**ECONOMY**

Q. Consider the following statements about the International Monetary Fund (IMF):

1. The Special Drawing Rights (SDRs) is an international reserve asset, created by the IMF, to supplement its member countries’ official reserves.

2. The Fund's mandate includes all macro-economic and financial sector issues that bear on global stability.

3. For the decision making at the IMF, each country has one vote.

Which of the statements given above is/are correct?

(a) 2 only

(b) 1 and 2 only

(c) 2 and 3 only

(d) 1, 2 and 3

**Answer: (b)**

**Explanation:**

**About the International Monetary Fund (IMF) –**

 Created in 1945, the IMF is governed by and accountable to the 189 countries that make up its near-global membership.

 The IMF's primary purpose is to ensure the stability of the international monetary system — the system of exchange rates and international payments, that enables the countries (and their citizens) to transact with each other.

 It does so in three ways:

o By keeping track of the global economy and the economies of the member countries;

o By lending to the countries with “balance of payments” difficulties; and

o By giving practical help to the members.

 The Fund's mandate was updated in 2012 to **include all macro-economic and financial sector issues that bear on global stability.**

 Quota subscriptions are a central component of the IMF’s financial resources. Each member country of the IMF is assigned a quota, based broadly on its relative position in the world economy.

 While quota subscriptions of the member countries are the IMF's main source of financing, the Fund can supplement its quota resources through borrowing, if it believes that they might fall short of the members' needs.

 The Special Drawing Rights (SDRs) is an international reserve asset, created by the IMF in 1969, to supplement its member countries’ official reserves.

 Unlike the General Assembly of the United Nations, where each country has one vote, **decision making at the IMF was designed to reflect the relative positions of its member countries in the global economy.**

Q. Consider the following statements about the Code on Wages, 2019:

1. Only the stategovernments shall fix the minimum wage rates.

2. Only the centralgovernment shall fix the floor level wage, taking into account the minimum living standard of a worker.

3. If an employee works for more than the number of hours constituting normal working hours, the employer shall pay him for every hour in excess, at the overtime rate, which will be more than twice the normal rate of wages.

4. Wages under the Code need to be paid only by cheque or crediting the wages inthe bank accounts or by electronic mode.

Which of the statements given above are correct?

(a) 1, 2 and 3 only

(b) 2, 3 and 4 only

(c) 2 and 3 only

(d) 1, 2 and 4 only

**Answer: (c)**

**Explanation:**

**Minimum Wages –** Minimum Wages are fixed by both the centralgovernment andthestate governments. The centralgovernment will fix the minimum wages for an establishment under the authority of the centralgovernment and for railways, mines, oil fields, major ports, air transport service, telecommunications, banking and insurance or a corporation established by a Central Act or a Central Public Sector Enterprises. In relation to any other establishment, the minimum wages will be fixed by the stategovernments.

**Floor Level Wage –** The centralgovernment to fix the floor level wage, taking into account the minimum living standard of a worker. Different floor level wages may be fixed for different geographical areas. The minimum wages fixed by the centralgovernment and the state governments shall not be less than the floor level wage. The centralgovernment may, before fixing the floor level wage, obtain the advice of the Central Advisory Board and consult the stategovernments.

**Mode of Payment of the Wages –** All the wages shall be paid in current coin or currency notes, or by cheque, or by crediting the wages in the bank account of the employee, or by the electronic mode.

**Overtime –** The Code provides for mandatory overtime if an employee puts in more number of hours than what is legally mandated. The overtime hours need to be compensated by payingthe employees at overtime rate for these hours, which will be at least twice the minimum wage rate.

Q. Which of the following statements is/are correct about Blockchain?

1. It is a shared, digitized ledger that cannot be changed once a transaction has been recorded and verified.

2. It is a peer-peer network, which works on the basis of a consensus mechanism.

3. It has no central authority.

Select the correct answer using the code given below:

(a) 2 only

(b) 1 and 3 only

(c) 1 and 2 only

(d) 1, 2 and 3

**Answer: (d)**

**Explanation:**

• Blockchain is an information sharing platform, where multiple authorities co-operate, co-ordinate and collaborate in a decision making process.

• Blockchain is a decentralized and distributed database on a peer-peer network, which works on the basis of a consensus mechanism, involving every node (computer) on the network.

**KEY FEATURES OF BLOCKCHAIN**

• **Distributed Ledger**

• **Immutable –** Since any change or error or tampering of the transaction data is reflected, the transaction is immutable.

• **Enforces trust**

o Since it is a decentralized database, it removes the need for a 3rd party intermediary to enforce trust (like a bank).

o This is because everyone in the network plays a role in the validation and verification of the transaction.

• **Cost-effective and time-saving**

O Since blockchain is a distributed database, it does not need intermediaries, thereby reducingthe cost of transaction.

Q. Consider the following statements about the Index of Eight Core Industries (ICI):

1. It is a provisional Index, which is released every month by the Office of the Economic Adviser.

2. The goal is to provide an advance indication onthe production performance of the industries of ‘core’ nature, before the release of the Index of Industrial Production (IIP).

Which of the statements given above is/are correct?

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

**Answer: (c)**

**Explanation:**

The monthly Index of Eight Core Industries (ICI) is a production volume Index. The objective of the ICI is to provide an advance indication on the production performance ofthe industries of ‘core’ nature, before the release of the Index of Industrial Production (IIP) by the Central Statistics Office. These industries are likely to impact on the general economic activities, as well as the industrial activities.

**The Index of Eight Core Industries is a provisional Index, which is released every month.**

The ICI measures collective and individual performance of production in selected eight core industries, viz.,**Coal, Crude Oil, Natural Gas, Petroleum Refinery Products, Fertilizers, Steel, Cement and Electricity.**

**The Index is compiled and released by the Office of the Economic Adviser (OEA), Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, Government of India.**

After the base revision to 2011, the eight core industries comprise 40.27 per cent of the weight of items included in the Index of Industrial Production (IIP). The industry-wise weights indicated in the ICI are individual industry weight derived fromthe IIP and blown up on pro-rata basis to a combined weight of ICI equal to 100 - (Coal 10.33 %; Crude Oil production 8.98 %; Natural Gas

6.88%;**Petroleum Refinery 28.04 %;** Fertilizers 2.63 %; Steel 17.92 %; Cement production 5.37 %; and Electricity generation 19.85%).

The IIP number measures the industrial production for the period under review, usually a month, as against the reference period. The IIP is a key economic indicator of the manufacturing sector of the economy. There is a **lag of six weeks in the publication of the IIP index data,** after the reference month ends.

Q. Consider the following statements regarding the "Corona Bonds":

1. They are joint debt issued to the states by the Government of India.

2. The funds would be common and would come from the Reserve Bank of 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

**Answer: (d)**

**Explanation:**

The "Corona Bonds" are joint debt issued to the member states of the European Union (EU). The funds would be common and would come from the European

Investment Bank.

This would be a mutualized debt, taken collectively by all the member states of the European Union. Nine EU countries have been calling for such bonds to be issued EU-wide: Spain, Italy, France, Belgium, Luxembourg, Ireland, Portugal, Greece and Slovenia.

These nine countries are prone to calling for the mutualization of the European national debts, while others – the richer countries in the north of Europe – usually oppose such measures.

They are Germany, Netherlands, Austria and Finland, also known as the "Frugal Four", the fiscally conservative EU states. For decades, Germany applied a "Schwarze Null" (Black Zero) debt brake policy: It would never, under any circumstance, allow government borrowing.

**NOTE:** As the Indian economy struggles in the vice-grip of the Covid-19 pandemic, the government has been considering the idea of issuingthe "Coronavirus Bonds" to shore up liquidity.

Q. Consider the following statements regarding the ‘Escape Clause’ under the FRBM (The Fiscal Responsibility and Budget Management) Act, 2003:

1. It provides flexibility to the governments to overshoot the fiscal deficit targets in times of need, enabling them to respond to the economic shocks.

2. The term ‘Escape Clause’ is not used in the FRBM Act, but only in the FRBM Review Committee Report.

3. It can be invoked only for far-reaching structural reforms in the economy with un-anticipated fiscal implications.

Which of the statements given above are correct?

(a) 1 and 2 only

(b) 1 and 3 only

(c) 2 and 3 only

(d) 1, 2 and 3

**Answer: (a)**

**Explanation:**

 The ‘Escape Clause’ generally refers to a contract provision that specifies the conditions under which a party can be freed from an obligation. The Escape Clause under the FRBM (The Fiscal Responsibility and Budget Management) Act, details a set of events in which the central government can deviate from the fiscal deficit targets. The fiscal deficit is the total amount by which the government’s expenses for a year exceed its revenues.

 The Escape Clauses provide flexibility tothe governments to overshoot the fiscal deficit targets in times of need, enabling them to respond to the economic shocks. To ensure thatthe Escape Clauses are not misused, they are generally allowed only in exceptional circumstances and with a check on the quantum of deviation.

 In 2018, the FRBM Act was amended to specify three conditions upon which the Escape Clause can be invoked. First, over-riding considerations of national security, acts of war and calamities of national proportion, and collapse of agriculture severely affecting farm output and incomes. Second, far-reaching structural reforms in the economy with unanticipated fiscal implications. Three,

a sharp decline inthe real output growth of at least 3 percentage points below the average for the previous four quarters. The FRBM amendments also mentioned that the deviation from the stipulated fiscal deficit target must not exceed 0.5 percentage points in a year.

 In the recent budget, the government seems to have invoked the second condition. The quantum of deviation taken was the upper end of the limit – 0.5 percentage points.

**NOTE:** The term ‘Escape Clause’ is not used in the FRBM Act, but only in the FRBM Review Committee Report.

Q. Consider the following statements regarding the Market Stabilization Scheme (MSS) Bonds:

1. These Bonds are floated for mopping up the excess liquidity in the system, when the regular government bonds prove inadequate.

2. The MSS Bonds earn a return and qualify for the Statutory Liquidity Ratio.

3. The MSS Bonds are raised through an auction and are tradable in the secondary market.

Which of the statements given above is/are correct?

(a) 2 only

(b) 1 and 3 only

(c) 1 and 2 only

(d) 1, 2 and 3

**Answer: (d)**

**Explanation:**

**The Market Stabilization Scheme (MSS) Bonds –** These are special bonds, floated on behalf of the government, by the Reserve Bank of India (RBI), for the specific purpose of mopping up the excess liquidity in the system, when the regular government bonds prove inadequate. These are mostly shorter-tenure bonds, of less than six months’ maturity. But the tenure differs depending on the requirement.

**Difference between the CRR and the MSS Bonds –** The Cash Reserve Ratio (CRR) is perceived to be a blunt instrument, with an immediate impact on the liquidity, but it does not fetch any return for the depositing bank. However, the MSS Bonds earn a return and qualify for the Statutory Liquidity Ratio, or SLR, that the banks need to maintain in the form of short-tenured treasury bills and government bonds. The MSS Bonds, too, are raised through an auction and are tradable in the secondary market.

**How are the MSS Bonds different from the regular government bonds?**

The regular government bonds are part of the government's borrowing programme and the interest payout on these bonds has an impact on the fiscal position. The MSS Bonds and securities are matched by an equivalent cash balance held by the government with the Reserve Bankof India. Hence, they have only a marginal impact on the government's revenue and fiscal positions. The cost of such interest payment is shown separately in the Budget.

**Has this instrument been used in the past?**

The Reserve Bankof India (RBI) first introduced the MSS Bonds in February 2004, when the country was flushed with dollar inflows, which needed to be converted into the rupee. This created huge surplus liquidity in the system and the RBI decided to impound it by issuing the MSS Bonds, as the central bank was running out of stock of the regular government bonds.

Q. Consider the following statements regarding the WTO Agreement on Agriculture:

1. The present rules and commitments on agriculture are called the “Uruguay Round Reform Programme”.

2. Under the Agreement on Agriculture, all domestic support in the favour of the agricultural producers is subject to rules.

3. Distortive effect on the trade is referred to asthe “Amber Box” measures andthe trade-distorting support is referred to asthe “Green Box” measures.

Which of the statements given above is/are correct?

(a) 2 only

(b) 1 and 2 only

(c) 1 and 3 only

(d) 1, 2 and 3

**Answer: (b)**

**Explanation:**

**The WTO (The World Trade Organization) Agreement on Agriculture –** The WTO Agreement on Agriculture provides a framework for the long-term reform of the agricultural trade and domestic policies, with the aim of leading to fairer competition and a less distorted sector.

**The Agreement covers:**

 **Market access** – The use of trade restrictions, such as tariffs on

imports.

 **Domestic support** – The use of subsidies and other support programmes, that directly stimulate the production and distort the trade.

 **Export competition** – The use of export subsidies and other government support programmes, that subsidize the exports.

Under the Agreement, the WTO members agree tothe “Schedules” orthe lists of commitments, that set limits on the tariffs they can apply to the individual

products and onthe levels of domestic support and export subsidies.

**The Agriculture Committee –** The Committee on Agriculture overseesthe implementation of the Agreement on Agriculture and monitors how the WTO members are complying with their commitments. Themembers are required to share information and may ask each other questions or raise concerns about each other's agricultural policies.

**Domestic support –** The present rules and commitments on agriculture are often called the “Uruguay Round Reform Programme” – they were negotiated in the Uruguay Round and they include reductions inthe subsidies and

protection, as well as other disciplines on the trade.

The agricultural package of the Uruguay Round has fundamentally changed the way domestic support in favour ofthe agricultural producers was treated under the GATT (General Agreement on Tariffs and Trade) 1947. A key objective has been to discipline and reducethe domestic support, while at the same time, leaving great scope for the governments to design the domestic agricultural policies in the face of, and in response to, the wide variety of the specific circumstances inthe individual countries andthe individual agricultural sectors. The approach agreed upon is also aimed at helping ensure that the specific binding commitments in the areas of market access and export competition are not undermined throughthe domestic support measures. The main conceptual consideration is that there are basically two categories of domestic support — support with no, or minimal, distortive effect on trade, on one hand (often referred to as the “Green Box” measures) and trade-distorting support on the other hand (often referred to as the “Amber Box” measures). For example, the government provided agricultural research or training is considered to be of the former type, while the government buying-in at a guaranteed price (The Market Price Support) falls into the latter category. Under the Agreement on Agriculture, all domestic support, in favour ofthe agricultural producers, is subject to rules. In addition, the aggregate monetary value of the Amber Box measures is, with certain exceptions, subject to the reduction commitments, as specified in the schedule of each WTO member providing such support.

Q. Consider the following statements related to the FDI Policy of the government:

1. The proposals for foreign investment, under the government route, are approved bythe Foreign Investment Promotion Board (FIPB).

2. The FDI proposals of more than Rs. 5,000 crore are approved by the Cabinet Committee on Economic Affairs.

3. Presently, FDI is completely prohibited in the agriculture and allied activities.

Which of the statements given above is/are correct?

(a) 1 and 2 only

(b) 2 and 3 only

(c) 2 only

(d) 1 and 3 only

**Answer: (c)**

**Explanation:**

The FDI(Foreign Direct Investment) is permitted either through the automatic route or the government route. Under the automatic route, the foreign company does not require any approval from the Government of India,whereas, under the government route, approval from the Government of India is required prior to investment. The proposals for foreign investment, under the government route, are approved by the respective Administrative Ministry/ Department. [Earlier, the approval was taken from the Foreign Investment Promotion Board (FIPB)].

The FDI proposals of more than Rs. 5,000 crore are approved by the Cabinet Committee on Economic Affairs. Presently, FDI is allowed in only certain selected activities of agriculture and allied sector. These activities are:

 Floriculture; horticulture; and cultivation of vegetables andmushrooms, under controlled conditions;

 Development and production of seeds and planting material;

 Animal husbandry; pisciculture; aquaculture; apiculture; and the services related to agro and allied sectors.

Q. With reference tothe Liquidity Coverage Ratio (LCR), consider the following statements:

1. The LCR has been designed to ensure thatthe banks hold a sufficient reserve of high-quality liquid assets (HQLAs) to allow them to survive a period of liquidity stress, lasting 30 calendar days.

2. The RBI has reduced the LCR requirement for the Scheduled Commercial Banks, from 100 per cent to 80 per cent, to withstand the impact of COVID-19.

Which of the statements given above is/are correct?

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

**Answer: (c)**

**Explanation:**

A failure to adequately monitor and control the liquidity risk led to the Great

Financial Crisis in 2008. To improve the banks' short-term resilience to liquidity shocks, the Basel Committee on Banking Supervision (BCBS) introduced the LCR (Liquidity Coverage Ratio) as a part of the Basel III post-crisis reforms. The LCR is designed to ensure that the banks hold a sufficient reserve of high-quality liquid assets (HQLAs) to allow them to survive a period of significant liquidity stress, lasting 30 calendar days. The **HQLAs** are cash or assets that can be converted into cash quickly through sales (or by being pledged as collateral), with no significant loss of value. The LCR requiresthe banks to hold a stock of the HQLAs at least as large as expected total net cash outflows over the stress period of 30 days.



Total net cash outflows are defined as the total expected cash outflows, minus the total expected cash inflows, arising in the stress scenario. In order to ease the liquidity position at the level of individual institutions, the LCR requirement for the Scheduled Commercial Banks is being brought down from 100 per cent to 80 per cent with immediate effect,to withstand the impact of COVID-19. The requirement shall be gradually restored back in two phases –

90 per cent by October 1, 2020 and 100 per cent by April 1, 2021.

Q. Which among the following is/are the reason(s) for the recent reduction in the Reverse Repo by the RBI?

1. To discourage the banks from parking their surplus funds with the RBI.

2. To improve credit creation 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

**Answer: (c)**

**Explanation:**

The Reverse Repo is the rate at which the Reserve Bank of India (RBI) borrows money from the market. So, when the banks park their surplus funds with the RBI, the rate of interest, which the RBI pays to the banks, is called as Reverse Repo. the reverse repo rate was cut by 90 basis points to 4 per cent from 4.90 per cent.This was done to ensure that the banks do not park their surplus fund with the RBI. Rather, they should use their surplus funds to give loans within the economy

Q. With reference to Circuit Breaker, consider the following statements:

1. It is a mechanism to stop steep increase or decrease in the stock market indices.

2. The triggering of this mechanism leads to trading halt in the 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

**Answer: (c)**

**Explanation:**

A circuit breaker is a measure to stem a steep fall or a sharp rise in the price of a security / stock or the Index as a whole. Any steep increase or fall in the share market can lead to crash of the entire capital market. Hence, there is a need to halt trading in the share market in the event of large-scale fluctuations.

The system applies at three stages of the Index movement, either way, at 10 per cent, 15 per cent and 20 per cent. These breakers, when triggered, bring about a co-ordinated trading halt.

For instance, if the Index (Sensex or Nifty) increases or decreases by 10% in a single day, the trading is halted for 45 minutes. Similarly, if the Index increases or decreases by 15%, the trading is halted for 1 hour 45 minutes. The SEBI has laid down detailed guidelines related to its implementation.

Q. With reference to the GDP-linked Bonds, consider the following statements:

1. The GDP-linked Bonds are the floatinginterest rate bonds, linked to the GDP growth rates of a country.

2. The GDP-linked Bonds enable the countries to sustain higher level of debts.

3. No country has so far issued such bonds.

Which of the statements given above is/are correct?

(a) 1 and 2 only

(b) 2 and 3 only

(c) 1 only

(d) 1, 2 and 3

**Answer: (a)**

**Explanation:**

The GDP-linked Bonds are the floating interest rate bonds, issued by the countries to borrow money from the market. Since they are floatinginterest rate bonds, the rate of interest is linked to the GDP growth of the country. Higher the GDP growth, the higher would be the interest rate and vice-versa.

The government needs to pay fixed interest rate in case of normal fixed rate bonds and hence, cannot have higher debt levels. However, in case ofthe GDPlinked Bonds, the government would be required to less interest during weak GDP growth years and hence, can sustain higher debt. Costa Rica, Bulgaria and Bosnia-

Herzegovina issued the first pure GDPlinked Bonds in the 1990s. Argentina and Greece issued instruments, similar to the GDP-linked Bonds, in 2005 and 2012, respectively.

Q. With reference tothe Ways and Means Advances (WMA), consider the following statements:

1. It is a mechanism under which the centre and the states borrow money from the RBI, in order to finance their budget deficits.

2. The government cannot exceed the limits specified under the WMA.

Which of the statements given above is/are correct?

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

**Answer: (d)**

**Explanation:**

The Reserve Bank of India (RBI) acts asthe banker to the government, i.e., it lends money to the central and the state governments. Earlier, the government relied onthe ad-hoc Treasury Bills to borrow money fromthe RBI. However, it was replaced by the Ways and Means Advances (WMA) in 1997.

**What is it?**

It acts as a loan facility to the central and the state governments to meet their cash requirements. This facility is availed by the governments due to the temporary mismatches in their receipts and expenditure.

**Duration:** The loan taken by the government through the Ways and Means Advances need to be paid back in 90 days.

**Interest rat**e: The interest rate of the WMA currently is the Repo Rate.

**Limits on borrowing:** The limits for the WMA are mutually decided by the RBI and the Government of India.

**Can the limit be exceeded?**

When the WMA limit is crossed, the government takes recourse to overdrafts. The interest rate on overdrafts would be 2 percent more than the Repo Rate.

Q. With reference to the Sovereign Gold Bonds, consider the following statements:

1. The Sovereign Gold Bonds are noninterest- bearing government securities, denominated in grams of gold.

2. These Bonds are redeemed in terms of gold on maturity.

Which of the statements given above is/are correct?

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

**Answer: (d)**

**Explanation:**

The Sovereign Gold Bonds(SGBs) are government securities, denominated in grams of gold. They are the substitutes for holding physical gold.Theinvestors have to pay the issue price in cash and the Bonds will be redeemed in cash on maturity. The Bond is issued by the Reserve Bank of India, on behalf of the Government of India.

The quantity of gold, for which the investor pays, is protected, since he receives the on-going market price at the time of redemption. The SGB offers a superior alternative to holding gold in physical form. The risks and costs of storage are eliminated. The investors are assured of the market value of gold at the time of maturity and periodical interest. The SGB is free from issues like making charges and purity in the case of gold in jewellery form.

The Bonds are issued in denominations of one gram of gold and in multiples thereof.

The minimum investment in the Bond shall be one gram, with a maximum limit of subscription of 4 kg for individuals.

The Bonds bear interest at the rate of 2.50 per cent (fixed rate) per annum, on the amount of initial investment. The interest will be credited semi-annually to

the bank account of the investor and the last interest will be payable on maturity, along with the principal.