72 and then with the non-coking coal mines in 1973.
- **Statement 2 is not correct:** After the Supreme Court cancelled the coal block allocations in 2014. To manage and reallocate the cancelled blocks in a transparent and accountable manner, the Coal Mines (Special Provisions) Act, 2015 was enacted. Enabling provisions were made in the above said Act for 'allocation of coal mines by way of auction and allotment for the sale of coal.'
- In a recent notification by the Government on 20th February, the government opened up commercial coal mining for the private sector on February 20, and approved the methodology for auction of coal mines / blocks for sale of coal.
- There will be an 'ascending forward auction' -- a two-stage online auction comprising (i) technical bid and (ii) financial bid with initial and final price offers. The bid parameter will be the price offer in /tonne which will be paid to the State government on the actual production of coal.
- **Statement 3 is not correct:** India is still one of the largest importer of Coal. Domestic coal has been able to meet only 75% of our annual coal demand. The shortfall in local coal availability is met through imports of around 200 mt.

### ANALYSIS:



### Scope for elimination

India do not have good quality coal hence we import our good chunk of our requirement so 3rd statement can be eliminated. Now we can come to answer 1.

**SOURCE :** **Economics survey** <https://www.thehindu.com/business/Industry/why-has-coal-mining-been-opened-up/article22851689.ece>

- ◆ Coal is one of the important minerals which is mainly used in the generation of thermal power and smelting of iron ore.
- ◆ Coal occurs in rock sequences mainly of **two geological ages, namely Gondwana and Tertiary deposits.**
- ◆ About 80 per cent of the coal deposits in India is of bituminous type and is of non-coking grade.
- ◆ The most important Gondwana coal fields of India are located in Damodar Valley. They lie in Jharkhand-Bengal coal belt and the important coal fields in this region are Raniganj, Jharia, Bokaro, Giridih, Karanpura.
- ◆ Jharia is the largest coal field followed by Raniganj.
- ◆ **Tertiary coals occur in Assam, Arunachal Pradesh, Meghalaya and Nagaland.** It is extracted from Darangiri, Cherrapunji, Mewlong and Langrin (Meghalaya); Makum, Jaipur and Nazira in upper Assam, Namchik -Namphuk (Arunachal Pradesh) and Kalakot (Jammu and Kashmir).
- ◆ **The brown coal or lignite occur in the coastal areas of Tamil Nadu, Puducherry, Gujarat and Jammu and Kashmir.**

## YEAR 2023    URANIUM

### Q3. Consider the following statements:

Statement-I: India, despite having uranium deposits, depends on coal for most of its electricity production.  
 Statement-II: Uranium, enriched to the extent of at least 60%, is required for the production of electricity. Which one of the following is correct in respect of the above statements?

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

## ANSWERS    C

### EXPLANATION



- ◆ **Statement I is correct:** Atomic Minerals Directorate for Exploration and Research (AMD), a constituent unit of the Department of Atomic Energy (DAE), all over India has established 3,82,675 tonnes in situ U308 in 47 uranium deposits in Andhra Pradesh, Telangana, Jharkhand, Meghalaya, Rajasthan, Karnataka, Chhattisgarh, Uttar Pradesh, Uttarakhand, Himachal Pradesh and Maharashtra. However, in India major production of Electricity is achieved through coal based thermal power plant which is around 75% of the total power generation.
- ◆ **Statement II is not correct:** Uranium enriched to concentrations above 0.7% but less than 20% uranium-235 is defined as low enriched uranium (LEU). Most nuclear reactors use LEU that is about 3-5% uranium-235. Uranium enriched to more than 20% uranium-235 is defined as highly enriched uranium (HEU). The global nuclear watchdog (IAEA) has found uranium particles enriched to 83.7% purity - very close to weapons grade - at Iran's underground Fordo site. Iran has been enriching uranium to up to 60% purity since April 2021 a level at which nonproliferation experts say Tehran has no civilian use.

## ANALYSIS:

- Recently, IAEA has found 84% enriched uranium at Iran's nuclear site and also
- Huge deposits of Uranium were found in Rajasthan.



## Scope for elimination

**Statement II is cannot be correct** as Uranium Enrichment has always been in the news (Centrifuges) and Iran's nuclear sector and the bans imposed by P5 + 1. It is known that the enrichment level required for nuclear power reactors is normally around 5%. If Statement **II is wrong then options, A, B and D are eliminated.**

### SOURCE : Standard newspapers

<https://indianexpress.com/article/world/iran-enriches-uranium-to-60-per-cent-purity-fordo-site-8282993/>

[https://www.business-standard.com/article/economy-policy/rajasthan-enters-uranium-mining-issues-loi-to-uranium-corporation-122062700837\\_1.html](https://www.business-standard.com/article/economy-policy/rajasthan-enters-uranium-mining-issues-loi-to-uranium-corporation-122062700837_1.html)

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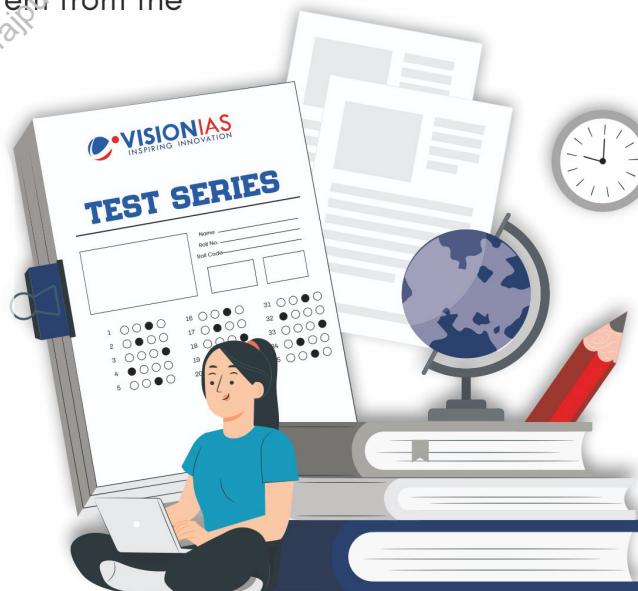
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## PLANNING

**(1 Questions)**

### YEAR 2019 FIVE YEAR PLANS

#### Q1. With reference to India's Five-Year Plans, which of the following statements is/are correct?

1. From the Second Five-Year Plan, there was a determined thrust towards the substitution of basic and capital goods industries.
2. The Fourth Five-Year Plan adopted the objective of correcting the earlier trend of increased concentration of wealth and economic power.
3. In the Fifth Five-Year Plan, for the first time, the financial sector was included as an integral part of the Plan.

Select the correct answer using the code given below.

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

### ANSWERS A

#### EXPLANATION



- **Statement 1 is correct** in adopting the strategy of Import Substitution Industrialization (ISI) in the fifties. The chief objective was to build a self-reliant economy. From the Second Five Year Plan, there was a determined thrust towards substitution of basic and capital goods industries. The ISI strategy was based on the model of growth as propounded by PC Mahalanobis.
- **Statement 2 is correct-** The Fourth Plan provided a necessary corrective to the earlier trend which helped particularly the stronger sections in agriculture as well as in industry to enable them rapidly to enlarge and diversify the production base. In the long run, the full potential of growth cannot be realised unless the energies of all our people are put to profitable use. The emphasis on spreading the impetus and benefits of economic growth to the weaker sections is thus necessary in the interest of equality as well as growth. The Plan will now assist the less prosperous sections of our farming population to improve their position and make a yet bigger contribution to the national economy.
- **Statement 3 is not correct:** The financial sector becomes an integral part of the plan in the 9th five-year plan.

### ANALYSIS:

- **5-year** plans are given in 11th class NCERT which is a basic source and this topic is crucial in understanding the economic history of India.



## Scope for elimination

At least the 3rd statement could have been eliminated as the 5th Five Year was too early to focus on a modern need.

**SOURCE :** [https://www.nipfp.org.in/media/pdf/books/BK\\_33/Chapters/1.%20Import%20Substitution%20Strategy%20of%20Economic%20Development.pdf](https://www.nipfp.org.in/media/pdf/books/BK_33/Chapters/1.%20Import%20Substitution%20Strategy%20of%20Economic%20Development.pdf)  
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Five Year Plan	Period	Objective
First Five Year Plan	1951-56	Overall development of agriculture
Second Five Year Plan	1956-61	Industrial development
Third Five Year Plan	1961-66	Self sufficiency in food , self sufficiency in economy
Fourth Five Year Plan	1969-74	Self-reliance and sustained growth
Fifth Five Year Plan	1974-79	Removal of poverty
Sixth Five Year Plan	1980-85	Improvement in infrastructure in agriculture and industry.
Seventh Five Year Plan	1985-90	Modernisation and increase in employment opportunities.
Eighth Five Year Plan	1992-97	Human resource development
Ninth Five Year Plan	1997-02	Rural development and decentralized planning.
Tenth Five Year Plan	2002-07	Increase in investment.
Eleventh Five Year Plan	2007-12	Overall development of the people.
Twelfth Five Year Plan	2012-17	Sustainable development

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## 1991 Reforms

(2 Questions)

**YEAR 2017**

**LPG 1991**

**Q1. Which of the following has/have occurred in India after its liberalization of economic policies in 1991?**

1. Share of agriculture in GDP increased enormously.
2. Share of India's exports in world trade increased.
3. FDI inflows increased.
4. India's foreign exchange reserves increased enormously.

Select the correct answer using the codes given below:

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

**ANSWERS**

**B**

**EXPLANATION**



- ⑥ The post-reform period shows the gradual decline in the agriculture sector's contribution to the Indian economy. India's traditional occupation, agriculture now contributes only about 15% to the GDP, down from 29 percent in 1991. **Hence, statement 1 is incorrect.**
- ⑦ Share of India's exports increased since 1991. **Hence statement 2 is correct.**
- ⑧ Before 1991, foreign investment was negligible. The first year of reform saw a total foreign investment of only \$74 million. However, investments have steadily risen since then, except for occasional blips between 1997 and 2000 and 2008 and 2012 – owing to the global economic slowdown. As of 31 March 2016, the country has received total FDI of \$371 billion, since 1991. The year 2008 recorded the highest FDI inflow of \$43.40 billion. The biggest spurt in inflow was between 2005 and 2006 – 175.54%. As of March 2016, India has attracted \$10.55 billion worth of FDI. **Hence, statement 3 is correct.**
- ⑨ It was India's dismal state of forex reserves that forced the government to bring in economic reforms. Now, 25 years later, forex reserves are at a record high. In 1991, it stood at just \$5.8 billion. As of 24 June, the country's forex reserves are at \$360.8 billion. Usually, import coverage of 7-8 months is considered sufficient. The biggest jump in reserves was witnessed between 2007 and 2008 when the kitty bulged 55% to hit \$309.2 billion. **Hence, statement 4 is correct.**

## ANALYSIS:



### Scope for elimination

It is common knowledge that the LPG reforms aimed at easing rules and regulations for primarily the Tertiary Sector and the Industrial sector. Agriculture was not at the focus. Hence option 1 can be easily eliminated.

**SOURCE :** <http://www.firstpost.com/business/25-years-of-liberalisation-a-glimpse-of-indias-growth-in-14-charts-2877654.html>

## YEAR 2020 1991 REFORMS

**Q2. With reference to the Indian economy after the 1991 economic liberalization, consider the following statements:**

1. Worker productivity (rs. per worker at 2004 -05 prices) increased in urban areas while it decreased in rural areas.
2. The percentage share of rural areas in the workforce steadily increased.
3. In rural areas, the growth in non-farm economy increased.
4. The growth rate in rural employment decreased.

Which of the statements given above is/are correct?

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

## ANSWERS B



### EXPLANATION

- ① In NITI Aayog's paper "Changing Structure of Rural Economy of India Implications for Employment and Growth 2017", following observations were made:
- ② The absolute level of income per worker i.e. worker productivity has increased for both rural and urban areas. For rural areas it was Rs. 37273 in 2004 -05 and Rs. 101755 in 2011 -12, while for urban areas it was Rs. 120419 in 2004 -05 and Rs. 282515 in 2011 -12. **Hence statement 1 is not correct .**
- ③ As per 2011 Census, 68.8% of India's population and 72.4% of workforce resided in rural areas. However, steady transition to urbanization over the years has led to a decline in the rural share in the workforce, from 77.8% in 1993 -94 to 70.9% in 2011 -12. **Hence statement 2 is incorrect .**
- ④ About two third of rural income is now generated in non -agricultural activities. Non -farm economy has increased in rural areas. The share of agriculture in rural economy has decreased from 57% in 1993 -94 to 39% in 2011 -12. **Hence statement 3 is correct .**
- ⑤ After 2004 -05, the rural areas have witnessed negative growth in employment inspite of high growth in output. The growth rate of rural employment was 1.45% during 1994 -2005, which fell to -0.28% between 2005 -12. **Hence statement 4 is correct .**

## ANALYSIS:

- It was from the paper released by Niti Ayog Changing Structure of Rural Economy of India Implications for Employment and Growth 2017.



### Scope for elimination

The second statement can be easily eliminated as 'steady growth' in economics is rare (undoubtedly this assumption carries an element of risk)

**SOURCE :** Directly from the paper 'Changing Structure of Rural Economy of India Implications for Employment and Growth 2017' by Niti Ayog - [https://www.niti.gov.in/sites/default/files/2023-02/11\\_Rural\\_Economy\\_Discussion\\_Paper\\_0.pdf](https://www.niti.gov.in/sites/default/files/2023-02/11_Rural_Economy_Discussion_Paper_0.pdf)

**Table 3.1. Growth rates in rural NDP (at 2004-05 prices) and rural employment**

(per cent)

Period	Agriculture	Manufacturing	Construction	Services	Non-agriculture	Total
<b>Net Domestic Product (at constant prices)</b>						
1971-94	2.57	5.18	3.94	6.10	5.70	3.72
1994-05	1.87	8.38	7.92	8.55	7.93	5.06
2005-12	4.27	15.87	11.49	8.48	9.21	7.45
<b>Employment (usual status)</b>						
1973-94	1.72	3.55	4.82	4.51	4.22	2.16
1994-05	0.74	2.79	8.32	3.25	3.70	1.45
2005-12	-2.04	0.67	12.09	1.35	3.65	-0.28

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## POVERTY

**(1 Questions)**

**YEAR 2019**

**POVERTY LINES**

**Q1. In a given year in India, official poverty lines are higher in some states than in others because**

- (a) poverty rates vary from State to State
- (b) price levels vary from State to State
- (c) Gross State Product varies from State to State
- (d) quality of public distribution varies from State to State

**ANSWERS**

**B**

**EXPLANATION**



- The Planning Commission methodology for estimating poverty at national and state level was regarded by some as inappropriate in giving a representative picture of the incidence of poverty in the country.
- The main points of the criticism were:
  - the adjustment procedure;
  - the choice of deflators to represent price changes in the poverty line;
  - the application of the same poverty line in all the states, which imply the absence of price differentials across the states;
  - use of a fixed consumption basket over time; and
  - the uniform consumption basket for all the states.

**ANALYSIS:**



**Scope for elimination**

Gross State Product varies from State to State - The Gross State Product (GSP) is a measure of the economic output of a state, and while it may correlate with poverty rates, it is not a direct factor that determines the official poverty line. Therefore, this option is less relevant. Quality of public distribution varies from State to State - The quality of public distribution systems can impact the availability and accessibility of food and other essentials but does not directly determine the official poverty lines. And moreover, Public Distribution is a response to the existence of poverty and so its absence cannot be used as an indicator of poverty line. Now, let's apply the elimination technique: Eliminate options (c) and (d) as they are less directly related to the determination of official poverty lines. We are left with option (b) only.  
**Hence option (b) is the correct answer.**

**SOURCE :** [http://planningcommission.nic.in/reports/genrep/pov\\_rep0707.pdf](http://planningcommission.nic.in/reports/genrep/pov_rep0707.pdf)

## DIFFERENT COMMITTEES RELATED TO POVERTY IN INDIA

- ◆ **Working Group (1962)** For the first time in 1962 a poverty line was quantified by this Group in terms of a minimum requirement (food and non-food).
- ◆ **Dr. Y. K. Alagh (1979):** In India, Official poverty counts began for the first time based on the approach of this Task Force.
- ◆ **Lakdawala Expert Group (1993):** It was an important Expert Group though it did not redefine the poverty line and retained the work of the Alagh committee.
- ◆ **Tendulkar Expert Group (2009):** This committee recommended several changes to the way poverty was measured. It recommended a shift away from basing the poverty lines from calorie norms used in all poverty estimations since 1979 and towards target nutritional outcomes instead.
- ◆ **Rangarajan Committee (2012):** It came after the Tendulkar Committee. The Tendulkar committee's rationale and approach was questioned. Rangarajan Committee was also the need of the hour due to changing times and aspirations of people of India. Rangarajan Committee was set up in 2012.

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## SKILL AQUISITION AND HUMAN DEVELOPMENT

**(3 Questions)**

**YEAR 2017**

**NATIONAL SKILLS QUALIFICATION FRAMEWORK**

**Q1. With reference to 'National Skills Qualification Framework (NSQF)', which of the statements given below is/are correct?**

1. Under NSQF, a learner can acquire the certification for competency only through formal learning.
2. An outcome expected from the implementation of NSQF is the mobility between vocational and general education.

Select the correct answer using the code give below:

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

**ANSWERS** **B**

**EXPLANATION**



- The National Skills Qualifications Framework (NSQF) organizes qualifications according to a series of levels of knowledge, skills and aptitude. These levels are defined in terms of learning outcomes which the learner must possess regardless of whether they were acquired through formal, non-formal or informal learning.
- It provides for multiple pathways, horizontal as well as vertical, both within vocational education and vocational training and among vocational education, vocational training, general education and technical education, thus linking one level of learning to another higher level. **Hence statement 1 is not correct and statement 2 is correct.**

**ANALYSIS:**

- Many programmes had been launched by the government for skill development in the country. In this regard, NQSF had remained regularly in the news.



**Scope for elimination**

- The statement 1 uses the word 'only'. As apart from formal training the Government had also taken into consideration prior experience obtained through other means, hence it can be used for elimination. One can thus get rid of option (a) and option (c) .

**SOURCE :** <http://www.thehindu.com/features/education/Bridge-the-skills-gap/article14556912.ece>  
<http://pib.nic.in/newsite/printrelease.aspx?relid=157637>  
<http://www.nsda.gov.in/nsqf.html>

**YEAR 2017****RECOGNITION OF PRIOR LEARNING**

**Q2. Recognition of Prior Learning Scheme' is sometimes mentioned in the news with reference to**

- (a) Certifying the skills acquire by construction workers through traditional channels.
- (b) Enrolling the persons in Universities for distance learning programmes.
- (c) Reserving some skilled jobs to rural and urban poor in some public sector undertakings.
- (d) Certifying the skills acquired by trainees under the National Skill Development Programme.

**ANSWERS****EXPLANATION**

- The Recognition of Prior Learning (RPL) is an assessment of the skills acquired by the individual through experience, observation and self-learning. The assessment, which is followed by a certification, gives an edge to an otherwise informal worker. It provides the employee with the confidence, social recognition and empowerment that are necessary to negotiate his future employment. Following successful assessment, a candidate is given a financial reward, in addition to certification. **Hence option (a) is the correct answer.**

**ANALYSIS:**

- Recently, (around 2017) IL&FS Skills Development Corporation Ltd (IL&FS Skills) a joint initiative of IL&FS Education & National Skills Development Corporation (NSDC) launched Recognition of Prior Learning (RPL) programme in the Apparel sector under Pradhan Mantri Kaushal Vikas Yojana (PMKVY) 2.0.

**SOURCE :** <http://www.thehindu.com/education/careers/Massive-in-scale-and-innovative-in-approach/article17287913.ece>

**Scope for elimination**

**PLEASE NOTE:** This question (related to Skill Development) and the question above (also related to Skill Development) are linked. And both the questions featured in the same year (2017). The first statement of the previous question is based on the same idea as the Recognition of Prior Learning. If the government recognizes prior learning, then how can the first statement of the previous question be correct!?

## YEAR 2018 HUMAN CAPITAL DEVELOPMENT

**Q3. Human capital formation as a concept is better explained in terms of a process which enables**

1. individuals of a country to accumulate more capital.
2. increasing the knowledge, skill levels and capacities of the people of the country.
3. accumulation of tangible wealth.
4. accumulation of intangible wealth.

Which of the statements given above is/are correct?

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

### ANSWERS C

### EXPLANATION



- ❖ Human capital formation indicates, "the process of acquiring and increasing the number of persons who have the skills, education and experience which are critical for the economic and the political development of the country. **Hence option 1 is not the correct answer.**
- ❖ Human capital formation is thus associated with investment in man and his development as a creative and productive resource." **Hence option 2 is correct and option 3 is not correct.**
- ❖ Intangible wealth consists of factors such as the trust among people in a society, an efficient judicial system, clear property rights, effective government, and good education system etc. Human capital formation enables accumulation of intangible wealth. **Hence option 4 is correct.**

### ANALYSIS:



### Scope for elimination

It is quite logical that options 3 and 4 cannot be both correct together.

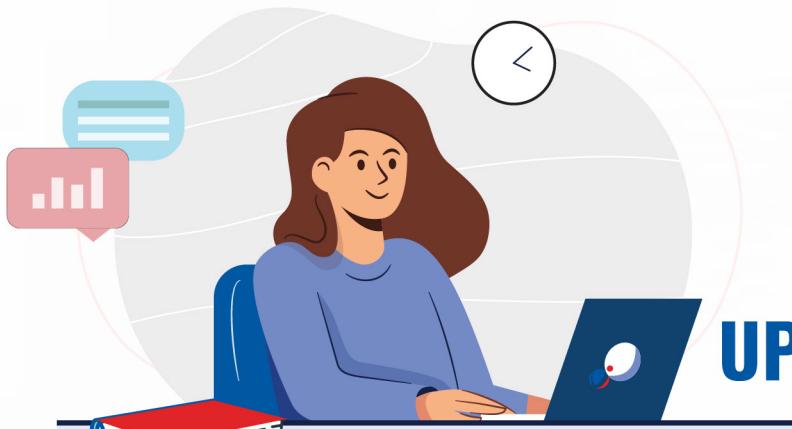
**SOURCE : Indian Economic Development (NCERT Class 11)**

### **Box 5.1: Physical and Human Capital**

Both the forms of capital formation are outcomes of conscious investment decisions. Decision regarding investment in physical capital is taken on the basis of one's knowledge in this regard. The entrepreneur possesses knowledge to calculate the expected rates of return to a range of investments and then rationally decides which one of the investments should be made. The ownership of physical capital is the outcome of the conscious decision of the owner — the physical capital formation is mainly an economic and technical process. A substantial part of the human capital formation takes place in one's life when she/he is unable to decide whether it would maximise her/his earnings. Children are given different types of school education and health care facilities by their parents and the society. The peers, educators and society influence the decisions regarding human capital investments even at the tertiary level, that is, at the college level. Moreover, the human capital formation at this stage is dependent upon the already formed human capital at the school level. Human capital formation is partly a social process and partly a conscious decision of the possessor of the human capital.

You know that the owner of a physical capital, say a bus, need not be present in the place where it is used; whereas, a bus-driver, who possesses the knowledge and ability to drive the bus, should be present when the bus is used for transportation of people and materials. Physical capital is tangible and can be easily sold in the market like any other commodity. Human capital is intangible; it is endogenously built in the body and mind of its owner. Human capital is not sold in the market; only the services of the human capital are sold and, hence, there arises the necessity of the owner of the human capital to be present in the place of production. The physical capital is separable from its owner, whereas, human capital is inseparable from its owner.

The two forms of capital differ in terms of mobility across space. Physical capital is completely mobile between countries except for some artificial trade restrictions. Human capital is not perfectly mobile between countries as movement is restricted by nationality and culture. Therefore, physical capital formation can be built even through imports, whereas human capital formation is to be done through conscious policy formulations in consonance with the nature of the society and economy and expenditure by the state and the individuals.



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## LABOUR AND EMPLOYMENT

### (3 Questions)

**YEAR 2017**

**NATIONAL CAREER SERVICES**

**Q1. Consider the following in respect of 'National Career Services':**

1. National Career Service is an initiative of the Department of Personnel and Training, Government of India.
2. National Career Service has been launched in a Mission Mode to improve the employment opportunities to uneducated youth of the country.

Which of the above statements is/are correct?

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

**ANSWERS**

**D**

**EXPLANATION**



- ① National Career Service (NCS) project is an initiative launched by the Ministry of Labour and Employment (India) Government of India as a Mission Mode Project for establishing quick and efficient career related services. **Hence statement 1 is not correct.**
- ② Its purpose is to provide a variety of employment-related services, such as career counselling, vocational guidance, and information on skill development courses, to job seekers and employers in the country. It aims to improve the employment opportunities for all job seekers, not just the uneducated youth. **Hence statement 2 is not correct.**

**ANALYSIS:**



**Scope for elimination**

- ③ If one knows well what the exact role of DoPT is (UPSC aspirants need to know that), then one can eliminate options (a) and (c). At the same time, in statement 2, 'uneducated youth' is a bit enough clue (though this assumption carries some amount of risk).

**SOURCE :** <http://pib.nic.in/newsite/PrintRelease.aspx?relid=154498>

<https://www.ncs.gov.in/Pages/default.aspx>

<http://dget.nic.in/content/students/national-career-service.php>

**Q2. Consider the following statements:**

As per the Industrial Employment (Standing Orders) Central (Amendment) Rules, 2018-

1. if rules for fixed-term employment are implemented, it becomes easier for the firms/companies to lay off workers
2. no notice of termination of employment shall be necessary in the case of temporary workman

Which of the statements given above is/are correct?

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

**ANSWERS**

C

**EXPLANATION**



- ① **Statement 1 is correct:** The government has notified fixed term employment for all sectors through an amendment to the Industrial Employment (Standing Orders) Central Rules, 1946. Fixed-term employment for all sectors will make it easier for companies to hire-and-fire workers along with reducing the role of middlemen.
- ② **Statement 2 is correct:** No notice of termination of employment shall be necessary in the case of temporary workman whether monthly rated, weekly rated or piece rated and probationers or badli workmen.

**ANALYSIS:**

**SOURCE :** <https://indianexpress.com/article/business/economy/industrial-employment-standing-orders-central-rules-1946-amendment-eases-hire-and-fire-to-reduce-middleman-role-5103765/>

Labour code	What it subsumes	Certain provisions on which amendments are done	Implications
Labour Code on Industrial Relations	<ul style="list-style-type: none"> <li>• Subsumes Trade Union Act, 1926; Industrial Employment (standing orders) Act, 1946; Industrial Disputes Act, 1947</li> </ul>	<ul style="list-style-type: none"> <li>• Hiring and firing laws eased.</li> <li>• Legal backing for fixed-term employment.</li> <li>• Norms tightened for forming unions.</li> </ul>	<ul style="list-style-type: none"> <li>• Easier to hire and fire thus encouraging employment.</li> <li>• Fixed-term employment will create more jobs.</li> </ul>
Labour Code on Social Security & Welfare	<ul style="list-style-type: none"> <li>• Subsumes 9 Labour Acts like: Employees' Compensation Act, 1923, Maternity Benefit Act, 1961, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Proposes social security for gig and platform workers.</li> <li>• National social security board will be setup.</li> </ul>	<ul style="list-style-type: none"> <li>• Will benefit 40 crore organised workers.</li> <li>• Will open up EPFO and ESIC for individuals.</li> </ul>
Labour Code on Occupational Safety, Health & Working Conditions	<ul style="list-style-type: none"> <li>• Subsumes 13 Labour Acts like: Factories Act, 1948, Plantation Labour Act, 1951, Mines Act, 1952 etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Uniform provision for women, fixed-term and contract workers.</li> <li>• Special provisions for certain classes of establishments such as factories, mines, dock workers, and constructions workers</li> </ul>	<ul style="list-style-type: none"> <li>• Will ensure uniform health and safety conditions for all.</li> <li>• Work hours for different classes of establishment and employees will be notified by the central or state government.</li> </ul>

**YEAR 2021****CASUAL WORKERS****Q3. With reference to casual workers employed in India, consider the following statements:**

1. All casual workers are entitled for Employees Provident Fund coverage.
2. All casual workers are entitled for regular working hours and overtime payment.
3. The government can by a notification specify that an establishment or industry shall pay wages only through its bank account.

Which of the above statements are correct?

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

**ANSWERS****B****EXPLANATION**

- Please note at first glance, all the three statements seem correct, but UPSC regarded statement 1 as incorrect.
- Holding that an employer cannot differentiate between contractual and permanent employees, the Supreme Court in Pawan Hans Limited & Ors. Vs Aviation Karmachari Sanghatana has ruled that casual workers are also entitled to social security benefits under the Employees' Provident Funds and Miscellaneous Provisions Act. But, the criterion of minimum of 20 employees is necessary. That is what UPSC must have considered.
- **Code on Social Security, 2020** - The Code replaces nine laws related to social security. These include the Employees' Provident Fund Act, 1952, the Maternity Benefit Act, 1961, and the Unorganised Workers' Social Security Act, 2008 among others. The code is applicable to any establishment (subject to size - threshold as may be notified by the central government).
- **Social security fund:** The code states that the central government will set up such a fund for unorganized workers, gig workers and platform workers. Further, state governments will also set up and administer separate social security funds for unorganized workers. Code on Wages, 2020 ,Section 6 & 7 are related to number of regular working hours and Weekly day of rest & overtime provisions respectively. **Hence statement 1 is not correct and statement 2 is correct.**
- The Payment of Wages Act, 1936 has been amended by Payment of Wages (Amendment) Act, 2017 (effective from 28.12.2016) to enable the employers to pay wages to their employees by (a) cash or (b) cheque or (c) crediting to their bank account. The amendment in the Act also enables the appropriate Government to specify the industrial or other establishment, by notification in the Official Gazette, which shall pay to every person employed in such industrial or other establishment, the wages only by cheque or by crediting in his bank account. **Hence statement 3 is correct.**

**ANALYSIS:****Scope for elimination**

- The statements are factual in nature and hence there is no scope for elimination.

**SOURCE :** [https://www.epfindia.gov.in/site\\_docs/PDFs/Downloads\\_PDFs/EPFAct1952.pdf](https://www.epfindia.gov.in/site_docs/PDFs/Downloads_PDFs/EPFAct1952.pdf)

**YEAR 2022****UNEMPLOYMENT**

**Q4. In India, which one of the following compiles information on industrial disputes, closures, retrenchments and lay-offs in factories employing workers?**

- (a) Central Statistics Office
- (b) Department for Promotion of Industry and Internal Trade
- (c) Labour Bureau
- (d) National Technical Manpower Information System

**ANSWERS C****EXPLANATION**

- Labour Bureau has been engaged in collection, compilation, analysis and dissemination of labour statistics at All India and State level on different facets of labour since its inception in the year 1920. It releases annual publication titled, 'Industrial Disputes, Closures, Retrenchments and Lay-Offs in industries in India'. It provides statistics on work-stoppages, closures, retrenchments and lockouts which is useful in making policies for maintaining cordial and harmonious relations between the management and the workers. This report is also aimed at meeting the demand for historical data and information on industrial conflicts and their causes by planners, policymakers and decision-makers in industry and government. **Hence option (c) is the correct answer.**

**ANALYSIS:****Scope for elimination**

- NA

**SOURCE :** [https://labour.gov.in/sites/default/files/Annual\\_Report\\_202021\\_English.pdf](https://labour.gov.in/sites/default/files/Annual_Report_202021_English.pdf)

[http://www.labourbureaunew.gov.in/UserContent/ID\\_Review\\_2014.pdf?pr\\_id=FfR6mn4XUVE%3D](http://www.labourbureaunew.gov.in/UserContent/ID_Review_2014.pdf?pr_id=FfR6mn4XUVE%3D)

<https://economictimes.indiatimes.com/news/economy/indicators/3557-workers-affected-by-lay-offs-across-india-between-january-and-june-labour-ministry-data/articleshow/78232681.cms?from=mdr>

## SOCIAL SECURITY

### (3 Questions)

**YEAR 2017**

**NATIONAL PENSION SYSTEM**

**Q1. Who among the following can join the National Pension System (NPS)?**

- (a) Resident Indian citizens only
- (b) Persons of age from 21 to 55 only
- (c) All State Government employees joining the services after the date of notification by the respective State Governments
- (d) All Central Government employees including those of Armed Forces joining the services on or after 1st April, 2004

**ANSWERS** C

**EXPLANATION**



- ① NPS (National Pension System) is a defined contribution based Pension Scheme launched by Government of India.
- ② **Eligibility:**
  - NPS is applicable to all new employees of Central Government service (except Armed Forces) and Central Autonomous Bodies joining Government service on or after 1st January 2004.
  - NPS is applicable to all the employees of State Governments, State Autonomous Bodies joining services after the date of notification by the respective State Governments.
  - All citizens of India between the age of 18 and 60 years as on the date of submission of his / her application to Point of Presence (POP) / Point of Presence-Service Provider (POP-SP) can join NPS. Recently, NRIs were also allowed to open National Pension Scheme (NPS) accounts online.

**Hence option (c) is the correct answer.**

**ANALYSIS:**

- ① The scheme is one of the most important schemes in Pension Sector and thus holds importance from this perspective as well



**Scope for elimination**

- ② NA

**SOURCE :** <https://india.gov.in/spotlight/national-pension-system-retirement-plan-all>  
<http://www.thehindu.com/business/Economy/NRIs-can-now-apply-online-for-National-Pension-Scheme/article14428129.ece>

**YEAR 2019****NFSA, 2013**

**Q2. With reference to the provisions made under the National Food Security Act, 2013, consider the following statements:**

1. The families coming under the category of 'Below Poverty Line (BPL)' only are eligible to receive subsidies food grains.
2. The eldest woman in a household, of age 18 years or above, shall be the head of the household for the purpose of issuance of a ration card.
3. Pregnant women and lactating mothers are entitled to a 'take-home ration' of 1600 calories per day during pregnancy and for six months thereafter.

Which of the statements given above is/are correct?

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

## ANSWERS

**B**

## EXPLANATION



- **Statement 1 is not correct:** The Act provides for coverage of upto 75% of the rural population and upto 50% of the urban population for receiving subsidized foodgrains under Targeted Public Distribution System (TPDS), thus covering about two-thirds of the population.
- **Statement 2 is correct:** It provides that eldest woman of the household of age 18 years or above is to be the head of the household for the purpose of issuing of ration cards.
- **Statement 3 is not correct:** The official Act does not mention anything about the calories intake. Besides meal to pregnant women and lactating mothers during pregnancy and six months after the child birth, such women will also be entitled to receive maternity benefit of not less than Rs. 6,000.

## ANALYSIS:

- One of the most important social security schemes along with MGNREGA. It can be asked any year (in a similar or different form)



## Scope for elimination

- In the first statement, the word 'only' can be used as a clue to reach the incorrectness of the same. As in South Asia in general and India in particular, many people live on a slippery slope (those who are not under the poverty line but can fall below the same; food security is a challenge for them as well) Hence statement 1 can be eliminated. One will be left with two options (further logical elimination is not possible, as some amount of factual knowledge is required).

**SOURCE :** <https://vikaspedia.in/news/state-ranking-index-for-nfsa-launched#:~:text=The%20National%20Food%20Security%20Act,under%20Targeted%20Public%20Distribution%20System.>

## YEAR 2023 SELF-HELP GROUPS

### Q3. Consider the following statements :

1. The Self-Help Group (SHG) programme was originally initiated by the State Bank of India by providing microcredit to the financially deprived.
2. In an SHG, all members of a group take responsibility for a loan that an individual member takes.
3. The Regional Rural Banks and Scheduled Commercial banks support SHGs.

How many of the above statements are correct?

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

### ANSWERS B



### EXPLANATION

- The origin of self-help group can be traced from Grameen Bank of Bangladesh, which was founded by Mohamed Yunus. **SGHs were started and formed in 1975.** In India **NABARD initiated SHGS in 1986-1987.** The absence of institutional credits available in the rural area has led to the establishment of SHGs. The concept of self help groups has been evolved to organize the rural poor **to meet their productive and consumption needs out of their saving.**
- Though the cash credit facility is to be sanctioned by the bank to SHG, the sanction of credit by SHG to its individual members will be guided as per their terms and duration as decided by the groups. This is expected to remain unchanged and thus ensure continuance of financial discipline at the member level.
- A few members of an SHG may graduate faster to start or expand economic activities requiring much higher levels of loans than required by other SHG members. In such cases, all other members may not like to stand mutual guarantee for a few large sized loans. In such cases, a smaller "**Joint Liability Group (JLG)**" from members of an SHG may be created. The members of JLG will continue to remain members of the SHGs and continue to participate in the activities of SHGs as earlier. Banks may encourage creation of such enterprise / livelihood based JLGs as a separate entity. RRBs are key financing institution at the rural level, which takes the responsibility of fulfilling the credit requirements of Self Help Groups (SHGs). The RRBs also play a very crucial role in Self Help Groups (SHGs) - Bank linkage. Besides financing SHGs, the RRBs also play a vital role of serving as **SELF HELP PROMOTIONAL INSTITUTION (SHPIs).** Recognizing the importance of SHG Bank linkage, Government has requested all scheduled commercial banks to follow the example set by some public sector banks and meet the entire credit requirements of SHG members. Linking of SHGs with banks has thus been emphasized in the Monetary Policy Statements of Reserve Bank of India and Union Budget announcements from time to time and various guidelines have been issued to banks in this regard.
- **Hence option (b) is the correct answer.**

### ANALYSIS:

- SHG is an important topic especially at a time when financial inclusion is being vigorously promoted and taking place. Also, there were reports in The Hindu about the increasing number of SHGs (1.2 crores in number) and the target set by the government to achieve 10 crore women participants in SHGs.

**SOURCE : NCERT (Indian Economic Development) + Standard Newspaper**

**Links of the articles:** <https://www.thehindu.com/business/Economy/-self-help-groups-can-help-in-widening-womens-labour-force-participation-economy-survey/article66454927.ece>

<https://www.thehindu.com/news/nation-al/govt-close-to-achieve-target-of-10-crore-women-members-in-self-help-groups-says-minister/article66516857.ece>

**In the NCERT book Indian Economic Development, SHGs is widely covered**



**Work These Out**

- On a monthly basis, go through the newspapers of your region and identify the problems raised by them in relation to rural areas and the solutions offered. You could also visit a nearby village and identify the problems faced by people there. Discuss this in the classroom.
- Prepare a list of recent schemes and their objectives from the government website <http://www.rural.nic.in>

on seeds, fertilisers, implements and other family expenses of marriage, death, religious ceremonies etc.

At the time of independence, moneylenders and traders exploited small and marginal farmers and landless labourers by lending to them on high interest rates and by manipulating the accounts to keep them in a debt-trap. A major change occurred after 1969 when India adopted social banking and multi-agency approach to adequately meet the needs of rural credit. Later, the National Bank for Agriculture and Rural Development (NABARD) was set up in 1982 as an apex body to

**Box 6.1: The Poor Women's Bank**

'Kudumbashree' is a women-oriented community-based poverty reduction programme being implemented in Kerala. In 1995, a thrift and credit society was started as a small savings bank for poor women with the objective to encourage savings. The thrift and credit society mobilised Rs 1 crore as thrift savings. These societies have been acclaimed as the largest informal banks in Asia in terms of participation and savings mobilised.

**Source:** [www.kudumbashree.com](http://www.kudumbashree.com). Visit this website and explore various other initiatives undertaken by this organisation. Can you identify some factors which contributed to their successes?

coordinate the activities of all institutions involved in the rural financing system. The Green Revolution was a harbinger of major changes in the credit system as it led to the diversification of the portfolio of rural credit towards production-oriented lending.

The institutional structure of rural banking today consists of a set of multi-agency institutions, namely, commercial banks, regional rural banks (RRBs), cooperatives and land development banks. They are expected to dispense adequate credit at cheaper rates. Recently, Self-Help Groups (henceforth SHGs) have emerged to fill

the gap in the formal credit system because the formal credit delivery mechanism has not only proven inadequate but has also not been fully integrated into the overall rural social and community development. Since some kind of collateral is required, vast proportion of poor rural households were automatically out of the credit network. The SHGs promote thrift in small proportions by a minimum contribution from each member. From the pooled money, credit is given to the needy members to be repayable in small instalments at reasonable interest rates. By March end 2003, more than seven lakh SHGs had reportedly been

## QUALITY AND STANDARDIZATION

### (2 Questions)

#### YEAR 2017 STANDARDS

##### **Q1. Consider the following statements:**

1. The Standard Mark of Bureau of Indian Standards (BIS) is mandatory for automotive tyres and tubes.
2. AGMARK is a quality Certification Mark issued by the Food and Agriculture Organisation (FAO).

Which of the statements given above is/are correct?

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

#### ANSWERS A

#### EXPLANATION



- In 2010, a certification from the Bureau of Indian Standards (BIS) has been made mandatory for all types of automotive tyres and tubes. **Hence, Statement 1 is correct.**
- AGMARK is a certification mark employed on agricultural products in India, assuring that they conform to a set of standards approved by the Directorate of Marketing and Inspection, an agency of the Government of India. The AGMARK is legally enforced in India by the Agricultural Produce (Grading and Marking) Act of 1937 (and amended in 1986). **Hence, statement 2 is not correct.**

### Different certification marks in India

 ISI	<ul style="list-style-type: none"> <li>❖ Certified by BIS, it is used for standard industrial products in India.</li> <li>❖ It is <b>mandatory</b> for some products like electronics and voluntary for others.</li> </ul>
 AGMARK	<ul style="list-style-type: none"> <li>❖ Applies to agricultural products.</li> <li>❖ Issued by <b>Directorate of Marketing and Inspection</b>, Ministry of Agriculture and Farmers Welfare</li> </ul>
 FPO MARK	<ul style="list-style-type: none"> <li>❖ Issued by the <b>Ministry of Food Processing Industries</b>, it is mandatory <b>on all processed fruit products sold in India</b> such as packaged fruit beverages, fruit-jams etc.</li> </ul>
 BIS Hallmark	<ul style="list-style-type: none"> <li>❖ Hallmarking system for the <b>sale of precious metal like gold and silver jewellery</b> which certify the purity of the metal.</li> <li>❖ It verifies that jewellery <b>conforms to the standards set by BIS</b>.</li> </ul>
 Non-polluting Vehicle Mark	<ul style="list-style-type: none"> <li>❖ Mandatory certification mark required on all new motor vehicles sold in India</li> </ul>
 Indian Organic certification	<ul style="list-style-type: none"> <li>❖ Mark for <b>organically farmed food products</b> manufactured in India.</li> <li>❖ Issued by testing centres accredited by <b>Agricultural and Processed Food Products Export Development Authority</b>, Ministry of Commerce and Industry.</li> </ul>

## ANALYSIS:

**SOURCE :** <http://indianexpress.com/article/india/zika-virus-all-you-need-to-know-4676548/>  
[https://www.nhp.gov.in/Zika-virus\\_pg](https://www.nhp.gov.in/Zika-virus_pg)  
<http://www.who.int/mediacentre/factsheets/zika/en/>

## YEAR 2017    QUALITY COUNCIL OF INDIA

### Q2. With reference to the 'Quality Council of India (QCI)', consider the following statements:

1. QCI was set up jointly by the Government of India and the Indian Industry.
2. Chairman of QCI is appointed by the Prime Minister on the recommendations of the industry to the Government.

Which of the above statements is/are correct?

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

## ANSWERS    C

## EXPLANATION



- ① Quality Council of India (QCI) was set up jointly by the Government of India and the Indian Industry represented by the three premier industry associations i.e. Associated Chambers of Commerce and Industry of India (ASSOCHAM), Confederation of Indian Industry (CII) and Federation of Indian Chambers of Commerce and Industry (FICCI), to establish and operate national accreditation structure and promote quality through National Quality Campaign. **Hence, statement 1 is correct.**
- ② Chairman of QCI is appointed by the Prime Minister on recommendation of the industry to the government. The Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, is the nodal ministry for QCI. **Hence, statement 2 is correct.**

## ANALYSIS:

**SOURCE :** <http://www.qcin.org/about.php>

## DIGITIZATION

### (2 Questions)

#### YEAR 2017 HACKATHON

##### **Q1. Which of the following statements is/are correct regarding Smart India Hackathon 2017?**

1. It is a centrally sponsored scheme for developing every city of our country into Smart Cities in a decade.
2. It is an initiative to identify new digital technology innovations for solving the many problems faced by our country.
3. It is a programme aimed at making all the financial transactions in our country completely digital in a decade.

Select the correct answer using the code given below:

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

#### ANSWERS **B**

#### EXPLANATION



- Smart India Hackathon 2017 was a 36 hrs non-stop digital product development competition during which teams of thousands of technology students built innovative digital solutions for the problems posted by 29 different central govt. ministries/ departments e.g. Ministry of Railways, External Affairs, Ministry of Defense, ISRO, Ministry of Tourism, Dept. of Atomic Energy, etc. **Hence, Statement 1 and 3 are incorrect.**
- Smart India Hackathon 2017, has been launched to build Digital India and to engage the youth directly with nation building. For the first time, govt. departments were directly engaging with students and challenging them to build digital solutions to improve their efficiency, plug revenue leakages and corruption. **Hence, Statement 2 is correct.**

#### ANALYSIS:

- Smart India Hackathon took place in 2017.



#### Scope for elimination

- The targets stated in Statement 1 and 3 i.e. 'developing every city into smart city in a decade' and 'making all financial transactions digital in a decade' are very ambitious. Such ambitious targets cannot be expected from a Hackathon event (which are generally idea and prototype building exercises). **Thus, statement 1 and 3 must be wrong.** Leaving only option (b).

**SOURCE :** <http://pib.nic.in/newsite/PrintRelease.aspx?relid=159825>

## YEAR 2020 CYBER INSURANCE

**Q2. In India, under cyber insurance for individuals, which of the following benefits are generally covered, in addition to payment for the funds and other benefits?**

1. Cost of restoration of the computer system in case of malware disrupting access to one's computer
2. Cost of a new computer if some miscreant wilfully damages it, if proved so
3. Cost of hiring a specialized consultant to minimize the loss in case of cyber extortion.
4. Cost of defence in the Court of Law if any third party files a suit

Select the correct answer using the code given below:

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

### ANSWERS **B**

#### EXPLANATION



- Cyber Insurance is designed to guard businesses from the potential effects of cyber-attacks. It helps an
  - organisation mitigate risk exposure by offsetting costs, after a cyber-attack/breach has happened. To
  - simplify, cyber Insurance is designed to cover the fees, expenses and legal costs associated with cyber
  - breaches that occur after an organisation has been hacked or from theft or loss of client/employee
  - information. In India, cyber insurance covers (generally) the following:
  - Identity theft
  - Cyber-bullying and cyber-stalking
  - Cyber extortion
  - Malware intrusion
  - Financial loss due to unauthorized and fraudulent use of bank account, credit card and mobile wallets
  - Legal expenses arising out of any covered risk
  - Social Media Cover
  - Phishing Cover
  - E-mail Spoofing
  - Media Liability Claims Cover
  - Cyber Extortion Cover
  - Privacy Breach and Data Breach by Third Party. Hence only options 1, 3 and 4 are correct. Hence option (b) is the correct answer.

### ANALYSIS:



#### Scope for elimination

- Only option 2 is related to the physical damage of a computer and it does not include a 'cyber angle'. Hence it can be used for elimination of the other three options.

**SOURCE :** <https://www.thehindubusinessline.com/portfolio/personal-finance/cyber-insurance-what-are-the-options/article31386501.ece>

## CYBER INSURANCE COVERS

- ⑤ organisation mitigate risk exposure by offsetting costs, after a cyber-attack/breach has happened. To simplify, cyber Insurance is designed to cover the fees, expenses and legal costs associated with cyber breaches that occur after an organisation has been hacked or from theft or loss of client/employee information. In India, cyber insurance covers (generally) the following:
- ⑤ Identity theft
- ⑤ Cyber-bullying and cyber-stalking
- ⑤ Cyber extortion
- ⑤ Malware intrusion
- ⑤ Financial loss due to unauthorized and fraudulent use of bank account, credit card and mobile wallets
- ⑤ Legal expenses arising out of any covered risk
- ⑤ Social Media Cover
- ⑤ Phishing Cover
- ⑤ E-mail Spoofing
- ⑤ Media Liability Claims Cover
- ⑤ Cyber Extortion Cover
- ⑤ Privacy Breach and Data Breach by Third Party

Only for nagendraruajput9753@gmail.com

# MICROECONOMICS

## OPPORTUNITY COST

(1 Questions)

**YEAR 2018**

**Q1. If a commodity is provided free to the public by the Government, then**

- (a) the opportunity cost is zero.
- (b) the opportunity cost is ignored.
- (c) the opportunity costs is transferred from the consumers of the product to the tax-paying public.
- (d) the opportunity cost is transferred from the consumers of the product to the Government.

**ANSWERS**

**C**

**EXPLANATION**



- Opportunity cost is the cost of choosing one alternative over another and missing the benefit offered by the forgone opportunity, investing or otherwise. Opportunity cost refers to a benefit that a person could have received, but gave up, to take another course of action. Stated differently, an opportunity cost represents an alternative given up when a decision is made.

**ANALYSIS:**



**Scope for elimination**

- Scope for Elimination:** Although seemingly easy, the question is slightly difficult to answer in one go. Elimination technique can be helpful. The good is provided for free by the government, but it is not a free good (like air or sunlight). **The commodity in the context can be any kind of physical infrastructure road, bridges or government hospitals or free vaccines.** That means its cost is borne by the government. The money spent on the commodity in the context could have been used by the government for something else. **Hence option (a) is not correct.** At the same time, the opportunity cost is not ignored. Hence option (b) is not correct. **Options (c) and (d) are close,** but as the government gets money from the taxpayers, hence ultimately the opportunity cost is transferred to the tax-paying public. In short, the commodity that the consumers are getting for free has a cost which they do not have to bear e.g. **road or other infrastructure.**
- For such questions, NCERT basic books can be referred to get an exact idea of the concepts, but ultimately application type questions cannot be covered. The only technique is deeper analysis and option elimination.

**SOURCE : Microeconomics (NCERT Class 12)**

## LAW OF DEMAND AND SUPPLY

**(1 Questions)**

**YEAR 2021**

**CAPITAL FORMATION**

**Q1. Consider the following statements:**

Other things remaining unchanged, market demand for a good might increase if

1. price of its substitute increases
2. price of its complement increases
3. the good is an inferior good and income of the consumers increases
4. its price falls

Which of the above statements are correct?

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

**ANSWERS A**



**EXPLANATION**

- **Law of Demand-** Law of Demand states that other things being equal, there is a negative relation between demand for a commodity and its price. In other words, when price of the commodity increases, demand for it falls and when price of the commodity decreases, demand for it rises, other factors remaining the same. **Hence option 4 is correct.**
- The quantity of a good that the consumer demands can increase or decrease with the rise in income depending on the nature of the good. For most goods, the quantity that a consumer chooses, increases as the consumer's income increases and decreases as the consumer's income decreases. Such goods are called Normal Goods. Thus, a consumer's demand for a normal good moves in the same direction as the income of the consumer. However, there are some goods the demands for which move in the opposite direction of the income of the consumer. Such goods are called Inferior Goods. As the income of the consumer increases, the demand for an inferior good falls, and as the income decreases, the demand for an inferior good rises. Examples of inferior goods include low quality food items like coarse cereals. **Hence option 3 is not correct.**
- The quantity of a good that the consumer chooses can increase or decrease with the rise in the price of a related good depending on whether the two goods are substitutes or complementary to each other. Goods which are consumed together are called complementary goods. Examples of goods which are complement to each other include tea and sugar, shoes and socks, pen and ink, etc. Since tea and sugar are used together, an increase in the price of sugar is likely to decrease the demand for tea and a decrease in the price of sugar is likely to increase the demand for tea. Similar is the case with other complements. With the increase in price of complemetn, demand reduces. **Hence option 2 is not correct.**

- In contrast to complements, goods like tea and coffee are not consumed together. In fact, they are substitutes for each other. Since tea is a substitute for coffee, if the price of coffee increases, the consumers can shift to tea, and hence, the consumption of tea is likely to go up. On the other hand, if the price of coffee decreases, the consumption of tea is likely to go down. The demand for a good usually moves in the direction of the price of its substitutes. **Hence option 1 is correct.**

## ANALYSIS:

- Conceptual question to check the basic understanding of terms in Economics.



### Scope for elimination

**Scope for Elimination:** There is no direct scope of elimination. However, it was based on the simple law of demand and supply, hence a candidate with a little bit of understanding could have answered it.

**SOURCE :** Microeconomics (NCERT Class 12)

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## 2 QUESTIONS DROPPED BY THE UPSC

### YEAR 2020 INTERNATIONAL TRADE

**Q1. With reference to the international trade of India at present, which of the following statements is/are correct?**

1. India's merchandise exports are less than its merchandise imports.
2. India's imports of iron and steel, chemicals, fertilisers and machinery have decreased in recent years.
3. India's exports of services are more than its imports of services.
4. India suffers from an overall trade/current account deficit.

Select the correct answer using the code given below:

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

### YEAR 2022 CAPITAL FLIGHT

**Q2. Consider the following statements:**

1. Tight monetary policy of US Federal Reserve could lead to capital flight.
2. Capital flight may increase the interest cost of firms with existing External Commercial Borrowings (ECBs).
3. Devaluation of domestic currency decreases the currency risk associated with ECBs.

Which of the statements given above are correct?

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



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# UPSC TOPPERS PREPARATION APPROACH & STRATEGIES

*Insights from Toppers' Talk and Answer Scripts*



**Ishita Kishore**  
**Rank 1, 2022**

Ishita Kishore, the UPSC topper of 2022, serves as a remarkable inspiration for her unwavering determination and relentless efforts making her as a beacon of motivation for aspiring candidates. Through her methodical preparation approach, she emerged triumphant in the esteemed Civil Services Examination securing top rank. Ishita extensively relied on VisionIAS Mains test series to refine her answer writing abilities. To gain further insights into Ishita's answer writing approaches, kindly scan the QR code provided.

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# UPSC CSE TOPPERS 2022



**Waseem  
Ahmad Bhat**

**7**  
**RANK**  
**2022**

Waseem Ahmad Bhat, an exceptional achiever who secured an All India Rank 7 in his third attempt in the UPSC Civil Services Examination 2022. He also achieved All India Rank 225 in his first attempt in 2020 and currently, he is training as an Assistant Commissioner Income Tax.

Waseem was a student of the **VisionIAS Foundation Course** Batch in 2019.



Hailing from Doru Shahabad, Anantnag, Jammu & Kashmir, he completed his schooling in Anantnag and holds a degree in Civil Engineering from NIT Srinagar.

Waseem opted for **Anthropology** as his optional subject. His topper's talk covers vital topics such as preparing for the **changing pattern of Prelims**, essay writing and strategy, writing **quote-based essays**, utilizing topper's answer scripts for preparation, and effective revision strategies.

**Aniruddh  
Yadav**

**8**  
**RANK**  
**2022**



Aniruddh Yadav, a remarkable achiever who secured an All India Rank 8 in his fourth attempt in the UPSC Civil Services Examination of 2022.

Aniruddh opted for **Anthropology** as his optional subject. He completed his dual degree course in Biochemical Engineering & Biotechnology from IIT Delhi.

His topper's talk covers crucial aspects such as **creating a schedule** and **subject-wise timetable**, honing answer writing skills through topic-based **practice**, **mastering the structure** and format of answers (Introduction, Body, Conclusion), **managing time effectively** during answer writing practice, and preparing **topic-wise notes** with the help of syllabus analysis and previous year questions.



**Siddharth  
Shukla**

**18**  
**RANK**  
**2022**

Siddharth Shukla, belongs to Uttar Pradesh. He completed his BA in History (H) from Delhi University, which was also his optional subject.

He displayed exemplary resilience by appearing in the exam for the fourth attempt and secured AIR 18 in 2022.

The preparation strategy reflected in his talk and answer scripts include the strategy for Essay, **efficient use of PYQs**, **notes making**, among others.

Additionally, he has also focused upon **non-academic aspects** such as **stress management**, **habit formation**, and **role of meditation** which are critical for this examination.

**Anoushka  
Sharma**

**20**  
**RANK**  
**2022**



Anoushka Sharma hailing from Madhya Pradesh completed her graduation from City University, New York with a bachelor's degree in Economics. She gained job experience through a three-month internship with the United Nations prior to taking the civil service examination.

She passed her CSE with AIR 20 in 2022 on her third attempt. **Economics** is her optional subject.

She has a very good command over ethics paper and she has shared her **insights on time management and strategy for attempting questions** in CSE Mains.





# UPSC CSE TOPPERS 2021



**Gagini  
Singla**

**3**  
**RANK**  
**2021**

Gagini Singla, hailing from Punjab, completed her graduation in Computer Science Engineering from Punjab Engineering College Chandigarh. Thereafter, she honed her skills through a five-month internship as a finance analyst at JP Morgan.

She secured a remarkable All India Rank of 3 in the UPSC CSE 2021 in her second attempt with **Sociology** as her optional subject.

With her strategic **approach to GS Paper IV (Ethics) and Essay**, Gagini demonstrated her ability to **critically analyze ethical issues** and effectively express her thoughts in a coherent manner.

Her expertise in answer writing provided her with a competitive edge, allowing her to convey her knowledge and insights concisely.

**TOPPERS' TALK**



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**Aishwarya  
Verma**

**4**  
**RANK**  
**2021**

Aishwarya Verma hails from Madhya Pradesh. After graduating in Electrical Engineering, he opted for Civil Services as a career of choice.

He chose **Geography** as his optional subject and achieved an All-India Rank 4 in UPSC CSE 2021 in his fourth attempt.

Apart from the hard work, determination and resilience shown by Aishwarya, his success can also be attributed to his **short and enriched self-made notes, advanced answer writing skills, and smart preparation strategy, including S&T.**

**TOPPERS' TALK**



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**Utkarsh  
Dwivedi**

**5**  
**RANK**  
**2021**

Utkarsh Dwivedi, hailing from historic town of Ayodhya, Uttar Pradesh, a graduate in Mechanical Engineering from VIT Vellore, displayed resilience by attempting the exam for the third time and succeeding with remarkable achievement with the optional subject, **Political Science and International Relations**.

**TOPPERS' TALK**



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**Yaksh  
Chaudhary**

**6**  
**RANK**  
**2021**

Yaksh Chaudhary, a resident of Amroha, Uttar Pradesh, through unwavering determination secured an All India Rank 6 in the prestigious exam on his third attempt in 2021. With his passion for Sociology, Yaksh opted for it as his optional subject and devised a winning strategy for his preparation.

Yaksh's **exceptional expertise in answer writing** and adeptness in attempting question papers during the mains exam provided him an edge. Moreover, his skill in crafting **well-structured diagrams** for General Studies, Ethics, and Sociology further enriched the quality and visual appeal of his responses. Yaksh's achievements serve as an inspiration to aspiring candidates nationwide, exemplifying the significance of perseverance, dedication, and strategic planning.

**TOPPERS' TALK**



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# UPSC CSE TOPPERS 2020



**Shubham  
Kumar**

**1**  
**RANK**  
**2020**

Shubham Kumar, hailing from Katihar District in Bihar, completed his graduation in Civil Engineering from IIT Bombay. He achieved the remarkable feat of securing All India Rank 1 in the UPSC examination of 2020 in his third attempt.

His success can be attributed to his **unique approach and meticulous preparation**. Shubham emphasized the importance of **regular mock tests** for prelims and carefully analyzing previous years' UPSC prelims questions.

Shubham was a student of the **VisionIAS Foundation Course**.

He also utilized topper's copies to enhance his skills in ethics answer writing and emphasized the use of diagrams and graphs in GS papers.

**TOPPERS' TALK**



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**Jagrati  
Awasthi**

**2**  
**RANK**  
**2020**

Jagrati Awasthi, from Bhopal, Madhya Pradesh, completed her graduation in Electrical Engineering from NIT Bhopal. She gained two years of valuable work experience at BHEL.

With **Sociology** as her optional subject, she achieved an outstanding All India Rank of 2 in the UPSC examination of 2020.

She has emphasized the **importance of a well-structured daily routine** and shared a **detailed booklist** and recommended sources. Jagrati stressed the significance of thorough reading and utilizing previous years' questions to grasp the exam's demands.

Along with refined **note-making techniques**, she has provided insights on determining the optimal number of questions to attempt in the prelims and leveraging previous year's question papers for **Ethics case studies'** preparation.

**TOPPERS' TALK**



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**Praveen  
Kumar**

**7**  
**RANK**  
**2020**



**Satyam  
Gandhi**

**10**  
**RANK**  
**2020**

Praveen Kumar, achieved an impressive All India Rank 07 in the UPSC Civil Services Examination 2020. Hailing from Jammui, Bihar, Praveen holds a degree in Civil Engineering from IIT Kanpur.

His remarkable journey includes clearing the GATE examination with an AIR 5 and securing AIR 3 in the Indian Engineering Services (IES) exam, all while working for the Indian Railway Service.

Praveen's toppers talk provides invaluable insights, covering motivations for pursuing the IAS, effective booklists and sources for exam preparation, strategies for newspaper reading and content extraction, note-making techniques for mains, and utilizing flow charts and diagrams in answers.

**TOPPERS' TALK**



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Satyam Gandhi, an exceptional achiever, secured an All India Rank 10 in the UPSC Civil Services Examination 2020. Hailing from Bihar, Satyam graduated in Political Sciences (H) from Dayal Singh College, University of Delhi.

With **Political Science and International Relations** as his optional subject, he cleared the exam on his first attempt, displaying remarkable determination.

In addition, Satyam achieved an impressive AIR 242 in the NDA Exam. His toppers talk offers invaluable insights into **time management strategies** for a first attempt success, the **significance of flowcharts and diagrams** in mains answers, **effective essay structuring**, and his experience in obtaining a remarkable 201 marks in the interview.

**TOPPERS' TALK**



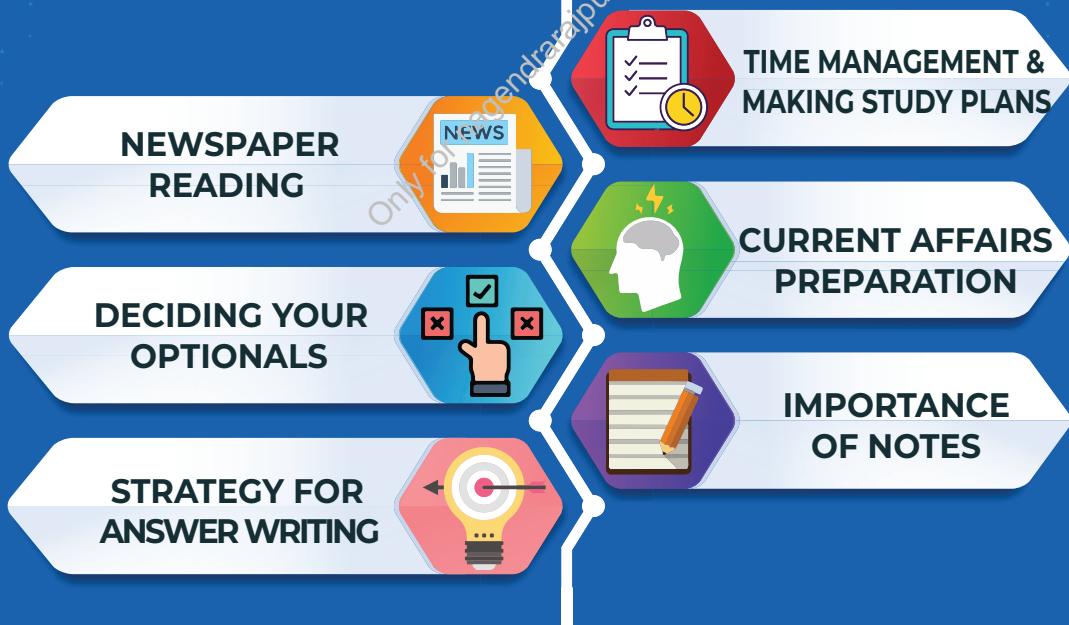
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ANKITA AGARWAL



GAGINI  
SINGLA



AISHWARYA  
VERMA

**5  
AIR**



UTKARSH  
DWIVEDI

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YAKSH  
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