



INSTRUCTIONS

1. IMMEDIATELY AFTER THE COMMENCEMENT OF THE EXAMINATION, YOU SHOULD CHECK THAT THIS BOOKLET DOES **NOT** HAVE ANY UNPRINTED OR TURN OR MISSING PAGES OR ITEMS, ETC. IF SO, GET IT REPLACED BY A COMPLETE TEST BOOKLET.
2. ENCODE CLEARLY THE TEST BOOKLET SERIES **A, B, C** OR **D** AS THE CASE MAY BE IN THE APPROPRIATE PLACE IN THE ANSWER SHEET.
3. You have to enter your Roll Number on the Test Booklet in the Box provided alongside. **Do NOT** write anything else on the Test Booklet.
4. This Test Booklet contains **100** items (Questions). Each item is printed in English. Each item comprises four responses (answers). You will select the response which you want to mark on the Answer Sheet. In case you feel that there is more than one correct response with you consider the best. In any case, choose **ONLY ONE** response for each item.
5. You have to mark all your responses **ONLY** on the separate Answer Sheet provided. See direction in the answers sheet.
6. All items carry equal marks. Attempt all items. Your total marks will depend only on the number of **correct responses** marked by you in the answer sheet. For **every incorrect** response **1/3rd of the allotted marks** will be deducted.
7. Before you proceed to mark in the Answer sheet the response to various items in the Test booklet, you have to fill in some particulars in the answer sheets as per instruction sent to you with your Admission Certificate.
8. After you have completed filling in all responses on the answer sheet and the examination has concluded, you should hand over to Invigilator only the answer sheet. You are permitted to take away with you the Test Booklet.
9. Sheet for rough work are appended in the Test Booklet at the end.

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1. Which of the following is/are the characteristic features of 'legal tender' in India?

1. It is a medium of payment recognized by law.
2. It has its own intrinsic value.
3. All legal tenders are issued by the Reserve Bank of India.

Select the correct answer using the code given below.

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

2. With reference to Initial Public Offering (IPO), consider the following statements:

1. It is the offering of a stock of a company for the first time in the secondary capital market.
2. Foreign Institutional Investors are not permitted to invest in IPOs in India through stock exchanges.

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

3. *When the government increases spending by borrowing today, which will be repaid by taxes in the future, it will have the same impact on the economy as an increase in government expenditure that is financed by a tax increase today.*

Which of the following theories is best described by the above passage?

- (a) Rational Choice Theory
- (b) Ricardian equivalence
- (c) Laissez Faire Capitalism
- (d) Theory of Optimal Taxation

4. Why the Reserve Bank of India is known as 'lender of last resort'?

1. It provides lending facilities to the banks at all times.
2. It provides foreign exchange to the government for meeting its import obligations.

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

5. Consider the statements regarding Financial Stability and Development Council:

1. It addresses the inter-regulatory coordination issues in the financial sector.
2. It is headed by RBI Governor.

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

6. Which of the following actions can be taken to combat inflationary pressures in an economy?

1. Curtailing government expenditure
2. Providing cheaper loans
3. Giving tax benefits

Select the correct answer using the code given below.

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

7. Which of the following industrial sectors is/are reserved for the public sector?
1. Atomic energy generation
 2. Coal-based energy generation
 3. Railway transport
- Select the correct answer using the code given below.
- (a) 1 only
(b) 1 and 3 only
(c) 2 and 3 only
(d) 1, 2 and 3
8. Consider the following differences between core and headline inflation:
1. While core inflation excludes food and fuel prices, headline inflation includes them.
 2. Core inflation is relatively more volatile and fluctuating than headline inflation.
- 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
9. Consider the following statements regarding Invest India:
1. It is the investment promotion and facilitation agency of India.
 2. It is a public entity with equal shareholdings between the centre and state governments.
- 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

10. In the context of the economy, which of the following is/are flow variables?
1. The income of a company
 2. The savings of a company
 3. The inventories of a company
- 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
11. With reference to Managed Floating Exchange Rate System, consider the following statements:
1. It is a system in which central bank allows the exchange rate to be determined by the market but intervenes at times.
 2. Managed Floating Exchange Rate System is followed in India.
- Which of the statements given above are correct?
- (a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2
12. With reference to the agriculture and the allied sectors in India, consider the following statements:
1. Cattle account for more than fifty per cent of the total livestock population.
 2. Fish production from marine sector accounts for more than half of the total value of fish production in India.
- 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

13. Which of the following correctly describes an Escrow Account?
- (a) A bank account through which NRIs can operate their finances in India.
 - (b) An overseas bank account used by MNCs for routing the funds through tax havens for the purpose of tax evasion.
 - (c) A third party bank account for safeguarding the seller against its buyer from the payment risk.
 - (d) A bank account which earns regular interest in return for a fixed monthly deposits.
14. In the context of Indian economy, the Hindu rate of growth is referred to as
- (a) The rapid rate of growth of the Indian economy post 1991 economic reforms.
 - (b) The sluggish rate of growth of the Indian economy before the 1991 economic reforms.
 - (c) The hypothetical rate of growth assuming manufacturing sector as the largest contributor to the GDP.
 - (d) The maximum possible rate of growth of the Indian economy in keeping with its natural resource base.
15. The trade policy adopted by India in its first seven Five Year Plans was marked by
1. Restriction on the import of foreign goods
 2. Promotion the domestic production of goods
 3. An outward-looking trade strategy
- Select the correct answer using the code given below.
- (a) 1 only
 - (b) 2 only
 - (c) 2 and 3 only
 - (d) 1 and 2 only

16. Consider the following statements with reference to the performance of Indian agriculture between 1991-2000, after the economic reforms:
1. It registered a higher growth rate compared to the preceding decade.
 2. It experienced a steady increase in its contribution to the GDP over the years
- 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
17. Consider the following statements regarding Balance of Payments (BoP):
1. It is a record of transactions between residents of a country with the rest of the world.
 2. It is not independent on the currency of the transaction
- 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
18. "The decrease in money supply in the economy could not control the food inflation as increase in price was caused by skewed MSP policy, distortion caused by APMC acts and inadequate cold storage facilities." Which type of inflation best describes the situation given above?
- (a) Stagflation
 - (b) Demand pull inflation
 - (c) Structural inflation
 - (d) None

19. Consider the following statements regarding the Financial Market Infrastructure (FMI):
1. It is used for purposes of clearing, settling, or recording payments, securities, derivatives, or other financial transactions.
 2. Real-Time Gross Settlement System (RTGS) is designated as an FMI in India.
- 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
20. In the context of macroeconomics, 'Sterilisation' refers to
- (a) demonetization of currency to reduce corruption in shadow economy
 - (b) operations by the RBI to neutralize the effects of high fiscal deficit on the economy
 - (c) operations by RBI to neutralize effects of excess inflow of foreign investments in the economy
 - (d) operations by RBI to neutralize the effects of high non performing assets on the economy
21. The government of a nation performs its income distribution function through which of the following mechanisms?
1. Levying taxes
 2. Transfer Payment
 3. Controlling money supply
- 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

22. "Mr. X travels from city A to city B within India by buying a first class ticket of the Rajdhani Express. After deboarding the train, he hires a local taxi to a nearby public park which is open to all at all times and begins painting a beautiful scenery at dawn." Which of the following may be classified as 'Public Goods' enjoyed by Mr. X?
1. Railways
 2. Local Taxi
 3. Public Park
- Select the correct answer using the code given below.
- (a) 1 and 2 only
(b) 1 and 3 only
(c) 3 only
(d) 1, 2 and 3
23. With reference to GDP deflator, consider the following statements:
1. It is the ratio of GDP measured at current prices to GDP measured at constant prices.
 2. It automatically reflects the changes in consumption pattern and structural transformations in the economy.
- 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
24. Which of the following is an appropriate description of *disinflation*?
- (a) It is a slowdown in the rate of increase of the general price level of goods and services
 - (b) It is a sudden fall in the value of a currency against other currencies.
 - (c) It is a persistent fall in the general price level of goods and services.
 - (d) It is a steep increase in the price level of export items.

25. In the Product method or Gross Value Added (GVA) method, the Gross Domestic Product (GDP) is calculated by adding the gross value added (GVA) of all firms in the economy. Which of the following are used to find the GVA of a firm?

1. Sales of the firm
2. Change in inventories
3. Value of intermediate goods used

Select the correct answer using the code given below.

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

26. Consider the following statements regarding Dumping:

1. It refers to a practice when the export price of a product is less than the cost of production in the home country.
2. Union Ministry of Finance is the nodal agency responsible for investigating the cases of dumping in India.

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

27. With reference to Viability Gap Funding (VGF), consider the following statements:

1. It is a grant provided to support projects which are economically justified but lack financial viability.
2. A private sector company shall be eligible for VGF only if it is selected on the basis of open competitive bidding.

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

28. Which of the following constitute a part of the Revenue Receipts of the Government of India?

1. Interest receipts on loans by the government
2. Dividends earned by the government on investments
3. Receipts through PSU disinvestments
4. Cash grants-in-aid from foreign countries

Select the correct answer using the code given below.

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

29. Which of the following may lead to an increase in Personal Income in an economy?

1. Increase in national income
2. Increase in undistributed profits
3. Increase in corporate taxes

Select the correct answer using the code given below.

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

30. Which of the following fall within the purview of Capital account under the Balance of Payments?

1. Dividends on foreign assets which are abroad
2. Gifts from abroad
3. Foreign institutional investment

Select the correct answer using the code given below.

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

- 31.** Which of the following statements is/are correct regarding Peer to peer (P2P) lending?
1. P2P lending is a form of crowdfunding used to raise loans without pledging security.
 2. The interest rate is fixed by way of a mutual agreement between the borrower and lender.
- 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
- 32.** What do you understand by the term transfer payment?
- (a) Payment given to the importers by a domestic firm for the goods supplied.
(b) It is a part of profit which is not distributed among the factors of production.
(c) It is a one-way payment to a person who has given or exchanged no money, good, or service for it.
(d) Payment made by the parent company to subsidiary companies for use of goods or services.
- 33.** In the context of the money supply in an economy, High Powered Money includes
- (a) Interbank deposits, which a commercial bank holds in other commercial banks.
(b) deposits held by the Government of India and commercial banks with RBI only.
(c) only the currency circulation and the public and vault cash of commercial banks.
(d) Both (b) and (c).

- 34.** In India, Know Your Customer (KYC) verifications are mandatory for which of the following sectors?
1. Banking
 2. Equity Trading
 3. Pension
 4. Insurance services
- Select the correct answer using the code given below.
- (a) 1, 2 and 3 only
(b) 3 and 4 only
(c) 1 and 2 only
(d) 1, 2, 3 and 4
- 35.** With reference to Wholesale Price Index (WPI), consider the following statements:
1. It covers both services as well as goods.
 2. It includes indirect taxes to account for the impact of fiscal policy.
- 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
- 36.** Which of the following sectors/categories fall under Priority Sector Lending (PSL)?
1. Loan to minorities
 2. Education Loans
 3. Loans for renewable energy
 4. Overdraft under Pradhan Mantri Jan-Dhan Yojana
- Select the correct answer using the code given below.
- (a) 1, 2 and 3 only
(b) 3 and 4 only
(c) 2 and 4 only
(d) 1, 2, 3 and 4

37. Which of the following services can be provided by a Small Finance Bank?

1. Pension products
2. Mutual fund services
3. Bank Deposits
4. Foreign Exchange

Select the correct answer using the code given below.

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

38. Which of the following was/were the outcomes of the Bretton Woods Conference held in 1944?

1. Setting up of International Monetary Fund (IMF) and the World Bank
2. Setting up of World Trade Organisation
3. Establishment of international gold exchange standard

Select the correct answer using the code given below.

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

39. The marginal productivity of labour force becomes zero in which of the following types of unemployment?

- (a) Disguised unemployment
- (b) Seasonal unemployment
- (c) Frictional unemployment
- (d) Structural unemployment

40. Which of the following curve shows that inflation and unemployment have a stable and inverse relationship?

- (a) Phillips Curve
- (b) Kuznets Curve
- (c) Laffer Curve
- (d) Lorenz Curve

41. Mumbai Inter-Bank Bid Rate (MIBID) is the benchmark rate at which banks:

- (a) are willing to lend each other.
- (b) would like to borrow from other banks.
- (c) attract deposits from other banks.
- (d) charge an additional rate of interest on public deposits.

42. Consider the following statements:

1. The sum of exports and imports as a proportion of GDP is an indicator of the degree of openness of an economy.
2. In an open economy, an increase in export can lead to an increase in the aggregate demand in domestic economy.

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

43. With reference to Cash Reserve Ratio (CRR), consider the following statements:

1. CRR is the percentage of deposits which a bank must keep with itself in the form of any liquid asset.
2. Higher the CRR requirement, lower will be the credit creation in the economy.

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

44. In an open economy, for the barter system to operate successfully, which of the following principles must be completely satisfied?

- (a) Law of Diminishing returns
- (b) Double coincidence of wants
- (c) The law of supply
- (d) The law of demand

45. Which of the following changes are implemented after the merger of Railway Budget with the Union Budget?

1. Ministry of Railways receives Gross Budgetary support from Government of India.
2. The appropriations for Railways form a part of the main Appropriation Bill.
3. Railways are liable for dividend payments to the Government on their profits.

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

46. Which of the following fiscal policy statements are required to be laid before the Parliament under the Fiscal Responsibility and Budget Management Act, 2003 (FRBMA)?

1. Medium-term Fiscal Policy
2. Fiscal Policy Strategy
3. Outcome Budget
4. Medium-term Expenditure Framework

Select the correct answer using the code given below.

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

47. Consider the following statements regarding Deemed Exports Benefit Scheme:

1. Deemed Exports refers to those transactions in which goods supplied do not leave the country but the payment for such supplies is received only in foreign exchange.
2. The scheme violates the principle of import substitution.
3. The scheme is applicable to the units in Petroleum refinery and Nuclear Power Projects.

Which of the statements given above is/are correct?

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

48. Which of the following statements best describes the term *Triffin dilemma*?

- (a) It refers to the dilemma of setting the right monetary policy rates so as to balance the twin objectives of price stability and growth.
- (b) It refers to the dilemma of finding the rates of taxation so as to maximize revenue collection.
- (c) It refers to the impossibility of having a fixed foreign exchange rate, free capital movement and an independent monetary policy at the same time.
- (d) It refers to the conflict of economic interests that arises between short-term domestic and long-term international objectives for countries whose currencies serve as global reserve currencies.

49. With reference to methods of GDP estimation, consider the following statements regarding 'basic prices':

1. It includes the payment to factors of production but does not include any tax.
2. The Gross Value added at basic prices will always be less than Gross Value added at market prices.

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

50. Consider the following statements regarding the differences between Proportional and Progressive taxation:

1. In progressive taxation, tax rate increases with an increase in the income whereas, in proportional taxation same percentage of tax is levied on all taxpayers.
2. As compared to progressive taxation, proportional taxation makes disposable income less sensitive to fluctuations in GDP.

Which of the statements given above is/are correct?

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

51. With reference to the First Five-Year Plan in India, consider the following statement

1. It focussed on rapid industrialization using heavy and basic industries.
2. The actual growth rate exceeded the target growth rate set by the five-year plan.

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

52. What are the reasons for not using GDP as the indicator of well being of the people of a country?

1. It does not account for distribution of income.
2. It takes into account only those economic activities that are evaluated in monetary terms.
3. It neglects negative externalities on health and environment.

Select the correct answer using the code given below.

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

53. Which of the following correctly describes the term 'Speculative demand for money'?

- (a) It is the purchasing power of a currency with respect to another for a fixed basket of goods.
- (b) It refers to speculation in money supply in an economy in the form of demand deposits held in banks.
- (c) It is the demand for money as a store of wealth.
- (d) It is the demand for currency to purchase assets and real estate for creation of wealth.

54. An increase in the public debt through domestic borrowings may lead to which of the following in an economy?

1. Inflation
2. Private borrowers crowded out of the financial markets
3. Increase in aggregate demand

Select the correct answer using the code given below.

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

55. With reference to Special Economic Zones, consider the following statements:

1. It refers to a specially demarcated territory with tax holidays and exemptions from duties for export and import.
2. A major objective of setting up a SEZ is to attract Foreign Direct Investment and earn foreign exchange.

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

56. "Usual Status Approach", "Current Weekly Status Approach", "Current Daily Status Approach" are used in the measurement of

- (a) Inflation
- (b) Unemployment
- (c) GDP growth rate
- (d) Wage increase in labour market

57. Which of the following statements is/are correct regarding the Velocity of Money?

1. The number of times a unit of money changes hands during the unit period is called the velocity of circulation of money.
2. Higher the velocity of circulation, higher will be the total nominal value of transactions in the economy.

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

58. Consider the following statements regarding the Statutory Liquidity Ratio (SLR):

1. SLR is mandatory for all Scheduled Commercial Banks.
2. SLR securities can be pledged for raising funds through Open Market Operations.
3. Non-maintenance of SLR attracts a penal rate of interest upon the bank.

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

59. Which of the following financial instruments can be classified as securities?

1. Bonds
2. Shares
3. Fixed Deposits

Select the correct answer using the code given below.

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

- 60.** Mahalanobis model adopted in the Second Five-Year Plan is associated with
- (a) Agricultural advancement
 - (b) Modernization of army
 - (c) Large scale industrial development
 - (d) Promotion of cottage industries
- 61.** Which among the following sectors is/are covered under the Index of Industrial Production (IIP)?
1. Mining
 2. Manufacturing
 3. Electricity
- 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
- 62.** With reference to Participatory notes or P-notes in the Indian context, consider the following statements:
1. It is a derivative instrument issued in India by a listed company against underlying Indian security.
 2. The investors in P-Notes derive the economic benefits of investing in security without actually owning 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

- 63.** Consider the following statements with respect to Mahatma Gandhi National Rural Employment Guarantee Act, 2005:
1. Only rural Below Poverty Line families are eligible for the benefits under the Act.
 2. It promises 200 days of guaranteed wage employment to every adult member in rural areas.
 3. It provides for the voluntary unskilled manual wage works.
- Which of the statements given above is/are correct?
- (a) 3 only
 - (b) 2 and 3 only
 - (c) 1 and 3 only
 - (d) 1, 2 and 3
- 64.** Which of the following statements correctly define(s) 'Fiscal deficit'?
- (a) Excess of total expenditure over revenue receipts and non-debt creating capital receipts.
 - (b) Borrowings from RBI, abroad as well as net borrowing at home.
 - (c) Excess of government's total expenditure over total receipts.
 - (d) Both (a) and (b)
- 65.** Consider the following statements regarding the Repo Rate:
1. Repo is an instrument with RBI for borrowing funds only on an overnight basis.
 2. Both government and corporate sector securities can be used for borrowing under repo rate.
 3. Increase in the repo rate will increase the liquidity in the market.
- Which of the statements given above is/are correct?
- (a) 1 and 2 only
 - (b) 2 only
 - (c) 1 only
 - (d) 1, 2 and 3

- 66.** Which of the following are the characteristics of a 'Spot Exchange'?
1. It facilitates the sale and purchase of commodities including bullion.
 2. Settlements are done on an electronic trading platform.
 3. It allows for anonymity between buyers and sellers.
- Select the correct answer using the code given below.
- (a) 2 and 3 only
(b) 1 and 2 only
(c) 1 and 3 only
(d) 1, 2 and 3
- 67.** With reference to the Industrial Policy Resolution of 1956, consider the following statements:
1. It formed the basis of the Second Five Year plan.
 2. It rejected the role of the private sector in the development of Indian economy.
- 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
- 68.** Which of the following actions implemented by the government may lead to reduction in its deficit?
1. Increase in the rate of personal Income Tax.
 2. Sale of shares of Public Sector Undertakings.
 3. Introduction of new welfare schemes by the government.
- 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

- 69.** Which of the following was/were the financial sector reforms taken up by the Government of India post the economic reforms of 1991?
1. Allowing Foreign Institutional Investors to invest in Indian financial markets.
 2. Necessary approval of RBI needed for all banks to set up new branches.
 3. Banks were allowed to generate resources from India and abroad.
- Select the correct answer using the code given below.
- (a) 1 only
(b) 1 and 3 only
(c) 2 and 3 only
(d) 1, 2 and 3
- 70.** Which of the following statements best describes the term "inflationary gap"?
- (a) It is the gap between price levels of base year and current year.
 - (b) It is a situation which arises when aggregate demand exceeds the aggregate supply at the full employment level.
 - (c) It is a situation when inflation rises at a faster rate highlighting gaps in monetary policy transmission.
 - (d) It is a situation which arises when aggregate demand falls short of aggregate supply at the full employment level.
- 71.** Consider the following statements with respect to Consumer Price Index:
1. It computes price changes in both goods and services.
 2. It is computed by the Office of Economic Advisor (OEA), Department of Industrial Policy and Promotion.
 3. It is taken as measure of inflation while formulating monetary policy by RBI.
- 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

- 72.** Which of the following can be used for 'Deficit Financing' in India?
1. Minting of new coins
 2. Issuance of Masala Bonds
 3. Borrowing from multilateral institutions
 4. Purchase of hard currencies
- Select the correct answer using the code given below.
- (a) 1, 2 and 3 only
(b) 2 and 4 only
(c) 1 and 3 only
(d) 1, 2, 3 and 4
- 73.** Which of the following is/are correct regarding the Marginal Cost of Funds Based Lending Rate (MCLR)?
1. It refers to the minimum interest rate of a bank below which it cannot lend.
 2. It is determined internally by every bank.
- 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
- 74.** With reference to Real Effective Exchange Rate (REER), consider the following statements:
1. It is the price of a representative basket of foreign currencies, each weighted by its importance to the domestic country in international trade.
 2. It is interpreted as the quantity of domestic goods required to purchase one unit of a given basket of foreign goods.
- 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

- 75.** Which of the followings is/are included in Sovereign external debt?
1. FII investment in Government Securities
 2. Borrowings from IMF
 3. Development grant by World Bank
- Select the correct answer using the code given below.
- (a) 1 only
(b) 1 and 2 only
(c) 2 and 3 only
(d) 1, 2 and 3
- 76.** It is calculated by adding residents' investment income from overseas investments and subtracting foreign residents' investment income earned within a country to the Gross Domestic Product (GDP).
- Which of the following concepts is explained in the above paragraph?
- (a) Gross National Product
(b) Net National Product
(c) Net Domestic Product
(d) Net National Income
- 77.** Which of the following statements is correct about Rupee-denominated debt?
- (a) Foreign portfolio investors are prohibited from investing in rupee denominated debt instruments.
 - (b) The borrower pays back the foreign currency equivalent of the rupee denomination at a pre-decided exchange rate.
 - (c) It can be issued only by the government.
 - (d) The currency risk is borne by the creditor.

- 78.** With reference to Alternative Investment Funds, consider the following statements:
1. It refers to any privately pooled investment fund from domestic sources only.
 2. Currently they do not come under the jurisdiction of any regulatory agency in India.
- 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
- 79.** "These are final goods that are of a durable character. They make the production of other commodities feasible, but they themselves don't get transformed into the production goods. They gradually undergo wear and tear, and thus are repaired or gradually replaced over time"
- Which of the following is described in the above passage?
- (a) Consumption goods
(b) Capital goods
(c) Intermediate goods
(d) Consumer durables
- 80.** Quarterly External Debt Statistics (QEDS) Database is an online database launched by the:
- (a) Union Ministry of Finance, India to reports external debt statistics of Indian economy.
(b) World Bank and the International Monetary Fund (IMF) to reports external debt statistics of economies that subscribe to the IMF's Special Data Dissemination Standard.
(c) World Trade Organization (WTO) and the International Monetary Fund (IMF) to reports external debt statistics of Group of 20 (G-20) countries.
(d) Asian Development Bank (ADB) and the International Monetary Fund (IMF) to reports external debt statistics of Asian countries.

- 81.** The proportion of the total deposits commercial banks keep as reserves is referred to as
- (a) Capital Adequacy Ratio
(b) Reserve Deposit Ratio
(c) Credit Reserve Ratio
(d) Currency Deposit Ratio
- 82.** Which of the following are the possible advantages of the monetary system over the barter system?
1. Reduction in transactions costs.
 2. Better accounting of transactions.
 3. Requires that prices must be negotiated for every transaction.
- 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
- 83.** Consider the following statements with respect to the participation of people in employment in India:
1. The worker-population ratio represents number of persons employed per 1000 persons in the age group of 15-59 years.
 2. Worker-population ratio in India is more than 60 at present.
- 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

84. With reference to electricity production in India, arrange the following in decreasing order of their contribution to power generation capacity.

1. Thermal power
2. Hydel power
3. Nuclear power

Select the correct answer using the code given below.

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

85. Which of the following is/are the consequences of the process of "casualization of the workforce"?

1. The number of self-employed persons increases.
2. It will increase the unionization of the labour force.
3. Reduced employment benefits such as sick leave.

Select the correct answer using the code given below.

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

86. With reference to Depository Receipts, consider the following statements:

1. It is a financial instrument which represents certain securities issued by a company in a foreign jurisdiction.
2. It is free from risks for investors, due to exchange rate fluctuations.
3. It can be traded on a stock exchange.

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

87. Which of the following is/are the advantages of organic farming over conventional farming?

1. It is less labor-intensive.
2. The produce of organic farming has higher nutritional value.
3. Organic farming yields have a greater shelf life.

Select the correct answer using the code given below.

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

88. Which of the following initiatives was/were taken to boost the agricultural sector after independence?

1. Fixing the limit of individual land ownership
2. Abolition of intermediaries.
3. Introduction of High Yielding Variety seeds of food crops.

Select the correct answer using the code given below.

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

89. With reference to Micro-insurance in India, consider the following statements:

1. Micro-insurance policies are created to promote insurance coverage among economically vulnerable sections of society.
2. These policies are regulated by NABARD.
3. These policies can be offered only a group basis and not to individuals.

Which of the statements given above is/are correct?

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

90. With reference to Inflation-Indexed Bonds in India, which of the following statements is/are correct?

1. These are government-issued bonds which provide the investor with a constant return irrespective of the inflation in the economy.
2. They are linked to CPI (Combined) for indexing inflation.

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

91. Consider the following passage:

"It is a Public-Private Partnership (PPP) model in which the government bears a part of the cost of the project initially, and the developer has to raise the remaining part. The cost born by the developer is repaid by the government after the completion of the project, through annual payments."

The above paragraph describes which type of PPP model?

- (a) Build Operate and Transfer (BOT) Annuity Model
- (b) Build Operate and Transfer (BOT) Toll Model
- (c) Engineering, Procurement and Construction (EPC) Model
- (d) Hybrid Annuity Model (HAM) Model

92. With reference to Payments Banks, consider the following statements:

1. Mobile companies and supermarket chains can become a payment bank to provide basic banking activities.
2. Payments Bank can accept fixed deposits as well as undertake lending business.
3. Payments banks are required to comply with the Statutory Liquidity Ratio (SLR) norms.

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

93. Which of the following statements are correct regarding the Monetary Policy Committee (MPC)?

1. It is a statutory body.
2. It is a six-member body headed by RBI Governor.
3. It is responsible for determining the inflation target.

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

94. *If we keep increasing the employment of an input, with other inputs fixed, eventually a point will be reached after which the resulting addition to output will start falling.* Which of the following laws is best described by the above passage?

- (a) Law of Diminishing Marginal Product
- (b) Law of Increasing Costs
- (c) Law of Equivalent Exchange
- (d) Engel's Law

95. With reference to the current energy consumption pattern in India, consider the following statements:

1. More than half of the total energy consumption in India depends on non-commercial energy sources.
2. The transport sector is the largest consumer of commercial energy in India.

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

96. Consider the following statements with respect to inflation:

1. It decreases the purchasing power capacity of a currency.
2. It benefits both the bondholders and debtors.

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

97. Consider the following statements:

1. In a free trade agreement, the member countries maintain a common external tariff for exports and imports from non-members.
2. A Customs Union is characterized by the free movement of factors of production among member countries.

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

98. With reference to Revenue Deficit, consider the following statements:

1. It includes such transactions that affect the current income and expenditure of the government.
2. It signifies that government is using up the savings to finance a part of its consumption expenditure.

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

99. With reference to the employment pattern in India, consider the following statements:

1. More than two-thirds of the workforce is engaged in the primary sector.
2. Self-employed constitute the majority of the total workforce.
3. The representation of female workers in the formal sector is lower than the informal sector.

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

100. Consider the following statements regarding the Most favored nation (MFN) status:

1. It requires that concessions or privileges to one nation shall be extended to all the WTO member countries.
2. Under the MFN, the countries can give special access to their markets in goods to both the developed and developing countries.

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

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ANSWERS & EXPLANATION

GENERAL STUDIES (P) TEST – 2969 (2020)

Q 1.A

- **Legal tender**
 - It is any official medium of payment recognized by law. **Hence statement 1 is correct.**
 - It is used for monetary transactions, fulfills the financial obligation or to repay public or private debt.
 - The value of the currency notes and coins is derived from the guarantee provided by the issuing authority of these items.
 - They do not have intrinsic value like gold or silver coin. **Hence statement 2 is not correct.**
 - They cannot be refused by any citizen of the country for settlement of any kind of transaction.
 - Coins and currency notes are recognized as legal tenders.
 - While the currency notes are issued by RBI, coins are issued by the central government. **Hence statement 3 is not correct.**
 - 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.
- **Legal tender can be of :**
 - Limited character - coins function as limited legal tender. Therefore, 50 paise coins can be offered as legal tender for dues up to ₹10 and smaller coins for dues up to ₹1.
 - Unlimited character - currency notes are unlimited legal tender and can be offered as payment for dues of any size.

Q 2.D

- New stocks and bonds are created and sold to investors in the primary capital market, while securities are traded by investors on the secondary capital market.
- **When a company publicly sells new stocks and bonds for the first time, it does so in the primary capital market.** This market is also called the new issues market. In many cases, the new issue takes the form of an initial public offering (IPO). When investors purchase securities on the primary capital market, the company that offers the securities hires an underwriting firm to review it and create a prospectus outlining the price and other details of the securities to be issued. **Hence statement 1 is not correct.**
- As per Section 15 (1) (a) of the SEBI FII Regulations, 1995, **a Foreign Institutional Investor (FII) could invest in the securities in the primary and secondary markets including shares, debentures and warrants of companies unlisted, listed or to be listed on a recognized stock exchange in India.** In fact FIIs are very active in the over the counter (OTC) markets and in the IPO market in India. However, subsequent to SEBI (FPI) regulations, **FIIs are allowed to invest only in listed or to-be listed entities and only through stock exchanges.** The Reserve Bank of India monitors the ceilings on FII/NRI/PIO investments in Indian companies on a daily basis. **Hence statement 2 is not correct.**

Q 3.B

- Traditionally, when a government cuts taxes and runs a budget deficit, consumers respond to their after-tax income by spending more. A counter argument is that consumers are forward-looking and will base their spending not only on their current income but also on their expected future income.
- They will understand that borrowing by the government today means higher taxes in the future. Further, the consumer will be concerned about future generations because they are the children and grandchildren of the present generation and the family which is the relevant decision making unit, continues living. They

would increase savings now, which will fully offset the increased government dissaving so that national savings do not change. This view is called Ricardian equivalence after one of the greatest nineteenth century economists, David Ricardo, who first argued that in the face of high deficits, people save more.

- **It is called 'equivalence' because it argues that taxation and borrowing are equivalent means of financing expenditure. When the government increases spending by borrowing today, which will be repaid by taxes in the future, it will have the same impact on the economy as an increase in government expenditure that is financed by a tax increase today.**

Q 4.A

- Reserve Bank of India
 - It was established on April 1, 1935, in accordance with the provisions of the Reserve Bank of India Act, 1934.
 - Though originally privately owned, since nationalization in 1949, the Reserve Bank is fully owned by the Government of India.
- The Preamble of the Reserve Bank of India describes the basic functions of the Reserve Bank as to:
 - Regulate the issue of Banknotes
 - Keeping of reserves with a view to securing monetary stability in India
 - Operate the currency and credit system of the country to its advantage
 - Have a modern monetary policy framework to meet the challenge of an increasingly complex economy
 - To maintain price stability while keeping in mind the objective of growth.
- 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.
- The central bank provides them funds through various instruments. This role of RBI, that of being ready to lend to banks at all times is an important function of the central bank, and due to this central bank is said to be the lender of last resort. **Hence only statement 1 is correct.**
- Other main functions of the RBI are:
 - Banker to the Government
 - Foreign Exchange Management and Control

Q 5.A

- In pursuance of the announcement made in the **Union Budget 2010–11** and with a view to strengthen and institutionalize the mechanism for maintaining financial stability and enhancing inter-regulatory coordination, Indian Government has setup an apex-level **Financial Stability and Development Council (FSDC)**, **vide its notification dated 30th December, 2010**. The first meeting of the Council was held on 31st December, 2010.
- FSDC has replaced the High Level Coordination Committee on Financial Markets (HLCCFM), which was facilitating regulatory coordination, though informally, prior to the setting up of FSDC.
- **Composition:**
 - **The Chairman of the FSDC is the Finance Minister of India** and its members include the heads of the financial sector regulatory authorities (i.e., SEBI, IRDA, RBI, PFRDA and FMC) , Finance Secretary and/or Secretary, Department of Economic Affairs (Ministry of Finance), Secretary, (Department of Financial Services, Ministry of Finance) and the Chief Economic Adviser. **Hence, statement 2 is not correct.**
 - The commodities markets regulator, **Forward Markets Commission (FMC) was added to the FSDC in December 2013** subsequent to shifting of administrative jurisdiction of commodities market regulation from Ministry of consumer Affairs to Ministry of Finance. The Joint Secretary (Capital Markets Division, Department of Economic Affairs, Ministry of Finance) was the Secretary of the Council till August 2013. Now this post is being held by the Additional Secretary in the Ministry of Finance.

- A sub-committee of FSDC has also been set up under the chairmanship of Governor RBI. The Sub-Committee discusses and decides on a range of issues relating to financial sector development and stability including substantive issues relating to inter-regulatory coordination.
- **Mandate:** Without prejudice to the autonomy of regulators, this Council would **monitor macro prudential supervision of the economy**, including the functioning of large financial conglomerates. It will **address inter-regulatory coordination issues** and thus spur financial sector development. It will also focus on **financial literacy and financial inclusion**. What distinguishes FSDC from other such similarly situated organizations across the globe is the additional mandate given for development of financial sector. **Hence, statement 1 is correct.**

Q 6.A

- Fiscal deficit is the difference between the government's total expenditure and its total receipts excluding borrowing. Fiscal deficit is bridged by market borrowing and Central Bank printing fresh currency (monetization) if necessary. Fiscal deficit may cause macroeconomic instability by inflating the economy as money supply and thus inflation increases. Hence curtailing Fiscal Deficit is necessary to fight inflationary pressures. Curtailing government expenditure would lead to decrease in fiscal deficit.
- **If government expenditure decreases, inflation might also decrease.**
- When **interest rates are low, individuals and businesses tend to demand more loans**. Each bank loan increases the money supply in a fractional reserve banking system. **A growing money supply increases inflation**. Thus, a low interest rate tends to result in more inflation. **So to fight inflation, loans have to be made costly.**
- **Decreasing taxation rates and giving tax exemptions will increase the money supply** in markets and will lead to demand-pull inflation. **Hence the increase in tax rates is necessary to fight inflation.**
- **Hence option (a) is the correct answer.**

Q 7.B

- Before the 1991 economic reforms, the Private sector was not allowed in many industries. Also, some goods could be produced only in small-scale industries. Post the economic reforms of 1991, the only industries which are now reserved for the public sector are a **part of defense equipment, atomic energy generation, and railway transport**. **Hence options 1 and 3 are correct.**
- Many goods produced by small-scale industries have now been deserved. In many industries, the market has been allowed to determine prices.
- In coal-based energy generation, private players are also allowed. **Hence option 2 is not correct.**

Q 8.A

Statement 1 is correct- Core Inflation, also known as underlying inflation, is a measure of inflation which excludes items that face volatile price movement, notably food and energy. It is nothing but Headline Inflation minus inflation that is contributed by food and energy commodities.

Statement 2 is not correct- Unlike core inflation, headline inflation also takes into account changes in the price of food and energy. Since food and energy prices are highly volatile, headline inflation fluctuates more and may not give an accurate picture of how an economy is behaving.

Whenever core inflation rises, RBI increases policy rates to suck excess liquidity from the market and vice versa.

Q 9.A

- **Statement 1 is correct:** 'Invest India' is India's official agency dedicated to investment promotion and facilitation.
- It is a not-for-profit, single-window facilitator for prospective overseas investors and to those aspiring Indian investors desiring to invest in foreign locations, and acts as a structured mechanism to attract investment. Invest India is essentially an Investment Promotion Agency in India.
- **Statement 2 is not correct:** Invest India, an investment promotion agency in which the government has 49% equity, the rest is equally divided among three industry bodies — CII, FICCI and NASSCOM —

thereby technically making it a private entity. While Department for Promotion of Industry and Internal Trade (DPIIT) has a 43.5% stake in the agency, 5.5% has been transferred to 19 states, including Maharashtra, Madhya Pradesh, Telangana and Kerala; this makes the state's stakeholders in the mission of Invest India.

Q 10.A

- **Flows:** Flows are defined over a period of time. **Income, or output, or profits of a company** are concepts that make sense only when a time period is specified. These are called flows because they occur in a period of time. Therefore we need to delineate a time period to get a quantitative measure of these. Saving is measured per unit time and is a flow variable. **Hence, options 1 and 2 are correct.**
- **Stocks:** Stocks are defined at a particular point of time. In contrast, capital goods or consumer durables once produced do not wear out or get consumed in a delineated time period. In fact, capital goods continue to serve us through different cycles of production. The **buildings, machines, inventories in a factory** are there irrespective of the specific time period. There can be an addition to or deduction from, these if a new machine is added or a machine falls in disuse and is not replaced. These are called stocks. Wealth is measured at a point in time and is, therefore, a stock variable. **Hence, option 3 is not correct.**
- However, we can measure a change in stock over a specific period of time like how many machines were added this year. Such changes in stocks are thus flows, which can be measured over specific time periods.

Q 11.C

- Managed floating exchange rate system is a system in which the central bank allows the exchange rate to be determined by market forces but intervene at times to influence the rate. **Hence statement 1 is correct.**
- India follows a managed floating exchange rate system. RBI acts as a controller in the exchange rate market. **Hence statement 2 is correct.**

Q 12.D

- In India, the farming community uses the mixed crop-livestock farming system — cattle, goats, fowl are the widely held species. Livestock production provides increased stability in income, food security, transport, fuel and nutrition for the family without disrupting other food-producing activities.
- The distribution of livestock in India: **Poultry accounts for the largest share with 58 percent followed by cattle and buffaloes (24 percent)**, goats and sheep (16 percent), pigs (1 percent). Other animals which include camels, asses, horses, ponies, and mules are in the lowest rung. **Hence statement 1 is not correct.**
- In the fisheries sector, presently, **fish production from inland sources contributes about 64 percent to the total value of fish production and the balance 36 percent comes from the marine sector (sea and oceans)**. Today total fish production accounts for 0.8 percent of the total GDP. In India, West Bengal, Andhra Pradesh, Kerala, Gujarat, Maharashtra, and Tamil Nadu are major fish producing states. **Hence statement 2 is not correct.**

Q 13.C

- **Escrow Account**
 - An escrow account in simple terms is a third party account.
 - It is a separate bank account to hold money which belongs to others and where the money parked will be released only under the fulfillment of certain conditions of a contract.
 - An escrow account is an arrangement for safeguarding the seller against its buyer from the payment risk for the goods or services sold by the former to the latter. **Hence option (c) is the correct answer.**
- **How it operates:**
 - This is done by removing the control over cash flows from the hands of the buyer to an independent agent.
 - The independent agent, i.e, the holder of the escrow account would ensure that the appropriation of cash flows is as per the agreed terms and conditions between the transacting parties.

- In India, escrow account is widely used in public-private partnership projects in infrastructure.
- RBI has also permitted Banks (Authorised Dealer Category I) to open escrow accounts on behalf of Non-Resident corporates for acquisition/transfer of shares/ convertible shares of an Indian company.

Q 14.B

The Hindu rate of growth was a term used disparagingly to indicate the low growth rate of the Indian economy for more than 3 decades, between the 50s to the 80s. The average growth of GDP during this period was around 3.5% while per capita income grew by a mere 1.3%.

The term was coined by Prof Raj Krishna who argued at one of his lectures in the late 70s that “..no matter what happens to the economy the trend growth rate in India will be 3.5%”. It was later used by a few economists to link the low growth rate of the 50s-80s period to Hindu beliefs of “Karma” & “Bhagya”.

Q 15.D

- The industrial policy that we adopted was closely related to the trade policy. In the first seven five year plans, trade was characterized by what is commonly called an inward-looking trade strategy. Technically, this strategy is called import substitution.
- This policy aimed at replacing or substituting imports with domestic production. For example, instead of importing vehicles made in a foreign country, industries would be encouraged to produce them in India itself. **Hence option 2 is correct.**
- In this policy, the government protected the domestic industries from foreign competition. Protection from imports took two forms: tariffs and quotas.
- Tariffs are a tax on imported goods; they make imported goods more expensive and discourage their use. Quotas specify the quantity of goods which can be imported. The effect of tariffs and quotas is that they restrict imports and, therefore, protect domestic firms from foreign competition. **Hence option 1 is correct.**
- Increasing the proportion of Indian goods in the export market was not the aim of the Import Substitution policy. **Hence option 3 is not correct.**

Q 16.D

- Economic reforms after 1991 have not been able to benefit agriculture, where the growth rate has been decelerating. The agriculture sector achieved a growth rate of 3.3% in 1992-2001 compared to 3.6% in 1980-91. For 2002-07 and 2007-12, the growth rate was 2.3% and 3.2% respectively. **Hence statement 1 is not correct.**
- Agriculture accounted for 24.02% of the GDP in the year 1991-92, while 23.83% in 1993-94, 19.61% in 1999-00 while 12.35% in 2009-10. **Hence statement 2 is not correct.**

Q 17.C

- **Statement 1 is correct:** Balance of Payments is the record of all economic transactions between the **residents of the country and the rest of the world** in a particular period of time. These transactions include the transactions in **goods, services and assets (like financial capital, etc).**
- There are two major components of the balance of payment viz current account and capital account.
 - **Current Account**
 - The current account is used to monitor the inflow and outflow of goods and services between countries. This account covers all the receipts and payments made with respect to raw materials and manufactured goods. It also includes receipts from engineering, tourism, transportation, business services, stocks, and royalties from patents and copyrights.
 - There are various categories of trade and transfers which happen across countries. It could be visible or invisible trading, unilateral transfers or other payments/receipts. Trading in goods

between countries are referred to as visible items and import/export of services (banking, information technology etc) are referred to as invisible items. Unilateral transfers refer to money sent as gifts or donations to residents of foreign countries. This can also be personal transfers like – money sent by relatives to their family located in another country.

- **Capital Account**

- All capital transactions between the countries are monitored through the capital account. Capital transactions include the purchase and sale of assets (non-financial) like land and properties. The capital account also includes the flow of taxes, purchase and sale of fixed assets etc by migrants moving out/into a different country. The deficit or surplus in the current account is managed through finance from the capital account and vice versa.
- **Statement 2 is correct:** The balance of payments (BoP) is not independent on the currency of the transaction. For e.g. the transaction of India buying Oil from Iran is under the balance of payments even if the payment is made in Indian rupees (INR).

Q 18.C

- **Structural inflation** is the one prevailing in most developing countries. The situation is due to the operation of the structural weakness (**supply bottleneck, lack of infrastructure, etc.**) existing in a developing economy. **Lack of adequate supply responses or production to increase in demand is the cause of structural inflation. Hence option (c) is the correct answer.**
- A complete change in economic policy would be needed to address it. Below examples illustrate structural inflation.
 - To keep farmers happy, Government keeps increasing **Minimum Support Price for wheat and rice** but MSP for **pulses remain stagnant**. It disincentivises farmers to grow pulses thus decrease its supply and **increases pulse prices**.
 - Due to **APMC acts of states, cartelisation and hoarding** is rampant in the agricultural market. It leads to supply and demand mismatch and **increases inflation**.

Q 19.C

- Financial Market Infrastructure (FMI) is defined as a multilateral system among participating institutions, including the operator of the system, used for the purposes of clearing, settling, or recording payments, securities, derivatives, or other financial transactions.
- The term FMI generally refers to systemically important payment systems, Central Securities Depositories (CSDs), Securities Settlement Systems (SSSs), Central Counter Parties (CCPs), and Trade Repositories (TRs) that **facilitate the clearing, settlement, and recording of financial transactions**.
- FMIs play a critical role in the financial system and the broader economy and contribute to maintaining and promoting financial stability and economic growth.
- **RTGS system is owned and operated by the RBI.** It is a Systemically Important Payment System (SIPS) where the inter-bank payments settle on a 'real' time and on a gross basis in the books of the RBI. **It is designated as an FMI which is regulated by the RBI. Hence both the statements are correct.**

Q 20.C

- **Sterilization is intervention by the monetary authority of a country in the money market to keep the money supply stable against exogenous or sometimes external shocks such as an increase in foreign exchange inflow. It is a form of monetary action in which a central bank seeks to limit the effect of inflows and outflows of capital on the money supply. Hence option (c) is the correct answer.**
- Sterilization most frequently involves the purchase or sale of financial assets by a central bank, and is designed to offset the effect of foreign exchange intervention. It refers to the process by which the RBI takes away money from the banking system to neutralise the fresh money that enters the system

Q 21.A

- **Through its tax and expenditure policy, the government attempts to bring about a distribution of income that is considered 'fair' by society. The government affects the personal disposable income**

of households by making transfer payments and collecting taxes and, therefore, can alter the income distribution. This is the distribution function.

- **Transfer Payment** is a payment made or income received in which no goods or services are being paid for, such as a benefit payment or subsidy. Unlike the exchange transaction which mutually benefits all the parties involved in it, the transfer payment consists of a donor and a recipient, with the donor giving up something of value without receiving anything in return.
- In any period, the level of expenditures may not be sufficient for full utilisation of labour and other resources of the economy. Since wages and prices are generally rigid downwards (they do not fall below a level), employment cannot be restored automatically. Hence, policy measures are needed to raise aggregate demand. **On the other hand, there may be times when expenditures exceed the available output under conditions of high employment and thus may cause inflation. In such situations, restrictive conditions are needed to reduce demand. These constitute the stabilisation requirements of the domestic economy.**

Q 22.C

- To understand the need for governmental provision of public goods, we must consider what distinguishes them from private goods. There are two major differences.
 - One, the benefits of public goods are not limited to one particular consumer, as in the case of private goods, but become available to all. For instance, if a person consumes a chocolate or wears a shirt, these will not be available to other individuals. This person's consumption stands in a rival relationship to the consumption of others. However, if we consider a public park or measures to reduce air pollution, the benefits will be available to all. The consumption of such products by several individuals is not 'rivalrous' in the sense that a person can enjoy the benefits without reducing their availability to others.
 - Two, in case of private goods anyone who does not pay for the good can be excluded from enjoying its benefits. If you do not buy a ticket, you are excluded from watching a film at a local theatre. However, in case of public goods, there is no feasible way of excluding anyone from enjoying the benefits of the good (they are non-excludable). Since non-paying users usually cannot be excluded, it becomes difficult or impossible to collect fees for the public good. This is what is called the 'free-rider' problem.
- Consumers will not voluntarily pay for what they can get for free and for which there is no exclusive title to the property being enjoyed. The link between the producer and the consumer is broken and the government must step in to provide for such goods. Public provision, however, is not the same as public production. **Public provision means that they are financed through the budget and made available free of any direct payment. Hence the train journey will not be counted as a public provision, however the public park will be considered so. These goods may be produced directly under government management or by the private sector.**

Q 23.C

- **Statement 1 is correct:** The Gross Domestic Product (GDP) deflator is a measure of general price inflation. It is calculated by dividing nominal GDP by real GDP and then multiplying by 100. Nominal GDP is the market value of goods and services produced in an economy, unadjusted for inflation (It is the GDP measured at current prices). Real GDP is nominal GDP, adjusted for inflation to reflect changes in real output (It is the GDP measured at constant prices).
GDP Deflator = (Nominal GDP/ Real GDP) x 100
- **Statement 2 is correct:** The weights of goods and services in GDP deflator are not constant and differ according to the production level of each good and services in the country. Due to these changes in consumption patterns or the introduction of new goods and services or structural transformation are automatically reflected in the deflator which is not the case with other inflation measures.

Q 24.A

- **Disinflation is a temporary slowing of the pace of price inflation.** It is used to describe instances when the inflation rate has reduced marginally over the short term. Unlike inflation and deflation, which refer to

the direction of prices, **disinflation refers to the rate of change in the rate of inflation. Hence option a is the correct answer.**

- It should not be confused with deflation. **Deflation is a decrease in general price levels of throughout an economy, while disinflation is what happens when price inflation slows down temporarily.** Deflation, which is the opposite of inflation, is mainly caused by shifts in supply and demand. **Disinflation, on the other hand, shows the rate of change of inflation over time. The inflation rate is declining over time, but it remains positive.**

Q 25.D

- In the Product method or Gross Value Added (GVA) method, the Gross Domestic Product (GDP) is calculated by adding the gross value added (GVA) of all firms in the economy. The GVA of a firm is calculated in the following ways:
- Gross value added of firm = Gross value of the output produced by the firm – Value of intermediate goods used by the firm
- **GVA = Value of sales by the firm + Value of change in inventories – Value of intermediate goods used by the firm**
- This equation has been derived by using: **Change in inventories of a firm during a year = Production of the firm during the year - Sale of the firm during the year.**
- It is worth noting that the sales by the firm include sales not only to domestic buyers but also to buyers abroad (the latter is termed as exports). It is also to be noted that all the above-mentioned variables are flow variables. Generally, these are measured on an annual basis. Hence they measure the value of the flows per year.
- Net value added of the firm = GVA – Depreciation of the firm

Q 26.A

- **Statement 1 is correct:** When goods are exported to another country at a price which is less than what it is sold for in the home country or when the export price is less than the cost of production in the home country, then those goods have been dumped.
 - Home Market Price – Export Sales Price = Margin of dumping
- **Statement 2 is not correct:** The Department of Commerce in the Union Ministry of Commerce and Industry has a dedicated unit, called the Directorate General of Anti-Dumping & Allied Duties which investigates cases where the domestic industry (domestic producers) provide evidence that dumping has taken place by producers abroad. They also defend cases where allegations of dumping are brought against Indian exporters by foreign governments.
- There is a well-established process which is followed where questionnaires are sent to all stakeholders and evidence is collected in a time-bound fashion to either prove or disprove that dumping has taken place.
- If the good is alleged to be dumped from a non-market country (a country where there are considerable distortions to the market through government subsidies) then the Anti-dumping cell will calculate what the “normal” price of the product should be in the home market. The normal price will reflect the market price of the product had it been produced in the exporting country without these subsidies. If necessary, the price of such a commodity in a similar market (say a neighbouring country at the same level of development as the exporting country) will be considered as the normal price.
- If there is evidence of dumping then the Government of India will levy anti-dumping duty on that commodity.

Q 27.C

- **Viability Gap Funding (VGF) means a grant one-time or deferred, provided to support infrastructure projects that are economically justified but fall short of financial viability. Hence statement 1 is correct.**
- The lack of financial viability usually arises from long gestation periods and the inability to increase user charges to commercial levels. Infrastructure projects also involve externalities that are not adequately captured in direct financial returns to the project sponsor. Through the provision of catalytic grant assistance of the capital costs, several projects may become bankable and help mobilize private investment in infrastructure.

- Government of India has notified a scheme for Viability Gap Funding to infrastructure projects that are to be undertaken through Public-Private Partnerships. It will be a Plan Scheme to be administered by the Ministry of Finance with suitable budgetary provisions to be made in the Annual Plans on a year-to-year basis. The quantum of VGF provided under this scheme is in the form of a capital grant at the stage of project construction. The amount of VGF will be equivalent to the lowest bid for a capital subsidy, but subject to a maximum of 20% of the total project cost. In case the sponsoring Ministry/State Government/statutory entity proposes to provide any assistance over and above the said VGF, it will be restricted to a further 20% of the total project cost.
- **Support under this scheme is available only for infrastructure projects where private sector sponsors are selected through a process of open competitive bidding.** The project agreements must also adhere to best practices that would secure value for public money and safeguard user interests. **Hence statement 2 is correct.**

Q 28.C

- Government receipts are divided into two groups—Revenue Receipts and Capital Receipts.
- **Revenue receipts** are divided into tax and non-tax revenues. Tax revenues consist of the proceeds of taxes and other duties levied by the central government. Tax revenues, an important component of revenue receipts, comprise of direct taxes – which fall directly on individuals (personal income tax) and firms (corporation tax), and indirect taxes like excise taxes (duties levied on goods produced within the country), customs duties (taxes imposed on goods imported into and exported out of India) and service tax.
- **Non-tax revenue of the central government mainly consists of**
 - **interest receipts (on account of loans by the central government which constitutes the single largest item of non-tax revenue),**
 - **dividends and profits on investments made by the government, fees and other receipts for services rendered by the government.**
 - **Cash grants-in-aid from foreign countries and international organizations are also included.**
- **Capital receipts** refer to those receipts which either create a liability or cause a reduction in the assets of the government. Following are the components of Capital receipts.
 - The recoveries are in respect of loans advanced to the State Government and Union Territories with legislature
 - **Receipts on account of disinvestment of part of government equity in central Public sector Enterprises (CPSEs),** proceeds from strategic disinvestment and other such transactions. **Hence only option 3 is not correct.**
 - Its market loans under the Scheme of Sale of Dated Government Securities and Treasury bills
 - Securities against Small Savings Borrowing from International institutions like IMF, WB etc.

Q 29.A

- Personal Income is the part of National Income which is received by households. To calculate personal income we have to consider the following factors:
 - **Undistributed Profits:** It is a part of the profit which is earned by the firms and government enterprises and is not distributed among the factors of production. We have to deduct UP from NI to arrive at PI, since UP does not accrue to the households. Increasing it will reduce personal income. **Hence option 2 is not correct.**
 - **Corporate taxes:** Similarly, Corporate Tax, which is imposed on the earnings made by the firms, will also have to be deducted from the NI, since it does not accrue to the households. Increasing it will reduce personal income. **Hence option 3 is not correct.**
 - **Net interest payments by the households:** The households do receive interest payments from private firms or the government on past loans advanced by them. And households may have to pay interests to the firms and the government as well, in case they had borrowed money from either. So, we have to deduct the net interests paid by the households to the firms and government. Increasing it will reduce personal income.

- **Transfer payments:** The households receive transfer payments from government and firms (pensions, scholarship, prizes, for example) which have to be added to calculate the Personal Income of the households. Increasing it will increase personal income.
- Thus, Personal Income (PI) = National Income- Undistributed profits – Net interest payments made by households – Corporate tax + Transfer payments to the households from the government and firms. **Hence option 1 is correct.**

Q 30.C

- There are two main accounts in the Balance of Payments – the current account and the capital account.
- **Current account**
 - It records exports and imports in goods and services and transfer payments. Trade in services denoted as invisible trade (because they are not seen to cross national borders) includes both factor income (payment for inputs-investment income, that is, the interest, profits and **dividends on our assets abroad** minus the income foreigners earn on assets they own in India) and non-factor income (shipping, banking, insurance, tourism, software services, etc.).
 - Transfer payments are receipts which the residents of a country receive ‘for free’, without having to make any present or future payments in return. They consist of remittances, **gifts** and grants. They could be official or private.
- **Capital Account**
 - It includes sales of assets such as money, stocks, bonds, etc. The main components of the capital account include foreign investment, loans and banking capital. Foreign investment, comprising Foreign Direct Investment (FDI) and Portfolio Investment consisting of **Foreign Institutional Investors (FIIs) investment**, American Depository Receipts/Global Depository Receipts (ADRs/GDRs) represents non-debt liabilities, while loans (external assistance, external commercial borrowings and trade credit) and banking capital, including non-resident Indian (NRI) deposits are debt liabilities.
- **Hence, option (c) is the correct answer.**

Q 31.C

- Peer to peer (P2P) lending
 - It is a form of crowdfunding used to raise unsecured loans (i.e without collateral) which are re-paid with interest. **Hence statement 1 is correct.**
 - Crowdfunding refers to the financing of projects with small amounts of money raised from a large number of people, with a portal serving as an intermediary.
 - It utilizes an online P2P platform which serves as a link between borrowers and lenders.
- The interest rate is fixed by way of a mutual agreement between the borrower and lender. It is not fixed by the P2P platform. **Hence statement 2 is correct.**
- About P2P Platforms:
 - As per RBI’s Directions, P2P platforms are to act as intermediaries providing an online platform to the participants.
 - They are not allowed to:
 - raise deposits
 - provide loans
 - provide credit guarantee
 - permit any secured lending.
 - permit any international flow of funds.

Q 32.C

A transfer payment is a one-way payment to a person who has given or exchanged no money, good, or service for it. It is a process used by governments as a way to redistribute money through programs such as old age or disability pensions, student grants, scholarships, prizes, unemployment compensation, etc.

Q 33.D

- **High-powered money**
 - The total liability of the monetary authority of the RBI is called the monetary base or high powered money. **It consists of currency (notes and coins in circulation with the public and vault cash of commercial banks) and deposits held by the Government of India and commercial banks with RBI.**
 - It is also called as 'reserve money' or 'monetary base' as it acts as a basis for credit creation.
 - It is denoted by M0.
- Different measures of the money supply can be categorized as follows:
 - M1
 - It is also called narrow money.
 - It includes currency with public, demand deposit in all banks (e.g. current account, savings account) and Other deposits with RBI
 - $M2 = M1 + \text{Post office bank savings}$
 - $M3 = M1 + \text{Time deposits with commercial banks (Fixed deposits, Recurring deposits).}$
 - $M4 = M3 + \text{total post office deposits}$

Q 34.D

- Know your customer (KYC) or Know Your Client:
 - It is the process adopted by a business to verify the identity of its customers/clients.
 - It is done to assess the suitability and the potential risks associated in the business relationship.
- The KYC procedure is prescribed by the financial sector regulatory authorities in India such as
 - Securities and Exchange Board of India (SEBI) for **share market** activities
 - Reserve Bank of India (RBI) for **banking** activities
 - Insurance Regulatory Development Authority (IRDA) for **insurance** services
 - Pension Fund Regulatory Development Authority (PFRDA) for **pension-related** services
- All financial sector intermediaries (banks, brokers, distributors, mutual funds, insurance companies etc.) are mandated to do KYC verifications of their clients as per a prescribed procedure.
- **Hence all the options are correct.**

Q 35.D

- Wholesale Price Index (WPI) measures the average change in the prices of commodities for bulk sale at the level of early stage of transactions. **The index basket of the WPI covers commodities falling under the three major groups namely Primary Articles, Fuel and Power and Manufactured products.** (The index basket of the present 2011-12 series has a total of 697 items including 117 items for Primary Articles, 16 items for Fuel & Power and 564 items for Manufactured Products.) The prices tracked are ex-factory price for manufactured products, mandi price for agricultural commodities and ex-mines prices for minerals. Weights given to each commodity covered in the WPI basket is based on the value of production adjusted for net imports. **WPI basket does not cover services. Hence statement 1 is not correct.**
- In India WPI is also known as the headline inflation rate. In India, **Office of Economic Advisor (OEA), Department of Industrial Policy and Promotion, Ministry of Commerce and Industry calculates the WPI.**
- The Government periodically reviews and revises the base year of the WPI as a regular exercise to capture structural changes in the economy and improve the quality, coverage and representativeness of the indices. The Wholesale Price Index (WPI) series in India has undergone six revisions in 1952-53, 1961-62, 1970-71, 1981-82, 1993-94 and 2004-05 so far. The base year of All-India WPI has been revised from 2004-05 to 2011-12 on 12 May 2017 to align it with the base year of other macroeconomic indicators like the Gross Domestic Product (GDP) and Index of Industrial Production (IIP). The current series is the seventh revision.
- **Wholesale price index calculated with 2011-12 base year does not include taxes in order to remove the impact of fiscal policy.** This also brings the present WPI series closer to Producer Price Index, as is practised globally. A Producer Price Index reflects the change in average prices that producers get. The exclusion of indirect taxes would also ensure the continuity and compatibility of new WPI series with the

GST. WPI is used as a deflator for nominal macroeconomic aggregates like GDP and IIP. Since the nominal estimates are computed at basic price which does not include product taxes, excluding indirect taxes from WPI makes it a compatible and appropriate deflator. **Hence statement 2 is not correct.**

Q 36.D

- Priority Sector means those sectors which are considered as important for the development of the basic needs of the country and are to be given priority over other sectors.
- Priority sector lending (PSL) should constitute 40 percent of the Adjusted Net Bank Credit.
- Priority Sector includes the following categories:
 - Agriculture
 - **Renewable Energy**
 - Micro, Small and Medium Enterprises
 - Export Credit
 - **Education Loans**
 - Housing
 - Social Infrastructure
 - Advances to weaker sections
 - **Loans to minorities**, women, scheduled caste and scheduled tribes, small and marginal farmers, self-help groups, cottage industries etc.
 - **Overdrafts upto ₹ 5,000/- under Pradhan Mantri Jan-Dhan Yojana (PMJDY)** accounts, provided the borrower's household annual income does not exceed ₹ 100,000/- for rural areas and ₹ 1,60,000/- for non-rural areas,
- If there is any shortfall in the achievement of target, banks may be required to invest in:
 - Funds with NABARD or National Housing Bank (NHB) or Small Industries Development Bank of India (SIDBI) such as Rural Infrastructure Development Fund (RIDF)
 - Micro Units Development Refinance Agency Bank (MUDRA Ltd)
 - Priority sector lending certificates (PSLC)

Q 37.D

- **About Small Finance Bank (SFB)**
 - It is a private financial institution intended to further the objective of financial inclusion.
 - They were created pursuant to the announcement in Union Budget 2014-2015
- **Who can set up Small Finance Banks:**
 - Resident individuals/professionals with 10 years of experience in banking and finance
 - Companies and societies owned and controlled by residents
 - Existing Non-Banking Finance Companies (NBFCs), Micro Finance Institutions (MFIs), and Local Area Banks (LABs) that are owned and controlled by residents can also opt for conversion into small finance banks.
- **Eligibility Conditions:**
 - The minimum capital for SFBs is prescribed at Rs. 100 crore.
 - Foreign Investment is permitted as in the case of other private sector commercial banks.
- **Compliance Norms**
 - 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).
 - Required to extend 75 percent of its Adjusted Net Bank Credit (ANBC) to the sectors eligible for classification as priority sector lending (PSL) by the Reserve Bank.
 - At least 50 percent of its loan portfolio should constitute loans and advances of upto Rs. 25 lakh.
 - Atleast 25 percent of its branches shall be in unbanked rural centers.
- **Functions:**
 - Acceptance of deposits
 - Lending activities with special focus on small business units, small and marginal farmers, micro and small industries and unorganized sector entities.
 - Priority sector lending

- Distribution of mutual fund units, insurance products, pension products
- Foreign exchange business
- **Hence all the options are correct.**

Q 38.A

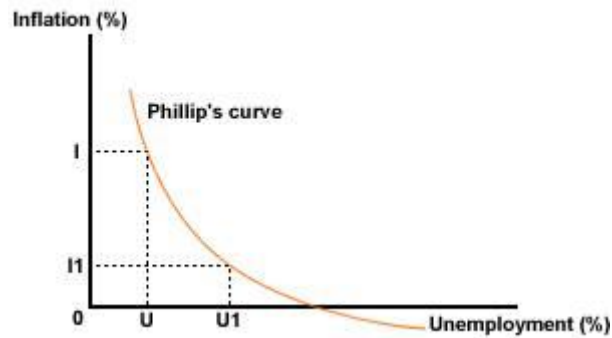
- The Bretton Woods Conference, formally known as the United Nations Monetary and Financial Conference, was the gathering of 730 delegates from all the 44 allied nations at Bretton Woods, New Hampshire, United States. It was aimed at regulating the international monetary and financial order after the conclusion of World War II.
- It led to the setting up of **International Monetary Fund (IMF) and the World Bank. It reestablished a system of fixed exchange rates.** This was different from the international gold standard in the choice of the asset in which national currencies would be convertible.
- A two-tier system of convertibility was established at the centre of which was the dollar. The US monetary authorities guaranteed the convertibility of the dollar into gold at the fixed price of \$35 per ounce of gold. The second-tier of the system was the commitment of monetary authority of each IMF member participating in the system to convert their currency into dollars at a fixed price. The latter was called the official exchange rate.
- **Hence option (a) is the correct answer.**
- **World Trade Organisation**
 - It was established in 1995 after the Uruguay Round negotiations (1986-94).
 - It is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to ensure that trade flows as smoothly, predictably and freely as possible.

Q 39.A

- The term “**marginal productivity**” refers to the extra output gained by adding one unit of labor; all other inputs are held constant.
- **Disguised Unemployment** is a kind of unemployment in which there are people who are visibly employed but are actually unemployed. Disguised unemployment exists where part of the labor force is either left without work or is working in a redundant manner where **additional worker's productivity is essentially zero**. It is unemployment that does not affect aggregate output. An economy demonstrates disguised unemployment **when productivity is low** and too many workers are filling too few jobs. **Hence option (a) is the correct answer.**
- Suppose a farmer has four acres of land and he actually needs only two workers and himself to carry out various operations on his farm in a year, but if he employs five workers and his family members such as his wife and children, this situation is known as disguised unemployment.

Q 40.A

- The **Phillips curve is an economic concept developed by A. W. Phillips** stating that **inflation and unemployment have a stable and inverse relationship**. The theory claims that with economic growth comes inflation, which in turn should lead to more jobs and less unemployment. **Hence option a is the correct answer.**
- The concept behind the Phillips curve states the change in unemployment within an economy has a predictable effect on price inflation. The **inverse relationship between unemployment and inflation** is depicted as a downward sloping, concave curve, with inflation on the Y-axis and unemployment on the X-axis. **Increasing inflation decreases unemployment, and vice versa.** Alternatively, a focus on decreasing unemployment also increases inflation, and vice versa.
- **The long-run Phillips curve is a vertical line** that illustrates that there is **no permanent trade-off between inflation and unemployment in the long run**. However, in the short-run Phillips curve is roughly L-shaped to reflect the initial inverse relationship between the two variables. **As unemployment rates increase, inflation decreases; as unemployment rates decrease, inflation increases.**



- **Kuznets curve** is used to demonstrate the hypothesis that economic growth initially leads to greater inequality, followed later by the reduction of inequality. The idea was first proposed by American economist Simon Kuznets. As economic growth comes from the creation of better products, it usually boosts the income of workers and investors who participate in the first wave of innovation. The industrialisation of an agrarian economy is a common example. This inequality, however, tends to be temporary as workers and investors who were initially left behind soon catch up by helping offer either the same or better products. This improves their incomes.
- **Laffer Curve** is a graphic representation of the relationship between rates of taxation and the resulting levels of government revenue. The theory tries to arrive at an optimal tax rate beyond which tax revenues for an economy tend to fall. The Laffer curve was developed in 1979 by economist Arthur Laffer. According to Laffer's theory, tax revenues are almost zero at extreme rates. At zero tax rate, particularly the income-tax, it is natural that tax revenues are zero. But at an extreme of a 100 per cent tax rate, the government theoretically collects zero revenue because the assumption is that taxpayers have no incentive to work as they would be left with nothing to spend at such high or they find a way to avoid paying taxes. The Laffer Curve is a theory developed by supply-side economist Arthur Laffer to show the relationship between tax rates and the amount of tax revenue collected by governments.
- **Lorenz curve** is a graphical representation that shows degree of inequality in income and wealth in a given population or an economy. In this method personal incomes in an economy are arranged in increasing order, the cumulative share of total income is then plotted against the cumulative share of population. The curve's slope is thus proportional to per capita income at each point of the population distribution. In case of complete equality of income, the Lorenz curve will be a straight line and with greater curvature the inequality rises proportionally- the Gini coefficient measures this inequality.

Q 41.B

- **Mumbai Inter-Bank Bid Rate (MIBID)** is the benchmark rate at which banks would like to borrow money from each other. The bid is the price at which the market would buy. It reflects the short term funding costs of major banks. **Hence, option (b) is the correct answer.**
- It is also used as a benchmark rate for the majority of deals struck for Interest Rate Swaps (IRS), Forward Rate Agreements (FRA), Floating Rate Debentures and Term Deposits.
- **Mumbai Inter-Bank Offer Rate (MIBOR)**
 - It is the benchmark rates at which banks lend each other.
 - It is the Indian version of the London Interbank Offer Rate (LIBOR). It is fixed for overnight to 3 month long funds and these rates are published every day at a designated time. Of the above tenures, the overnight MIBOR is the most widely used one which is used for pricing and settlement of Overnight Index Swaps (OIS).

Q 42.C

- An open economy is one that trades with other nations in goods and services and, most often, also in financial assets. Indians, for instance, enjoy using products produced around the world and some of our production is exported to foreign countries. Foreign trade, therefore, influences Indian aggregate demand in two ways.
- First, when Indians buy foreign goods, this spending escapes as a leakage from the circular flow of income decreasing aggregate demand. Second, our exports to foreigners enter as an injection into the

circular flow of the domestic economy. This increase in the circular flow of money in the domestic economy can lead to an increase in demand for all finished goods and services produced in the domestic economy. Consequently, this can lead to an increase in aggregate demand for domestically produced goods as well as imported goods. **Hence, statement 2 is correct.**

- Total foreign trade (exports + imports) as a proportion of GDP is a common measure of the degree of openness of an economy. In 2015, this was close to 45% and 38.9% in 2004-2005. This is substantially higher than a total of 16 percent that prevailed in 1985-86. However, in comparison to other countries, India is relatively less open. There are several countries whose foreign trade proportions are above 50 percent of GDP. **Hence, statement 1 is correct.**

Q 43.B

- Among the major sources of income of banks, interest earned on loans or credits is one of them. So in order to maximize its earnings, banks generally have a tendency to maximize the loan and advances.
- However, RBI has imposed certain restrictions on credit creation by banks. The RBI decides a certain percentage of deposits which every bank must keep as reserves. This is done to ensure that no bank is 'over lending'.
- This is a legal requirement and is binding on the banks. This is called as 'Cash Reserve Ratio' (CRR).
 - It is the percentage of deposits which a bank must keep as cash reserves (not in any other liquid form such as gold, securities, etc) with itself. **Hence statement 1 is not correct.**
 - CRR is also called as 'Required Reserve Ratio' or the 'Reserve Ratio'.
 - Higher is the CRR, lower will be the liquidity available with the bank for lending out. Hence lower is the credit or money creation in the economy and vice versa. **Hence statement 2 is correct.**
- Apart from the CRR, banks are also required to keep some reserves in liquid form in the short term. This ratio is called the Statutory Liquidity Ratio or SLR. It can be kept in the form of cash, gold and securities specified by the government.

Q 44.B

Double coincidence of wants is a situation where two economic agents have complementary demand for each others' surplus production. It refers to the simultaneous fulfilment of mutual wants of buyers and sellers. For example, a person with a particular good has to find a person who has the goods of his wants and he should also possess the wanted good of the other person. **Hence option (b) is the correct answer.**

The law of supply: It is the microeconomic law that states that all other factors being equal, as the price of a good or service increases, the quantity of goods or services that suppliers offer will increase, and vice versa.

The law of demand: It is a fundamental principle of microeconomics which states that at higher price consumers will demand a lower quantity of a good.

Q 45.A

- The presentation of separate Railway budget started in the year 1924, and has continued after independence as a convention rather than under Constitutional provisions. The presentation of a unified budget will bring the affairs of the Railways to centre stage and present a holistic picture of the financial position of the Government. The merger is also expected to reduce the procedural requirements and instead bring into focus, the aspects of delivery and good governance. **Consequent to the merger, the appropriations for Railways will form part of the main Appropriation Bill. There will be no dividend liability for Railways from 2017-18 and Ministry of Railways will get Gross Budgetary support. Hence option (a) is the correct answer.**
- The advancement of budget presentation by a month and completion of Budget related legislative business before 31st March would pave the way for early completion of Budget cycle and enable Ministries and Departments to ensure better planning and execution of schemes from the beginning of the financial year and utilization of the full working seasons including the first quarter. This will also preclude the need for seeking appropriation through 'Vote on Account' and enable implementation of the legislative changes in tax laws for new taxation measures from the beginning of the financial year (now most taxes get implemented by June).

Q 46.B

- Fiscal Responsibility and Budget Management (FRBM) became an Act in 2003. The objective of the Act is to ensure inter-generational equity in fiscal management, long run macroeconomic stability, better coordination between fiscal and monetary policy, and transparency in fiscal operation of the Government.
- It requires for the presentation of the following documents before the Parliament - **the Medium Term Expenditure Framework Statement (MTEF), Medium-Term Fiscal Policy Statement, Fiscal Policy Strategy Statement** and Macroeconomic Framework Statement.
- The introduction of Outcome Budget is an executive action by the government. From the year 2017-18 onwards, it has been decided that the output and outcomes of the schemes of 68 Ministries and Departments will be available along with the financial outlays as a part of the Budget documents, so that clearly defined objectives and goals for each scheme can be seen by all.
- **Hence, option (b) is the correct answer.**

Q 47.C

- **Statement 1 is not correct:** Deemed Exports refers to those transactions in which goods supplied do not leave the country, and payment for such supplies is received either in Indian rupees or in foreign exchange.
- Deemed benefit export scheme has been in operation for more than two decades. The benefits under the scheme include a rebate on duty chargeable on imports or excisable material used in the manufacture of goods which are supplied to the eligible projects.
- **Statement 2 is not correct:** The policy aims to create a level playing field for the domestic industry vis-à-vis direct import by providing duty-free inputs or exemption/refund of duty paid on goods manufactured in India. Thus, it is an instrument for import substitution. It helps in creating manufacturing capability, value addition and employment opportunities in the country.
- **Statement 3 is correct:** Deemed Export Benefit Scheme benefits are availed of by units in Power, Petroleum refinery, fertilizer, and Nuclear Power Projects. They are also availed by the supply of goods to projects financed by multilateral or bilateral agencies.

Q 48.D

- **The Triffin dilemma or Triffin paradox is the conflict of economic interests that arises between short-term domestic and long-term international objectives for countries whose currencies serve as global reserve currencies.**
- In the post-World War II scenario, countries devastated by the war needed enormous resources for reconstruction. Imports went up and their deficits were financed by drawing down their reserves. At that time, the US dollar was the main component in the currency reserves of the rest of the world, and those reserves had been expanding as a consequence of the US running a continued balance of payments deficit (other countries were willing to hold those dollars as a reserve asset because they were committed to maintaining convertibility between their currency and the dollar).
- The problem was that if the short-run dollar liabilities of the US continued to increase in relation to its holdings of gold, then the belief in the credibility of the US commitment to convert dollars into gold at the fixed price would be eroded. The central banks would thus have an overwhelming incentive to convert the existing dollar holdings into gold, and that would, in turn, force the US to give up its commitment. This was the Triffin Dilemma after Robert Triffin.
- **Hence option (d) is the correct answer.**

Q 49.D

- Factor cost includes only the payment to factors of production, it does not include any tax. In order to arrive at the market prices, we have to add to the factor cost the total indirect taxes less total subsidies.
- **The basic prices lie in between: they include the production taxes (less production subsidies) but not product taxes (less product subsidies). Therefore in order to arrive at market prices, we have to add product taxes (less product subsidies) to the basic prices, not the production taxes or production subsidies.**
- $\text{GVA at factor costs} + \text{Production taxes} - \text{Production subsidies} = \text{GVA at basic prices}$
- $\text{GVA at basic prices} + \text{Product taxes} - \text{Product subsidies} = \text{GVA at market prices}$

- So, the interplay between product taxes and product subsidies would determine if GVA at Basic Prices would be less than or more than GVA at market prices.

Q 50.C

- **A proportional tax is an income tax system where the same percentage of tax is levied on all taxpayers, regardless of their income.** A proportional tax applies the same tax rate across low, middle, and high-income taxpayers. Whereas, in **progressive taxation** is based on the taxable amount of an individual's income. They follow an accelerating schedule, so high-income earners pay more than low-income earners. **Tax rate, along with tax liability, increases as an individual's wealth increases.** The overall outcome is that higher earners pay a higher percentage of taxes and more money in taxes than do lower-income earners. **Hence statement 1 is correct.**
- **The proportional income tax acts as an automatic stabiliser – a shock absorber because it makes disposable income, and thus consumer spending, less sensitive to fluctuations in GDP as compared to progressive taxation.** When GDP rises, disposable income also rises but by less than the rise in GDP because a part of it is siphoned off as taxes. This helps limit the upward fluctuation in consumption spending. **Hence statement 2 is correct.**

Q 51.B

- First Five Year Plan (1951-56):
 - Target Growth rate: 2.1%; Actual Growth rate: 3.6%. **Hence statement 2 is correct.**
 - It was based on the Harrod-Domar Model.
 - An influx of refugees, severe food shortage & mounting inflation confronted the country at the onset of the First Five-year Plan.
 - The Plan Focussed on agriculture, price stability, power, and transport. The second five year Plan Focussed on rapid industrialization- heavy & basic industries. Advocated huge imports through foreign loans. **Hence statement 1 is not correct.**
 - It was a successful plan primarily because of good harvests in the last two years of the plan. Objectives of rehabilitation of refugees, food self-sufficiency & control of prices were more or less achieved.

Q 52.D

- Gross Domestic Product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.
- There are, of course, drawbacks to using GDP as an indicator. In addition to the lack of timeliness, some criticisms of GDP as a measure are:
 - If there is a high degree of income inequality, the majority of people do not really benefit from an increased economic output because they cannot afford to buy most of the goods and services. It does not account for income distribution. **Hence Statement 1 is correct.**
 - **It does not account for several unofficial income sources** – GDP relies on official data, so it does not take into account the extent of informal economic activity. GDP fails to quantify the value of under-the-table employment, black market activity, volunteer work, and household production, which can be significant in some nations. **Hence statement 2 is correct.**
 - **It is geographically limited in a globally open economy** – GDP does not take into account profits earned in a nation by overseas companies that are remitted back to foreign investors. This can overstate a country's actual economic output. For example, Ireland had GDP of \$210.3 billion and GNP of \$164.6 billion in 2012, the difference of \$45.7 billion (or 21.7% of GDP) largely being due to profit repatriation by foreign companies based in Ireland.
 - **It emphasizes material output without considering overall well-being** – GDP growth alone cannot measure a nation's development or its citizens' well-being. An externality, in economics, is the cost or benefit that affects a party who did not choose to incur that cost or benefit. For example, a nation may be experiencing rapid GDP growth, but this may impose a significant cost to society in terms of environmental impact and an increase in income disparity. **Hence statement 3 is correct.**
 - **It ignores business-to-business activity** – GDP considers only final goods production and new capital investment and deliberately nets out intermediate spending and transactions between businesses. By doing so, GDP overstates the importance of consumption relative to production in the economy and is less sensitive as an indicator of economic fluctuations compared to metrics that include business-to-business activity.

Q 53.C

- **Speculative Demand is demand for money as 'store of wealth.'** Wealth can be held (stored) in the form of landed property, bonds, money, bullion, etc. For the sake of simplicity, all forms of assets except money may be clubbed in a single category called bonds. Thus according to Keynes, **there are two types of assets, i.e., money and bonds.** The demand for money balances that are held in highly liquid form in the hope of taking advantage of bargains in the form of low-priced Bonds or real Assets.
- **If the current rate of interest is high, this encourages bond holding but discourages money holding because of the high opportunity cost of holding cash in terms of interest forgone.** The speculation arises around the future movement of bond prices and when bonds should be bought and sold. When the interest rate is very low and bond prices are high, then people will want to hold speculative balances because the opportunity cost in terms of interest forgone is small; there will be a general expectation of a rise in the interest rate, with a consequent fall in bond prices, and thus the preference is for cash holding.

Q 54.D

- **Government deficits are inflationary.** This is because when government increases spending or cuts taxes, **aggregate demand increases.** Firms may not be able to produce higher quantities that are being demanded at the ongoing prices. Prices will, therefore, have to rise. However, if there are unutilised resources, output is held back by lack of demand.
- A high fiscal deficit is accompanied by higher demand and greater output and, therefore, need not be inflationary. It has been argued that there is a decrease in investment due to a reduction in the amount of savings available to the private sector. This is because if the government decides to borrow from private citizens by issuing bonds to finance its deficits, these bonds will compete with corporate bonds and other financial instruments for the available supply of funds. If some private savers decide to buy bonds, the funds remaining to be invested in private hands will be smaller. **Thus, some private borrowers will get 'crowded out' of the financial markets as the government claims an increasing share of the economy's total savings.** However, one must note that the economy's flow of savings is not really fixed unless we assume that income cannot be augmented.
- If government deficits succeed in their goal of raising production, there will be more income and, therefore, more saving. In this case, both government and industry can borrow more. Also, if the government invests in infrastructure, future generations may be better off, provided the return on such investments is greater than the rate of interest. The actual debt could be paid off by the growth in output. The debt should not then be considered burdensome. The growth in debt will have to be judged by the growth of the economy as a whole.

Q 55.C

- **Statement 1 is correct.** SEZ refers to a specially demarcated territory usually known as 'deemed foreign territory' with tax holidays, exemption from duties for export and import, world level economic and social infrastructure for production and augmentation of export activities within the territory along with facilities like abundant and relatively cheap labour, strategic location and market access etc.
- **Statement 2 is correct.** The major objectives of setting up a SEZ are to attract Foreign Direct Investment (FDI), earn foreign exchange and contribute to exchange rate stability, boost the export sector especially non traditional exports, to create employment opportunities, introduce new technology, develop backward regions etc. by stimulating sectors as electronics, information technology, R & D, tourism, infrastructure and human resource development that are regarded as strategically important to the economy.

Q 56.B

- The National Sample Survey Organization (NSSO), since its inception in 1950, does the measurement of employment /unemployment in India.
- The NSSO provides **three different estimates of employment and unemployment** based on different approaches/reference periods used to classify an individual's activity status. These are the
 - **Usual status approach** with a **reference period of 365 days** preceding the date of survey;
 - **Current weekly status approach** with a **reference period of seven days** preceding the date of survey;

- **Current daily status approach** with each day of the seven days preceding date of survey as the reference period.
- In order to find out whether an individual is employed or unemployed it needs to be first determined whether he/she belongs to the 'Labour Force' or not, which in turn depends on the **Activity Status** of the individual during the chosen reference period. Activity Status refers to the activity situation in which the individual is found during the reference period with respect to his participation in economic or non-economic activities.
- The NSSO defines following **three broad Activity Status**.
 - (i) Working (engaged in economic activity) i.e. 'Employed'
 - (ii) Seeking or available for work i.e. 'Unemployed'
 - (iii) Neither seeking nor available for work.
- All those individuals having a broad activity status as (i) or (ii) above are classified as being in the **Labour Force** and those having activity status (iii) are classified as outside the Labour Force. **Thus labour force constitutes of both employed and unemployed.**

Q 57.C

- The total value of (nominal) transactions in the economy
 - It is defined by the number of times money exchanges takes place over a period of time.
 - For example, if an employer gives Rs 100 salary to an employee on 1st day of the month, who in turns spend half of it on various purchases over one month. Then the total value of the transaction will be Rs 150.
- The number of times a unit of money changes hands during the unit period is called the **velocity of circulation** of money.
- **Higher the number of transactions**, the cumulative volume of the transaction will keep on increasing hence **higher will be the total value of (nominal) transactions** in the economy.
- **Hence both the statements are correct.**

Q 58.C

- **Statement 1 is correct:** The Statutory Liquidity Ratio (SLR) is a prudential measure under which (as per the Banking Regulations Act 1949) all Scheduled Commercial Banks in India must maintain an amount in one of the following forms as a percentage of their total Demand and Time Liabilities such as Cash, Gold or government securities.
- **Open Market Operations (OMO)** is a tool with RBI and Banks to adjust the liquidity requirements.
 - It allows the banks to borrow money through repurchase agreements (repos) or for banks to make loans to the RBI through reverse repo agreements. This is done under the Liquidity Adjustment Facility (LAF) tool of RBI.
- **Statement 2 is not correct:** In OMO, banks do not pledge SLR securities. SLR securities are pledged only when the banks do not have enough securities to borrow funds under LAF through OMO. This facility is called a Marginal Standing Facility.
- **Statement 3 is correct:** This facility comes with an additional rate of interest which is 0.25% higher than the repo rate.
 - It is levied upon default in the maintenance of cash reserve ratio(CRR) and the statutory liquidity ratio (SLR).

Q 59.A

- **Financial instruments which are tradable or that can be bought and sold are generally referred to as securities. For eg. shares, bonds etc. From the definition, it can be seen that "securities" can belong to both the capital market and money market.** The key aspect is their marketability.
- **Securities can represent either ownership or debt position or both, or it can mean rights or entitlements. The key aspect is that it should be transferable. For instance, Fixed Deposit with banks is not considered as security since it cannot be transferred to another person.**
- In India, the word "securities" is defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 (SCRA). The term securities include the following in India:

- **shares, scrips, stocks, bonds**, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or other body corporates
- derivatives which includes
 - a contract which derives its value from the prices, or index of prices, of underlying securities;
 - a security derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument or contract for differences or any other form of security;
 - Repos and Reverse Repos (being incorporated through the Finance Act, 2015)
 - Commodity Derivatives (being incorporated through the Finance Act, 2015)
 - any instrument which is notified as a derivative by Central Government (being incorporated through the Finance Act, 2015)
- Government security - security created and issued by the Central Government or a State Government
- units or any other instrument issued by any collective investment scheme to the investors in such schemes
- units or any other such instrument issued to the investors under any mutual fund scheme but does not include any unit-linked insurance policy which is a hybrid instrument providing for life risk cover and investments
- security receipts issued under SARFAESI Act
- Securitized debt instruments (collateralized debt obligations etc.)
- such other instruments as may be declared by the Central Government to be securities; and
- Rights or interest in securities
- The market for securities is regulated by Securities and Exchange Board of India (SEBI).

Q 60.C

- In 1950s, an Old Russian Model was indianized by **PC Mahalanobis**, the founder of Indian Statistical Institute and a close aide of Pandit Nehru. This model is known to have set the statistical foundations for state-directed investments and created the intellectual underpinnings of the license-raj through an elaborate input-output model. **This Model suggested that there should be an emphasis on the heavy industries, which can lead the Indian Economy to a long term higher growth path.** India's second five year plan and Industrial policy Resolution 1956, which paved the way for development of Public Sector and license raj; were based upon this model.

Q 61.D

- Index of Industrial Production (IIP) measures the quantum of changes in the industrial production in an economy and captures the general level of industrial activity in the country. It is a composite indicator expressed in terms of an index number which measures the short term changes in the volume of production of a basket of industrial products during a given period with respect to the base period. Index of Industrial Production is compiled and published every month by Central Statistics Office (CSO).

Sectoral Composition of the IIP

Sector	Base Year 2011-12		Base Year 2014-05	
	Weight (%)	Item Groups	Weight (%)	Item Groups
Mining	14.373	1	14.157	1
Manufacturing	77.633	405	75.527	397
Electricity	7.994	1	10.316	1
Total	100	407	100	399

Q 62.B

- A Participatory Note (PN or P-Note) in the Indian context, in essence, 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. Hence statement 1 is not correct.** Further, a basket of securities from different jurisdictions can also be constructed in which a portion of the underlying securities is Indian securities or indices.

- PNs are also known as Overseas Derivative Instruments, Equity Linked Notes, Capped Return Notes, and Participating Return Notes etc. In January 2014 when the Indian securities market regulator, SEBI issued the new Regulations for Foreign Portfolio Investors, participatory notes got formally defined under the tag "Offshore Derivative Instrument" (ODIs) in Section 2(1)(j) of the said regulation. As per this definition, participatory notes or ODIs are issued by selected foreign portfolio investors (which is a broad category also including FIIs. Hence, Regulation excludes certain category of Foreign portfolio investors, like individuals, from issuing the PNs) against securities held by it that are listed or proposed to be listed on any recognized stock exchange in India.
- **The investor in PN does not own the underlying Indian security, which is held by the FII who issues the PN. Thus the investors in PNs derive the economic benefits of investing in the security without actually holding it.** They benefit from fluctuations in the price of the underlying security since the value of the PN is linked with the value of the underlying Indian security. The PN holder also does not enjoy any voting rights in relation to security/shares referenced by the PN. **Hence statement 2 is correct.**

Q 63.A

- National Rural Employment Guarantee Act 2005 (later renamed as the "**Mahatma Gandhi National Rural Employment Guarantee Act**", MGNREGA), is a security measure that aims to guarantee the right to work. It was initiated with the objective of enhancing **livelihood security** in rural areas. **It is a universal programme. Any rural household** willing to do manual work is eligible under the Act. **Hence Statement 1 is not correct.**
- It aims to enhance livelihood security in rural areas by providing at least **100 days of wage employment** in a financial year **to every household** whose adult members volunteer to do **unskilled manual work. Hence statement 2 is not correct and statement 3 is correct.**
- MGNREGA also includes **creation of durable assets** (such as roads, canals, ponds and wells) in its objectives. Employment is to be provided within 5 km of an applicant's residence, and minimum wages are to be paid. If work is not provided within 15 days of applying, applicants are entitled to an unemployment allowance. Thus, employment under **MGNREGA is a legal entitlement.**

Q 64.D

- Fiscal Deficit: Fiscal deficit is the difference between the government's total expenditure and its total receipts excluding borrowing.
Gross fiscal deficit = Total expenditure – (Revenue receipts + Non-debt creating capital receipts)
- Non-debt creating capital receipts are those receipts which are not borrowings and, therefore, do not give rise to debt. Examples are recovery of loans and the proceeds from the sale of PSUs.
- The fiscal deficit will have to be financed through borrowing. Thus, it indicates the total borrowing requirements of the government from all sources. From the financing side
Gross fiscal deficit = Net borrowing at home + Borrowing from RBI + Borrowing from abroad
- Net borrowing at home includes that directly borrowed from the public through debt instruments (for example, the various small savings schemes) and indirectly from commercial banks through Statutory Liquidity Ratio (SLR).
- **Hence the correct answer is option (d).**

Q 65.B

- **Repo or Repurchase Agreement:**
 - It is defined under the RBI Act, 1934.
 - "Repo" is "an instrument with RBI for borrowing funds by selling securities of the Central Government or a State Government or corporate sector. **Hence statement 2 is correct.**
 - There are four types of repos depending on maturity period - overnight repos, term repos, open maturity and flexible repos. **Hence statement 1 is not correct.**
 - It comes with an agreement to repurchase the said securities on a mutually agreed future date at an agreed price which includes interest for the funds borrowed.
 - Central Government may specify other such securities for this purchase such as securities of a local authority or foreign securities.
- **How Repo Rate is decided:**

- Consequent to the introduction of inflation targeting regime and Monetary Policy Framework Agreement, it has been decided that the "policy rate" will be decided by the Monetary Policy Committee (MPC).
- The MPC takes decisions based on majority vote (by those who are present and voting). In case of a tie, the RBI governor will have the second or casting vote.
- The decision of the Committee would be binding on the RBI.
- **Impact of Variation in Repo Rate:**
 - If the RBI wants to make it more expensive for banks to borrow money, it increases the repo rate. Similarly, if it wants to make it cheaper for banks to borrow money, it reduces the repo rate.
 - In other words, an increase in the repo rate will lead to liquidity tightening and vice-versa, other things remaining constant. **Hence statement 3 is not correct.**

Q 66.D

- **Spot Exchanges** refer to electronic trading platforms which **facilitate purchase and sale of specified commodities**, including agricultural commodities, metals and bullion by providing spot delivery contracts in these commodities. This market segment functions like the equity segment in the main stock exchanges.
- **It can lead to efficient price determination** as price is determined by a wider cross-section of people from across the country, unlike the present scenario where price discovery for commodities happens only through local participation. **This also ensures transparency in price discovery. Anonymity ensures convergence of different price perceptions, as the buyer or seller merely expresses their desire to trade without even meeting directly. Anonymity therefore is ensured in Spot Exchanges and not Spot Markets.**
- A spot market is a place where sellers and buyers meet face-to-face and conclude a sale with settlement mostly in cash. The grain & vegetable market on the road side is an example. This kind of arrangement provides both seller and buyer an opportunity to do their trade at the negotiated price.

Q 67.A

- In accordance with the goal of the state controlling the commanding heights of the economy, the Industrial Policy Resolution of 1956 was adopted. This resolution formed the basis of the Second Five Year Plan, the plan which tried to build the basis for a socialist pattern of society. **Hence statement 1 is correct.**
- This resolution classified industries into three categories:
 - The first category comprised industries which would be exclusively owned by the state
 - The second category consisted of industries in which the private sector could supplement the efforts of the state sector, with the state taking the sole responsibility for starting new units
 - The third category consisted of the remaining industries which were to be in the private sector.
- The private sector was not neglected, rather it was kept under state control through a system of licenses. **Hence statement 2 is not correct.**

Q 68.A

- **Government deficit can be reduced by an increase in taxes or reduction in expenditure.** In India, the government has been trying to increase tax revenue with greater reliance on direct taxes (indirect taxes are regressive in nature – they impact all income groups equally). **There has also been an attempt to raise receipts through the sale of shares in PSUs.** However, the major thrust has been towards reduction in government expenditure.
- The other way is to change the scope of the government by withdrawing from some of the areas where it operated before. Cutting back government programmes in vital areas like agriculture, education, health, poverty alleviation, etc. would adversely affect the economy. If the government introduces more new welfare schemes it will increase its expenditure and thus fiscal deficit.

Q 69.B

- One of the major aims of financial sector reforms in the reform era post-1991 is to reduce the role of RBI from the regulator to facilitator of the financial sector. This means that the financial sector may be allowed to take decisions on many matters without consulting the RBI.
- The reform policies led to the establishment of private sector banks, Indian as well as foreign. Foreign investment limit in banks was raised to around 50 percent.
- Those banks which fulfill certain conditions have been given freedom to set up new branches without the approval of the RBI and rationalize their existing branch networks. **Hence statement 2 is not correct.**
- Though banks have been given permission to generate resources from India and abroad, certain managerial aspects have been retained with the RBI to safeguard the interests of the account-holders and the nation. **Hence statement 3 is correct.**
- Foreign Institutional Investors (FII), such as merchant bankers, mutual funds and pension funds, are now allowed to invest in Indian financial markets. **Hence statement 1 is correct.**

Q 70.B

- The inflationary gap exists when the **demand for goods and services exceeds production due to factors such as higher levels of overall employment**, increased trade activities or increased government expenditure. This can lead to the **real GDP exceeding the potential GDP**, resulting in an inflationary gap. The inflationary gap is so named because the relative increase in real GDP causes an economy to increase its consumption, which causes prices to rise in the long run. **Hence option (b) is the correct answer.**
- Due to the higher number of funds available within the economy, **consumers are more inclined to purchase goods and services**. As the demand for goods and services increases but production has not yet compensated for the shift leading to prices rise. It can occur due to increase in the following factors:
 - **Increase in Money supply**
 - **Propensity to consume**
 - **Investment expenditure**
 - **Fiscal deficit**
 - **Net exports**
- **Deflationary gap** is the difference between potential output at full level of employment and the actual level of output of the economy. **For deflationary gap all the resources of the economy are not being used to the optimum level and some are idle.** This comes with unemployment and low levels of output.

Q 71.C

- **The Consumer Price Index (CPI)** is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. **Hence, statement 1 is correct.**
- Because of the wide disparities in the consumption baskets for different segment of consumers, India has adopted the following CPIs.
 - **CPI - Rural, CPI - Urban , CPI - All India - computed by Central Statistics Office under the Ministry of Statistics and Programme Implementation.**
 - **CPI (Industrial Workers), CPI (Agricultural Labour), CPI (Rural Labour) - computed by Labour Bureau of Labour Ministry. Hence statement 2 is not correct.**
- For Individual CPI for Urban and Rural areas, weights of different goods are assigned differently. For example, CPI rural has zero weight to housing & 54.18 weight to food and beverages.
- In India, **RBI uses CPI (combined) released by CSO for inflation purpose with base year as 2012.** The number of items in CPI basket includes 448 in rural and 460 in urban. **Hence statement 3 is correct.**

Q 72.A

- Deficit financing is a practice in which a government spends more money than it receives as revenue, the difference being made up by borrowing or minting new funds. **Minting of coins, issuance of Masala bonds and borrowings from multilateral institutions all comprise of deficit financing.** Purchase of

hard currencies however only has an impact on the forex reserves of a country and does not provide for financing of the public debt. **Hence option (a) is the correct answer.**

- **Deficit Financing is done for following reasons:**
 - To finance defence expenditures during war.
 - To lift the economy out of depression so that incomes, employment, investment, etc., all rise.
 - To activate idle resources as well as divert resources from unproductive sectors to productive sectors with the objective of increasing national income and, hence, higher economic growth.
 - To raise capital formation by mobilizing forced savings made through deficit financing.
 - To mobilize resources to finance massive plan expenditure.
 - If the usual sources of finance are, thus, inadequate for meeting public expenditure, a government may resort to deficit financing.

Q 73.C

- **Statement 1 is correct:** The marginal cost of funds based lending rate (MCLR) refers to the minimum interest rate of a bank below which it cannot lend.
- **Statement 2 is correct:** Marginal Cost of Funds based Lending Rate (MCLR) is an internal benchmark which means a reference rate determined internally by the bank.
- MCLR actually describes the method by which the minimum interest rate for loans is determined by a bank - on the basis of marginal cost or the additional or incremental cost of arranging one more rupee for the prospective borrower.
- It was introduced by the Reserve Bank of India with effect from April 1, 2016.
- This new methodology replaces the base rate system which was introduced in July 2010. Base rate refers to the minimum rate **set by the Reserve Bank of India** below which banks were not allowed to lend to its customers.

Q 74.B

- Since a country interacts with many countries, we may want to see the movement of the domestic currency relative to all other currencies in a single number rather than by looking at bilateral rates. That is, we would want an index for the exchange rate against other currencies, just as we use a price index to show how the prices of goods, in general, have changed.
- This is calculated as the **Nominal Effective Exchange Rate (NEER) which is a multilateral rate representing the price of a representative basket of foreign currencies, each weighted by its importance to the domestic country in international trade (the average of export and import shares is taken as an indicator of this). Hence statement 1 is not correct.**
- The **Real Effective Exchange Rate (REER) is calculated as the weighted average of the real exchange rates of all its trade partners, the weights being the shares of the respective countries in its foreign trade. It is interpreted as the quantity of domestic goods required to purchase one unit of a given basket of foreign goods. Hence statement 2 is correct.**

Q 75.B

- Gross External Debt is defined as the outstanding amount of those actual current liabilities, that require payment(s) of principal and/or interest by the debtor, in the future as per the terms laid out in the contract between the debtor and the creditor and that are owed to non-residents by the residents of the economy. In India, one of the major way of classifying Gross External Debt is as follows:
- Sovereign (Government)
 - External Debt outstanding on account of loans received by the Government of India (GoI) under the 'External Assistance' programme and the civilian component of Rupee Debt
 - Other Government debt comprising **borrowings from the IMF**, defence debt component of Rupee Debt and foreign currency defence debt and
 - **FII investment in Government Securities.**
- Non-Sovereign Debt
 - All remaining components of External Debt get categorized as Non-Sovereign External Debt.
- **A grant is not considered as part of debt as it is not required to be paid.** Thus, Development grant by World Bank doesn't fall under the category of Sovereign debt.
- **Hence, option (b) is the correct answer.**

Q 76.A

- **Gross National Product (GNP)** is an estimate of the total value of all the final products and services turned out in a given period by the means of production owned by a country's residents. GNP is commonly calculated by taking the sum of personal consumption expenditures, private domestic investment, government expenditure, net exports and any income earned by residents from overseas investments, minus income earned within the domestic economy by foreign residents. Net exports represent the difference between what a country exports minus any imports of goods and services.
- **$GNP \equiv GDP + \text{Factor income earned by the domestic factors of production employed in the rest of the world} - \text{Factor income earned by the factors of production of the rest of the world employed in the domestic economy}$**
- **Hence, $GNP \equiv GDP + \text{Net factor income from abroad}$**
- **Net National Product (NNP)** is the monetary value of finished goods and services produced by a country's citizens, overseas and domestically, in a given period (i.e., the gross national product (GNP) minus the amount of GNP required to purchase new goods to maintain existing stock (i.e., depreciation).
- **$NNP = GNP - \text{Depreciation}$**
- **The 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).
- **$NDP = GDP - \text{Depreciation}$**
- **National Income is Net National Product at factor cost.** It is calculated by subtracting the Net indirect taxes from NNP. Net indirect taxes is indirect taxes on the goods and services minus the subsidies granted by the government on some products like subsidies on LPG.
- **$NNP \text{ at factor cost} \equiv \text{National Income (NI)} = NNP \text{ at market prices} - (\text{Indirect taxes} - \text{Subsidies}) = NNP \text{ at market prices} - \text{Net indirect taxes}$** (Net indirect taxes = Indirect taxes - Subsidies)

Q 77.D

- Rupee denominated debt refers to that part of India's total external debt that is denominated in India's domestic currency, the Rupee.
- In contrast to foreign currency denominated external debt, in case of rupee-denominated debt, the currency risk (the risk arising from appreciation or depreciation of the nominal exchange rate) is borne by the creditor and not by the borrower. **Hence option (d) is correct.**
- The contractual liability (principal and interest that is designated to be paid by the borrower as agreed upon in the debt contract) is settled in foreign currency. Accordingly, the borrower always pays back the foreign currency equivalent of the rupee denomination valued at the spot exchange rate prevailing at that point in time. **Hence option (b) is not correct.**
- In India, foreign investments in rupee-denominated debt can be made both onshore and offshore. Onshore investments are made in India by foreign portfolio investors (FPIs) through various rupee-denominated debt instruments. These investments are subject to a quantitative cap. In contrast, offshore issuances are made in the form of rupee-denominated bonds (popularly known as 'masala bonds') and loans, by certain classes of Indian entities. **Hence option (a) is not correct.**
- Rupee denominated debt in India can be issued by the government as well as the private sector. Recently, HDFC (private entity) has raised Rs 1,000 crore through the rupee denominated debt mechanism. **Hence option (c) is not correct.**

Q 78.B

- **In India, alternative investment funds (AIFs) are defined in Regulation 2(1)(b) of Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012. It refers to any privately pooled investment fund, (whether from Indian or foreign sources), in the form of a trust or a company or a body corporate or a Limited Liability Partnership (LLP) which are not presently covered by any Regulation of SEBI governing fund management (like, Regulations governing Mutual Fund or Collective Investment Scheme) nor coming under the direct regulation of any other sectoral regulators in India-IRDA, PFRDA, RBI. Hence, in India, AIFs are private funds which are otherwise not coming under the jurisdiction of any regulatory agency in India.**

- Thus, the **definition of AIFs includes venture Capital Fund, hedge funds, private equity funds, commodity funds, Debt Funds, infrastructure funds, etc., while, it excludes Mutual funds or collective investment Schemes, family trusts, Employee Stock Option / purchase Schemes, employee welfare trusts or gratuity trusts, 'holding companies' within the meaning of Section 4 of the Companies Act, 1956, securitization trusts regulated under a specific regulatory framework, and funds managed by securitization company or reconstruction company which is registered with the RBI under Section 3 of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.**
- **AIFs are categorized into the following three categories**, based on their impact on the economy and the regulatory regime intended for them.
 - i) **Category I AIF** are those AIFs with positive spillover effects on the economy, for which certain incentives or concessions might be considered by SEBI or Government of India. Such funds generally invests in start-ups or early stage ventures or social ventures or SMEs or infrastructure or other sectors or areas which the government or regulators consider as socially or economically desirable. They cannot engage in any leverage except for meeting temporary funding requirements for not more than thirty days, on not more than four occasions in a year and not more than ten percent of the corpus. eg. Venture Capital Funds, SME Funds, Social Venture Funds and Infrastructure Funds. Giving effect to the announcement by Union Finance Minister on angel investor pools in the Union Budget 2013-14, SEBI in June 2013 has approved a framework for registration and regulation of angel pools under a sub- category called 'Angel Funds' under Category I- Venture Capital Funds.
 - ii) **Category II AIF** are those AIFs for which no specific incentives or concessions are given. They do not undertake leverage or borrowing other than to meet the permitted day to day operational requirements, as is specified for Category I AIFs. eg. Private Equity or debt fund.
 - iii) **Category III AIF** are funds that are considered to have some potential negative externalities in certain situations and which undertake leverage to a great extent; These funds trade with a view to make short term returns. These funds are allowed to invest in Category I and II AIFs also. They receive no specific incentives or concessions from the government or any other Regulator. eg. Hedge Funds (which employs diverse or complex trading strategies and invests and trades in securities having diverse risks or complex products including listed and unlisted derivatives).

Q 79.B

- **Final Goods:** Items which are meant for final use and will not pass through any more stages of production or transformations is called a final good.
- Of the final goods, we can distinguish between consumption goods and capital goods.
 - **Consumption goods:** Goods like food and clothing and services like recreation that are consumed when purchased by their ultimate consumers are called consumption goods or consumer goods.
 - **Capital goods:** Capital goods are those goods that are of a durable character which are used in the production process. These are tools, implements, and machines. While they make the production of other commodities feasible, they themselves don't get transformed into the production process. They are also final goods yet they are not final goods to be ultimately consumed.
- **Consumer durables:** Some commodities like television sets, automobiles or home computers, although they are for ultimate consumption, have one characteristic in common with capital goods – they are also durable. These are called consumer durables.
- **Intermediate goods:** Of the total production taking place in the economy a large number of products don't end up in final consumption and are not capital goods either. Such goods may be used by other producers as material inputs. Examples are steel sheets used for making automobiles and copper used for making utensils. These are intermediate goods, mostly used as raw material or inputs for production of other commodities. These are not final goods.

Q 80.B

- In 2004, the **World Bank in collaboration with the International Monetary Fund (IMF)**, launched the new Quarterly External Debt Statistics (QEDS). The QEDS databases bring together detailed external debt data of countries that **subscribe to the IMF's Special Data Dissemination Standard (SDDS) and a selected number of countries that participate in the IMF's General Data Dissemination System**

(GDDS). The benefit of bringing together comparable external debt data is to facilitate macroeconomic analysis and cross-country data comparison. **Hence, option (b) is the correct answer.**

- The External Debt Management Unit (EDMU) in the Ministry of Finance, Government of India has joined the QEDS initiative in August 2006. It has been compiling and supplying India's external debt data on a quarterly basis to the QEDS in the requisite format.

Q 81.B

- **The Reserve Deposit Ratio**
 - **It is the proportion of the total deposits commercial banks keep as reserves.**
 - Banks hold a part of the money people keep in their bank deposits as reserve money and loan out the rest to various investment projects. Reserve money consists of two things – vault cash in banks and deposits of commercial banks with RBI. Banks use this reserve to meet the demand for cash by account holders.
- **Capital Adequacy Ratio**
 - The capital adequacy ratio (CAR) is a measurement of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures. The capital adequacy ratio, also known as capital-to-risk weighted assets ratio (CRAR), is used to protect depositors and promote the stability and efficiency of financial systems around the world.
- **Credit Reserve Ratio**
 - It is a fixed percentage of the total deposit that a bank has to keep in the current account with RBI as liquid money.
- **The Currency Deposit Ratio**
 - The currency deposit ratio (cdr) is the ratio of money held by the public in currency to that they hold in bank deposits.
 - It reflects people's preference for liquidity. It is a purely behavioral parameter which depends, among other things, on the seasonal pattern of expenditure. For example, cdr increases during the festive season as people convert deposits to cash balance for meeting extra expenditure during such periods.

Q 82.A

- A barter exchange is an economic exchange of goods and services without the mediation of money.
- Monetary exchanges involve an intermediate good which is acceptable to both parties. This intermediate good is called money.
- Comparison of barter and monetary systems:
 - **Barter exchanges have high costs** incurred upon looking for suitable persons to exchange their surpluses. **Hence statement 1 is correct.**
 - Smooth monetary transactions can also help increase the number of transactions.
 - Since money can be used as a standard unit of accounting, value or price of goods can be standardized and the **need for price negotiation can be reduced. Hence statement 3 is not correct.**
 - Since money can be used as a standard unit of account, it becomes easier to record the monetary transaction **Hence statement 2 is correct.**

Q 83.A

- **Worker Population Ratio is defined as the number of person/person-days employed per 1000 person/person-days (of age 15-59 years). Hence, statement 1 is correct.**
- **Worker-population ratio is an indicator** which is used for analyzing the employment situation in the country. This ratio is useful in knowing the proportion of the population that is actively contributing to the production of goods and services of a country. **If the ratio is higher, it means that the engagement of people is greater.**
- **Worker Population Ratio in India stood at 46.8 percent in the 2017-18 fiscal year, the Periodic Labour Force Survey (PLFS) of the National Sample Survey Office (NSSO) showed. Hence statement 2 is not correct.**

Q 84.B

The most visible form of energy, which is often identified with progress in modern civilization, is power, commonly called electricity.

In India, in 2016, **thermal sources accounted for 67 percent of the power generation capacity. Hydel power accounted for 14 percent, while nuclear power accounted for only 2 percent** (the global average for nuclear power is 13 percent). India's energy policy encourages two energy sources — hydel and wind — as they do not rely on fossil fuel and, hence, avoid carbon emissions. Yet, this has not resulted in faster growth of electricity produced from these two sources.

Q 85.A

- The process of **moving from self-employment and regular salaried employment to casual wage work** is called as casualization of workforce. Casual workers are defined as those who work for others in farm or **non-farm enterprises and are paid wages that are daily** or periodic in nature. All daily wage-earning employees and some categories of contract employees are casual labourers. **Hence statement 1 is not correct.**
- The **wage-paid labour is largely non-unionised** due to casual and seasonal nature of employment and scattered location of enterprises. This sector is marked by low incomes, unstable and irregular employment, and lack of protection either from legislation or trade unions. **Hence statement 2 is not correct.**
- According to the Fifth Annual Employment & Unemployment Report (2015-16), casual labourers represent one-third (33%) of those employed in India. It is the most prevalent form of employment, second only to self-employment. Casual workers **do not get employment benefits such as maternity leave, sick leave, health benefits** or right to form unions. Job contracts with legal responsibilities and ramifications are also rare, thus allowing casual workers to be retrenched without providing them any prior notice. **Hence statement 3 is correct.**

Q 86.D

- A **Depository Receipt (DR) is a financial instrument representing certain securities (eg. shares, bonds etc.) issued by a company/entity in a foreign jurisdiction.** Securities of a firm are deposited with a domestic custodian in the firm's domestic jurisdiction, and a corresponding "depository receipt" is issued abroad, which can be purchased by foreign investors. **DR is a negotiable security (which means an instrument transferrable by mere delivery or by endorsement and delivery) that can be traded on the stock exchange, if so desired.**
- DRs constitute an important mechanism through which issuers can raise funds outside their home jurisdiction. DRs are issued for tapping foreign investors who otherwise may not be able to participate directly in the domestic market. It is perceived as the beginning point of connecting with the foreign investors (i.e. a stage before the actual listing the shares /securities in a foreign stock exchange) or a way of introducing the company to a foreign investor. **For investors, depository receipt is a way of diversifying the risk, by getting exposure to a foreign market, but without the exchange rate risk as they are foreign currency denominated.** Further, they feel more safe to invest from their home location.
- Depending on the location in which these receipts are issued they are called as ADRs or American Depository Receipts (if they are issued in USA on the basis of the shares/securities of the domestic (say Indian) company), IDR or Indian Depository Receipts (if they are issued in India on the basis of the shares/securities of the foreign company; Standard Chartered issued the first IDR in India) or in general as GDR or Global Depository Receipt.

Q 87.A

- Organic farming is a method of farming system which primarily aimed at cultivating the land and raising crops in such a way, as to keep the soil alive and in good health by use of organic wastes (crop, animal and farm wastes, aquatic wastes) and other biological materials along with beneficial microbes (biofertilizers) to release nutrients to crops for increased sustainable production in an eco friendly pollution-free environment.
- Organic agriculture offers a means to substitute costlier agricultural inputs (such as HYV seeds, chemical fertilizers, pesticides, etc.) with locally produced organic inputs that are cheaper and thereby generate good returns on investment.

- Since **organic farming requires more labor input** than conventional farming, India will find organic farming an attractive proposition. Organic farming systems are often more labour-intensive because of increased time spent managing weeds and monitoring pests and unlike conventional farming which is capital-intensive, organic farming needs manpower at every stage. **Hence statement 1 is not correct.**
- Organic agriculture also generates income through exports as the demand for organically grown crops is on a rise. Studies across countries have shown that organically grown food has more nutritional value than chemical farming thus providing us with healthy foods. **Hence statement 2 is correct.**
- Finally, the produce is pesticide-free and produced in an environmentally sustainable way.
- But organic produce may also have more blemishes and shorter shelf life than sprayed produce. **Hence option 3 is not correct.**

Q 88.D

- During the colonial rule, there was neither growth nor equity in the agricultural sector. The policymakers of independent India had to address these issues which they did through land reforms and promoting the use of 'High Yielding Variety' (HYV) seeds which ushered in a revolution in Indian agriculture.
- **Land Reforms:** At the time of independence, the land tenure system was characterized by intermediaries (variously called zamindars, jagirdars etc.) who merely collected rent from the actual tillers of the soil without contributing towards improvements on the farm. Just a year after independence, steps were taken to abolish intermediaries and to make the tillers the owners of the land. The idea behind this move was that ownership of land would give incentives to the tillers to invest in making improvements provided sufficient capital was made available to them. **Hence statement 2 is correct.**
- **Land ceiling:** This means fixing the maximum size of land which could be owned by an individual. The purpose of land ceiling was to reduce the concentration of land ownership in a few hands. The ownership conferred on tenants gave them the incentive to increase output and this contributed to growth in agriculture. **Hence statement 1 is correct.**
- **Green Revolution:** This refers to the large increase in production of food grains resulting from the use of high yielding variety (HYV) seeds especially for wheat and rice. In the first phase of the green revolution (the approximately mid-1960s up to mid-1970s), the use of HYV seeds was restricted to the more affluent states such as Punjab, Andhra Pradesh, and Tamil Nadu. Further, the use of HYV seeds primarily benefited the wheat-growing regions only. In the second phase of the green revolution (the mid-1970s to mid-1980s), the HYV technology spread to a larger number of states and benefited more variety of crops. **Hence statement 3 is correct.**

Q 89.A

- **Statement 1 is correct:** Micro-insurance policies are a special category of insurance policies created to promote insurance coverage among economically vulnerable sections of society.
- **Statement 2 is not correct:** These policies are regulated by the Insurance Regulatory Development Authority of India (IRDA).
- Microinsurance can be either a general insurance policy (which can insure health, belongings, house, tools, personal accident contract, livestock etc) or life insurance policy with a sum assured of Rs 50,000 or less.
- **Statement 3 is not correct:** They can be on an individual or group basis.
- Insurers can offer composite covers or package products that include life and general insurance covers together.
- Microinsurance business is done through the following intermediaries in India:
 - Non-Government Organisations
 - Self-Help Groups
 - Micro-Finance Institutions

Q 90.C

- **Inflation-Indexed Bond (IIB) is a bond issued by the Sovereign, which provides the investor with a constant return irrespective of the level of inflation in the economy.** The main objective of Inflation-Indexed Bonds is to provide a hedge and to safeguard the investor against macroeconomic risks in an economy. **Hence statement 1 is correct.**

- Issue of IIBs has assumed significance in the context of the high level of inflation experienced in the Emerging Market and Developing Economies during the recent years, as the value of money loses rapidly in an environment of high inflation. The issue of Inflation-Indexed bonds in advanced economies is limited on account of low inflation experienced in these economies.
- The Reserve Bank of India auctioned its first tranche, linking to Wholesale Price Index (WPI) inflation, as WPI headline inflation was then used as the key measure of inflation by RBI. **Since April 2014, RBI adopted a consumer price index (CPI -combined) as the key measure of inflation for its monetary policy stance.** In case RBI issues new IIB bonds in the near future, it would be based on CPI, as CPI (combined) has been accepted by RBI as the key measure of inflation for its monetary policy stance, since 2014. **Hence statement 2 is correct.**

Q 91.D

Various types of PPP Model followed by the Government in India are:

- **The Build Operate and Transfer (BOT) Annuity Model:** Under BOT annuity, a developer builds a highway, operates it for a specified duration and transfers it back to the government. The government starts payment to the developer after the launch of the commercial operation of the project. Payments are made on a six-month basis.
- **BOT Toll Model:** In this toll-based BOT model, a road developer constructs the road and he is allowed to recover his investment through toll collection. This toll collection will be over a long period which is nearly 30 years in most cases. There is no government payment to the developer as he earns his money invested from tolls.
- **Engineering, Procurement, and Construction (EPC) Model:** Under this model, the cost is completely borne by the government. Government invites bids for engineering knowledge from the private players. Procurement of raw material and construction costs are met by the government. The private sector's participation is minimum and is limited to the provision of engineering expertise. A difficulty of the model is the high financial burden for the government.
- **The Hybrid Annuity Model (HAM):**
 - In India, the new HAM is a mix of BOT Annuity and EPC models. As per the design, the government will contribute to 40% of the project cost in the first five years through annual payments (annuity). The remaining payment will be made on the basis of the assets created and the performance of the developer.
 - **Here, a hybrid annuity means the first 40% payment is made as a fixed amount in five equal instalments whereas the remaining 60% is paid as variable annuity amount after the completion of the project depending upon the value of assets created.**
 - **As the government pays only 40%, during the construction stage, the developer should find the money for the remaining amount.**
 - Here, he has to raise the remaining 60% in the form of equity or loans.
 - **There is no toll right for the developer.** Under HAM, Revenue collection would be the responsibility of the National Highways Authority of India (NHAI).

Q 92.C

- About Payment Banks
 - Payments Banks are a new set of banks licensed by the Reserve Bank of India to further financial inclusion.
- Functions:
 - Provide small savings/ current accounts below Rs. 1 lakh
 - Distribution of mutual funds, insurance products on a non-risk sharing basis
 - Payments/remittance services
- The Payments Bank cannot undertake lending business nor can provide fixed deposit services. **Hence statement 2 is not correct.**
- Compliance Norms:
 - They are bound by the reserve requirement rules of RBI (CRR, SLR etc.). **Hence statement 3 is correct.**

- They are required to invest a minimum 75 percent of its "demand deposit balances" in Statutory Liquidity Ratio (SLR) eligible Government securities/treasury bills.
- Who is eligible to setup payment banks:
 - Non-Banking Finance Companies (NBFCs)
 - Corporate Banking Correspondents (BCs)
 - Mobile telephone companies & Supermarket chains. **Hence statement 1 is correct.**
 - Public sector entities
 - Even banks can take an equity stake in a Payments Bank to the extent permitted under the Banking Regulation Act, 1949.

Q 93.A

- **Statement 1 is correct:** Monetary Policy Committee is a statutory body defined in Section 2(iii)(cci) of the Reserve Bank of India Act, 1934 and is constituted under Sub-section (1) of Section 45ZB of the same Act.
- **Statement 2 is correct:** The Monetary Policy Committee is a six-member committee of the Reserve Bank of India, headed by its Governor.
- Composition:
 - RBI Governor (Chairperson)
 - RBI Deputy Governor in charge of monetary policy
 - One official nominated by the RBI Board
 - Remaining three members are nominated by the Government of India.
- Function:
 - It is entrusted with the task of fixing the benchmark policy interest rate (repo rate) to contain inflation within the specified target level.
- **Statement 3 is not correct:** Under Section 45ZA(1) of the RBI Act, 1934, the Central Government (not the RBI) determines the inflation target in terms of the Consumer Price Index, once in every five years in consultation with the RBI.

Q 94.A

- **The law of diminishing marginal product says that if we keep increasing the employment of an input, with other inputs fixed, eventually a point will be reached after which the resulting addition to output (i.e., marginal product of that input) will start falling.**
- A somewhat related concept with the law of diminishing marginal product is the law of variable proportions. It says that the marginal product of a factor input initially rises with its employment level. But after reaching a certain level of employment, it starts falling.
- The reason behind the law of diminishing returns or the law of variable proportion is that, as we hold one factor input fixed and keep increasing the other, the factor proportions change. Initially, as we increase the amount of the variable input, the factor proportions become more and more suitable for the production and marginal product increases. But after a certain level of employment, the production process becomes too crowded with the variable input and the factor proportions become less and less suitable for the production. It is from this point that the marginal product of the variable input starts falling.
- Law of Equivalent exchange: It implies that humankind cannot gain anything without first giving something in return. To obtain, something of equal value must be lost.
- Engel's Law: It states that as a household's income increases, the percentage of income spent on food decreases while the proportion spent on other goods (such as luxury goods) increases.

Q 95.D

- In India, commercial energy consumption makes up about 74 per cent of the total energy consumed in India. **Non-commercial energy is energy which is available free of cost to the users, examples are firewood, agricultural waste, dried dung. They account for over 26 per cent of the total energy consumption. Hence statement 1 is not correct.**
- The sectoral pattern of consumption of commercial energy: The transport sector was the largest consumer of commercial energy in 1953-54 (40 per cent of total commercial energy consumption). However, there has been continuous fall in the share of the transport sector while the shares of the household, agriculture and industrial sector have been increasing. In recent times, industries have become the largest consumer

of commercial energy. In 2014-15, **industries consumed 44 per cent of the total commercial energy, followed by households (23 per cent), agriculture (18 per cent) and the transport sector consumed only 2 per cent.** The share of oil and gas is the highest among all commercial energy consumption. **Hence statement 2 is not correct.**

Q 96.A

- **Effects of inflation:**
 - **Purchasing power** is the value of a currency expressed in terms of the amount of goods or services that one unit of money can buy. All else being equal, inflation decreases the amount of goods or services you would be able to purchase. **Inflation reduces the value of a currency's purchasing power, having the effect of an increase in prices. Hence statement 1 is correct.**
 - **Debtors gain** from inflation because they repay creditors with rupees that are worth less in terms of purchasing power.
 - A bond's real interest rate, which indicates the investor's actual gain or loss, is calculated by subtracting inflation from the nominal interest rate. For example, if the nominal interest rate is 4% and inflation is 3%, the real interest rate is 1%. **If inflation is higher than the nominal interest rate, the bondholder will take a loss. As many investors rely on bonds as a predictable source of income, they can take significant losses during periods of high inflation. Hence statement 2 is not correct.**

Q 97.D

- **Free Trade Agreement (FTA):** A free trade agreement is a preferential arrangement in which members reduce tariffs on trade among themselves, while maintaining their own tariff rates for trade with nonmembers.
- **Customs Union (CU):** A customs union (CU) is a free-trade agreement in which members apply a common external tariff (CET) schedule to imports from nonmembers.
- **Common Market (CM):** A common market is a customs union where the movement of factors of production is relatively free amongst member countries.

Q 98.C

- **Revenue Deficit:** The revenue deficit refers to the excess of government's revenue expenditure over revenue receipts
 - $\text{Revenue deficit} = \text{Revenue expenditure} - \text{Revenue receipts}$
- The revenue deficit **includes only such transactions that affect the current income and expenditure of the government. When the government incurs a revenue deficit, it implies that the government is dissaving and is using up the savings of the other sectors of the economy to finance a part of its consumption expenditure. Hence both the statements are correct.**
- This situation means that the government will have to borrow not only to finance its investment but also its consumption requirements. This will lead to a build up of stock of debt and interest liabilities and force the government, eventually, to cut expenditure. Since a major part of revenue expenditure is committed expenditure, it cannot be reduced. Often the government reduces productive capital expenditure or welfare expenditure. This would mean lower growth and adverse welfare implications.
- **The growth of revenue deficit as a percentage of fiscal deficit points to a deterioration in the quality of government expenditure involving lower capital formation.**

Q 99.C

- **In 1972-73, about 74 percent of the workforce was engaged in the primary sector and in 2011-12, this proportion has declined to about 50 percent.** Secondary and service sectors are showing a promising future for the Indian workforce. The shares of these sectors have increased from 11 to 24 percent and 15 to 27 percent, respectively. **Hence statement 1 is not correct.**
- In the last four decades (1972-2012), people have moved from self-employment and regular salaried employment to casual wage work. Yet self-employment continues to be the major employment provider. **In 2011-12, self-employed constituted 52 percent of the total workforce,** followed by casual wage laborers (30 percent) and regular salaried employees (18 percent) Scholars call the process of moving from self-employment and regular salaried employment to casual wage work as casualization of workforce. **Hence statement 2 is correct.**

- All the public sector establishments and those private sector establishments which employ 10 hired workers or more are called formal sector establishments and those who work in such establishments are formal sector workers. All other enterprises and workers working in those enterprises form the informal sector.
- There are about 473 million workers in the country. Out of these, about 30 million workers in the formal sector, that is about only six percent. Thus, the rest 94 percent are in the informal sector.
- **In the formal sector, the female workers account for 21 percent (6 million of the total workforce of 30 million) of the workforce** and the male workers account for 79 percent of the workforce. The representation of females in the informal sector is better than that in the formal sector. **In the informal sector, female workers account for 31 percent of the workforce**, while male workers account for 69 percent of the workforce. **Hence statement 3 is correct.**

Q 100.A

- **Statement 1 is correct:** Under the World Trade Organisation (WTO) agreements, countries cannot normally discriminate between their trading partners. However, if any country grants one country special favor such as a lower customs duty rate for one of their products the same would need to be **extended to all other WTO members**. This principle is known as most-favored-nation (MFN) treatment. MFN is so important a principle that it is the first article of the General Agreement on Tariffs and Trade (GATT), which governs trade in goods. MFN is also a priority in the General Agreement on Trade in Services (GATS) (Article 2) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) (Article 4). Together, those three agreements cover all three main areas of trade handled by the WTO.
- **Statement 2 is not correct:** However, some exceptions are allowed under the WTO regime. For example, countries can set up a free trade agreement that applies only to goods traded within the group - discriminating against goods from outside. **Or they can give developing countries special access to their markets** Or a country can raise barriers against products that are considered to be traded unfairly from specific countries. And in services, countries are allowed, in limited circumstances, to discriminate.

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