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PRESTORMING™

TEST BOOKLET

GENERAL STUDIES - PAPER – I

ECONOMICS I

TEST – 04

T.B.C : P-SIA-A-GS

Serial : P-GSI-252604

Test Booklet Series

A

Time Allowed : Two Hours ***Maximum Marks : 200***

I N S T R U C T I O N S

1. IMMEDIATELY AFTER THE COMMENCEMENT OF THE EXAMINATION, YOU SHOULD CHECK THAT THIS TEST BOOKLET DOES ***NOT*** HAVE ANY UNPRINTED OR TORN OR MISSING PAGES OR ITEMS, ETC. IF SO, GET IT REPLACED BY A COMPLETE TEST BOOKLET.
2. ENCODE CLEARLY THE TEST BOOK 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, mark the response which 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 directions in the Answer Sheet.
6. All items carry equal marks.
7. Sooner than 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 Sheet as per instructions sent to you with your Admission Certificate.
8. After you have completed filling in all your responses on the Answer Sheet and the examination has concluded, you should hand over to the Invigilator *only the Answer Sheet.* You are permitted to take away with you the Test Booklet.
9. Sheets for rough work are appended in the Test Booklet at the end.
10. **Penalty for Wrong answers :**

THERE WILL BE A PENALTY FOR WRONG ANSWERS MARKED BY A CANDIDATE IN THE OBJECTIVE TYPE QUESTION PAPERS.

(i) There are four alternatives for the answer to every question. For each question for which a wrong answer has been given by the candidate, **one-third (0.66)** of the marks assigned to that question will be deducted as a penalty.

(ii) If a candidate gives more than one answer, it will be treated as a **wrong answer** even if one of the given answers happens to be correct and there will be the same penalty as above to that question.

(iii) If a question is left blank, i.e., no answer is given by the candidate, there will be **no penalty** for that question.

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1. Consider the following:
   1. Indian embassy in the USA
   2. U.S Consulate in India's political frontiers
   3. Indian ships and aircraft operated between India and other countries

   Which of the above are included in the economic territory of India for national income accounting purposes?

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

2. Consider the following pairs:

Tax levied		***Type of tax***
1. Excise duty	-	Production Tax
2. Stamp duty	-	Product Tax
3. Registration fee	-	Production Tax
4. Service Tax	-	Product Tax

   How many of the above pairs is/are correct?

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

3. Consider the following statements:

   Statement I:

   Real Gross Domestic Product is considered a better measure for comparing economic growth across years.

   Statement II:

   It eliminates the effect of price level changes by using constant prices.

   Which of the following is correct with respect to the above statements?

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

4. The UNDP's Human Development Index (HDI) does ***not*** include which of the following indicators?

   (a) Life expectancy at birth
   (b) Gross National Income per capita
   (c) Mean years of schooling
   (d) Infant mortality rate

Consider the following statements :

Statement I:

In India, the Consumer Price Index (CPI) is used as a macroeconomic indicator of inflation.

Statement-II:

The CPI measures the changes in the general price level of goods and services that are consumed by households.

Statement-III:

The CPI covers a broad range of goods, from intermediate goods to finished manufactures.

Which one of the following is correct with respect to the above statements?

(a) Both Statement-II and Statement-III are correct, and both of them explain Statement-I

(b) Both Statement-II and Statement-III are correct, but only one of them explains Statement-I

(c) Only one of the Statements II and III is correct, and that explains Statement I

(d) Neither Statement-II nor Statement-III is correct

6. "The Retail inflation in India has recently declined to an eight-year low of 1.55% in July 2025". How many of the following can lead to a decline in retail inflation?

1. Improved agricultural output
2. Increased fuel rate
3. Reduction in GST rates
4. Reduced imported inflation

Select the correct answer using the codes given below:

(a) 1
(b) 2
(c) 3
(d) 4

7. Consider the following statements regarding the Inflation Targeting Framework in India:

1. It has been provided a statutory backup under the Reserve Bank of India Act, 1934.
2. A medium-term inflation target with a tolerance band of 4% is provided under the framework.
3. Under this framework, RBI is required to publish a monetary policy report once every six months.

Which of the statements given above is/are correct?

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

8. Which of the following statements regarding the Reserve Bank of India (RBI) is/are correct?

1. RBI was initially constituted as a shareholders' bank.
2. RBI was nationalised after the commencement of the Constitution of India.
3. RBI introduced the official fiat money in India after its nationalisation.

Select the correct answer using the codes given below:

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

9. Consider the following statements regarding the Board for Regulation of Payment and Settlement Systems (BPSS) in India:

1. Any entity intending to commence payment systems should obtain prior approval from BPSS.
2. Foreign entities are prohibited from operating a payment system 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

10. Recently, El Salvador has authorised Bitcoin as a legal tender. In this context, consider the following:

1. Metallic money
2. Paper money
3. Electronic payments
4. Plastic money

How many of the above-mentioned are recognised as legal tenders in India?

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

11. In an economy, the overall money supply is Rs . 5,00,000 Crore, and the value of the high-powered money is Rs. 1,00,000 Crore. Determine the value of the money multiplier.

Select the correct answer using the codes given below:

(a) 0.2
(b) 5
(c) 4
(d) 2.5

12. Which of the following measures can lead to a decline in aggregate demand in an economy?

1. Increased repo rate
2. Carrying out open market operations
3. Reducing the Cash Reserve Ratio
4. Executing the selective credit rationing method

Select the correct answer using the codes given below:

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

13. Which of the following best describes "Currency Demand Paradox"?

(a) Increase in the supply of currency exceeding the demand in the economy.
(b) The demand for the currency remains stable despite the inflationary effect.
(c) Increase in demand for cash despite increased digital payment transactions.
(d) Decrease in demand for cash due to increased digital payment transactions.

14. Which of the following best describes "White Label ATM"?

(a) An ATM that exclusively serves customers of a particular bank.
(b) An ATM that provides services to the customer only for transactions above a particular value.
(c) An ATM owned and operated by a non-banking entity but available for use by customers of all banks.
(d) An ATM owned and operated by a foreign bank in which services are restricted to the specific bank account holders.

15. Consider the following pairs:

S.no.	***Type of Deficit***	***Description***
1.	Fiscal deficit	It is a measure that suggests the total borrowing requirements of the government.
2.	Revenue deficit	It indicates the excess of government revenue expenditure over revenue receipts.
3.	Primary deficit	It highlights the present fiscal imbalances and is measured as fiscal deficit minus the interest liabilities.

How many of the above pairs is/are correctly matched?

(a) Only one

(b) Only two

(c) All three

(d) None

16. Which of the following is the common characteristic of Wholesale Central Bank Digital Currency and Retail Central Bank Digital Currency?

1. It can be used for Person-to-Person Payments.
2. It has no denomination.
3. It is an account-based CBDC.

Select the correct answer using the codes given below:

(a) 1 only

(b) 2 only

(c) 3 only

(d) None

17. Consider the following statements:

Statement-I:

A positive value of Net International Investment Position (NIIP) reveals that a country is a creditor nation.

Statement-II:

The NIIP measures the gap between a nation's stock of foreign assets and a foreigner's stock of that nation's assets.

Which one of the following is correct with respect to the above statements?

(a) Both Statement-I and Statement-II are correct and Statement-II is the correct explanation for Statement-I

(b) Both Statement-I and Statement-II are correct and Statement-II is not the correct explanation for Statement-I

(c) Statement-I is correct but Statement-II is incorrect

(d) Statement-I is incorrect but Statement-II is correct

18. Consider the following foreign reserves:

1. Foreign currency assets
2. Gold
3. Special Drawing Rights
4. Reserve position in the International Monetary Fund

Arrange the above given foreign reserves of India in the increasing order of their value using the codes given below:

(a) 1 - 2 - 3 - 4

(b) 2 - 1 - 4 - 3

(c) 2 - 1 - 3 - 4

(d) 4 - 3 - 2 - 1

19. Consider the following statements:
    1. The merchandise trade deficit of India has been consistently increasing for the past 5 years.
    2. The merchandise imports of India have been consistently increasing for the past 5 years.

    Which of the statements given above is/are ***not*** correct?
    (a) 1 only
    (b) 2 only
    (c) Both 1 and 2
    (d) Neither 1 nor 2

20. Which of the following can reduce the current account deficit of a country in the Balance of Payments?
    1. Reduced remittances from abroad
    2. Increased Foreign Direct Investment
    3. Increased tourism services

    Select the correct answer using the codes given below:
    (a) 1 only
    (b) 1 and 2 only
    (c) 3 only
    (d) 2 and 3 only

21. Consider the following statements:

    Statement-I:

    An increase in the value of the Real Effective Exchange Rate (REER) denotes a decline in the trade competitiveness of the country.

    Statement-II:

    The REER measures the value of the domestic currency of the major trading partners.

    Which one of the following is correct with respect to the above statements?
    (a) Both Statement-I and Statement-II are correct and Statement-II is the correct explanation for Statement-I
    (b) Both Statement-I and Statement-II are correct and Statement-II is not the correct explanation for Statement-I
    (c) Statement-I is correct but Statement-II is incorrect
    (d) Statement-I is incorrect but Statement-II is correct

22. Consider the following methods:
    1. Greenfield investment
    2. Mergers and acquisitions
    3. Joint ventures
    4. Establishment of subsidiary companies

    How many of the above-mentioned are methods of Foreign Direct Investment?
    (a) 1
    (b) 2
    (c) 3
    (d) 4

23. Consider the following information:
    1. Generally, core inflation tends to be more stable than headline inflation.
    2. In India, the Wholesale Price Index is used to measure 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

24. Consider the following:
    1. Reduction of government expenditure
    2. Increased taxation
    3. Rationing of commodities in short supply

    How many of the above measures could control inflation?
    (a) Only one
    (b) Only two
    (c) All three
    (d) None

25. With reference to Consumer Price Index (CPI) and Wholesale Price Index (WPI), consider the following statements:
    1. Both WPI and CPI are published by the Ministry of Statistics and Programme Implementation of India.
    2. Unlike WPI, the CPI does not include changes in the prices of services.

    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

26. Which of the following are ways adopted by the Government to reduce the fiscal deficit in India?
    1. Increasing direct taxes
    2. Selling shares in Public Sector Undertakings
    3. Increasing government expenditure

    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

27. Monetization of deficit could lead to:
    1. Increase in rupee value
    2. Decrease in inflation rate
    3. Outflow of foreign investment

    Select the correct answer using the codes given below:
    (a) 1 and 2 only
    (b) 2 only
    (c) 3 only
    (d) 1 and 3 only

28. Consider the following statements:

    Statement I:

    Proportional income tax can be a tool to stabilise the economy.

    Statement II:

    Proportional income tax can restrict the upward fluctuation in consumption spending when the GDP rises.

    Statement III:

    Proportional income tax can limit the fall in disposable income during a recession.

    Which of the following is correct with respect to the above statements?
    (a) Both Statement II and Statement III are correct and both of them explain Statement I.
    (b) Both Statement II and Statement III are correct but only one of them explains Statement I.
    (c) Only one of the Statements II and III is correct and that explains Statement I.
    (d) Neither Statement II nor Statement III is correct.

29. Consider the following statements:
    1. Both cess and surcharge are taxes levied in addition to the existing tax amount.
    2. While cess is imposed for a specific purpose, surcharge is imposed to generate additional revenue.

    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

30. Consider the following statements:

    Statement I:

    The Fiscal Responsibility and Budget Management (FRBM) Act seeks to ensure inter-generational equity in fiscal management.

    Statement-II:

    This is achieved by eliminating fiscal deficit and revenue deficit.

    Which of the following is correct with respect to the above statements?
    (a) Both Statement-I and Statement-II are correct, and Statement-II is the correct explanation for Statement-I
    (b) Both Statement-I and Statement-II are correct, and Statement-II is not the correct explanation for Statement-I
    (c) Statement I is correct, but Statement II is incorrect
    (d) Statement I is incorrect, but Statement II is correct

31. Money borrowed by the Government of India from the public through Treasury Bills is credited to:
    (a) Public Account of India
    (b) Contingency Fund of India
    (c) Consolidated Fund of India
    (d) National Investment Fund

32. Consider the following factors:
    1. Increase in reserve requirement ratio
    2. Higher public preference for currency over deposits
    3. Excess reserves held by banks

    How many of the above factors can lead to a decrease in the money multiplier?
    (a) Only one
    (b) Only two
    (c) All three
    (d) None

33. Consider the following:
    1. Certificates of deposit
    2. Treasury bills
    3. Freely convertible foreign currencies
    4. Savings accounts

    Which of the above are considered near money in the context of the economy?
    (a) 1, 2 and 4 only
    (b) 2, 3 and 4 only
    (c) 1 and 4 only
    (d) 1, 2, 3 and 4

34. With reference to Collateralised Borrowing and Lending Obligation (CBLO), consider the following statements:
    1. It is operated by the Securities and Exchange Board of India and the Reserve Bank of India.
    2. It is a mechanism that allows institutions to access short-term loans.
    3. Treasury bills are eligible to be used as collateral in this system.

    How many of the above statements is/are correct?
    (a) Only one
    (b) Only two
    (c) All three
    (d) None

35. With reference to the Liquidity Coverage Ratio (LCR), consider the following statements:
    1. It requires banks to maintain a particular stock of High Quality Liquid Assets to withstand liquidity crises.
    2. It was introduced by the Reserve Bank of India, as per the guidelines of the Basel Committee on Banking Supervision.

    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. Consider the following statements:
    1. The yield on a bond may increase during inflation.
    2. The yield on a bond may decrease if interest rates decline.
    3. The yield on a bond may be higher if the bond has a lower credit rating.

    How many of the above statements is/are correct?
    (a) Only one
    (b) Only two
    (c) All three
    (d) None

37. With reference to the Certificate of Deposit (CDs), consider the following statements:
    1. In India, they are only issued by commercial banks.
    2. They are generally freely transferable between entities.
    3. They can be issued to individuals and corporations.

    How many of the above statements is/are correct?
    (a) Only one
    (b) Only two
    (c) All three
    (d) None

38. With reference to Market Infrastructure Institutions (MIIs), consider the following statements:
    1. MIIs are entities that ensure efficient and secure transactions in the financial market.
    2. MIIs include stock exchanges, depositories and clearing houses 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

39. With reference to Opinion trading platforms, consider the following statements:
    1. The payout on these platforms is determined by the likelihood of specific events occurring.
    2. Only India and the USA have regulated such platforms.

    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

40. With reference to Hedge funds, consider the following statements:
    1. They are private investment partnerships.
    2. They are categorised as Alternative Investment Funds in India.
    3. They need not be registered with the Securities and Exchange Board of India.

    How many of the above statements is/are correct?
    (a) Only one
    (b) Only two
    (c) All three
    (d) None

41. With reference to the Bombay Stock Exchange (BSE), consider the following statements:
    1. BSE allows trading in equities as well as commodities.
    2. The BSE 150 Index evaluates India's top 150 listed companies based on their market capitalisation and liquidity.

    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

42. How many of the following are covered under the Deposit Insurance in India?
    1. Deposits of state governments
    2. Deposits of foreign governments
    3. Deposits mobilised by Non-Banking Financial Company
    4. Mutual funds

    Select the correct answer using the codes given below:
    (a) Only one
    (b) Only two
    (c) Only three
    (d) None

43. With reference to the Union Budget, consider the following statements:
    1. Capital expenditure results in the creation of assets.
    2. Loans to public enterprises are treated as revenue expenditure.
    3. Cash grants-in-aid from foreign countries are classified as revenue receipts.

    Which of the statements given above is/are correct?
    (a) 1 and 3 only
    (b) 2 only
    (c) 1 and 2 only
    (d) 1, 2 and 3

44. Consider the following:

1. Currency held by commercial banks
2. Currency held by businesses
3. Cash that commercial banks hold at the Reserve Bank of India.
4. Currency held by individuals

Which of the above are components of 'high-powered money'?

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

45. With reference to External Commercial Borrowings (ECBs), consider the following statements:

1. ECBs are available to finance only existing projects.
2. ECBs tend to have end-use restrictions.
3. ECBs might give international recognition to enterprises.

How many of the above statements is/are ***not*** correct?

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

46. With reference to the Comprehensive Economic and Trade Agreement (CETA), consider the following statements:

1. All items of export from India will have duty-free access in the UK.
2. Double Contribution Convention mandates Indian professionals to make social security payments for ten 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

47. Consider the following statements regarding the Reserve Bank of India:

1. RBI has the sole right to issue banknotes in India.
2. RBI has the sole power to fix the conditions of license to the banks.
3. Without the approval of the RBI, no scheduled commercial banking company can open a new place of business within or outside India.

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

48. With reference to the tax-to-GDP ratio, consider the following statements:

1. It can indicate the capacity of a government to operate without borro wing funds.
2. It can reflect the share of the national income utilized for government spending.

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

49. Rule of origin helps to:
    1. Curb tariff avoidance
    2. Identify goods that satisfy preferential trade clauses between nations
    3. Implement anti-dumping duties

    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

50. With reference to the Sagarmala Finance Corporation Limited (SMFCL), consider the following statements:
    1. It is registered as a Non-Banking Financial Company with the Securities and Exchange Board of India.
    2. It is a Central Public Sector Enterprise that has been accorded the Mini Ratna Status.

    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. Consider the following information:

S.no.	***Report***	***Published by***
1.	A World of Debt Report	Organisation for Economic Co-operation and Development
2.	The Global Financial Stability Report	International Monetary Fund
3.	World Investment Report	United Nations Conference on Trade and Development
4.	Global Trade Outlook and Statistics Report	World Trade Organisation

How many of the above pairs are correctly matched?

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

52. Changes made to which one of the following Acts is more likely to help the realisation of internationalisation of the rupee?

    (a) Foreign Contribution Regulation Act
    (b) Prevention of Money Laundering Act
    (c) Companies Act
    (d) Foreign Exchange Management Act

53. With reference to the Reserve Bank of India's Remittances Survey, consider the following statements:

1. The Gulf Cooperation Council countries account for over 50% of India's inward remittances.
2. Remittances from advanced economies have seen an increase due to the migration of highly skilled professionals.
3. India has been the top recipient of remittances in the world for over a decade.

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

54. Consider the following:

1. Higher import costs
2. A higher interest rate in the USA than in India
3. Lower trade deficit
4. Higher foreign portfolio investment inflows

How many among the above could lead to depreciation of the Indian rupee?

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

55. With reference to the Household Consumption Expenditure Survey, consider the following statements:

1. It is released by the National Statistics Office.
2. It provides insights into both the food and non-food consumption of the Indian population.
3. As per the survey, the average calorie intake among the rural and urban populations tends to increase with an increase in monthly per capita consumption expenditure.

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

56. In India, the Digital Payments Index is published by:

(a) Ministry Of Finance
(b) NITI Aayog
(c) Reserve Bank of India
(d) Ministry of Statistics & Programme Implementation

57. With reference to Small Finance Banks (SFBs), consider the following statements:

1. They are regulated by the Reserve Bank of India.
2. They are not required to maintain the Statutory Liquidity Ratio like other commercial banks.
3. They have to lend 100% of their Adjusted Net Bank Credit to priority sectors.

How many of the above statements is/are correct?

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

58. Consider the following statements:

1. Both repo rate and variable repo rate mechanisms help to increase the money supply in the economy.
2. Both repo rate and variable repo rate are part of the Reserve Bank of India's liquidity adjustment facility.

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

59. Consider the following:

1. Port Trusts
2. EXIM Bank of India.
3. Limited Liability Partnerships

How many of the above is/are eligible to raise External Commercial Borrowings?

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

60. Grameen Credit Score, announced in the Union Budget 2025-26, will be applicable to:

(a) Self-Help Groups
(b) Marginalised communities
(c) Farmers
(d) All of the above

61. With reference to the National Bank for Financing Infrastructure and Development (NaBFID), consider the following statements:

1. It is regulated by the Ministry of Finance.
2. It aims to enhance the development of bond and derivatives markets in India for infrastructure financing.

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

62. Consider the following statements:

1. Dollarisation requires a country to adopt the dollar as the only medium of exchange in all trade settlements.
2. The Chinese renminbi, the Swiss franc, and the US dollar are among the reserve currencies recognised by the International Monetary Fund.

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. With reference to the concept of Product Nation, consider the following statements:

1. Product Nations export high-value goods.
2. Product Nations tend to be net producers of certain goods.
3. Product Nations generally carry out value addition of goods within their country.

Which of the above statements are correct?

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

64. With reference to Global Findex 2025, consider the following statements:

1. This index, published by the World Bank, gives information on the demand side of financial inclusion.
2. According to the index, India has achieved complete financial account ownership for its population.

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

65. Consider the following statements regarding PAN and TAN in the context of Income tax in India :

1. PAN is used for tracking financial transactions of individuals and entities, while TAN is mandatory for persons who are required to deduct or collect tax at source.
2. PAN is a 10-character alphanumeric code, whereas TAN is a 10-digit numeric code issued by the Income Tax Department.

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

66. Which of the following statements best describes Safeguard duty?

(a) It is a temporary measure implemented to protect domestic industries facing a sudden import surge.
(b) It is a tax imposed on goods when they are transported across international borders.
(c) It is imposed to counteract the impact of subsidies provided by exporting countries on their products.
(d) It is imposed to shield domestic industries from unfair competition from imported goods.

67. Which of the following are correct regarding the Income Tax Act 2025?

1. It introduced a new concept of a "Tax Year".
2. It provides that taxpayers can claim the refunds in the case of belated returns also.
3. It defined Cryptocurrency as taxable capital assets.

Select the correct answer using the codes given below:

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

68. Reliable international money transfer systems are vital in the current global economy. In this context, consider the following:

1. Shetab
2. Society for Worldwide Interbank Financial Telecommunication
3. Mir

How many of the above is/are used by countries as payment systems/networks for cross-border transactions?

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

69. Consider the following:

Statement - I:

In the creditor-debtor relationship, the debtor benefits from the effect of inflation.

Statement-II:

The debtor repays the borrowed money at a reduced value.

Which one of the following is correct with respect to the above statements?

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

70. With reference to the Eurasian Economic Union (EEU), consider the following statements:

1. It is recognised as an international legal personality.
2. Armenia, Belarus, Kazakhstan, Kyrgyz Republic and Russia are its members.
3. The EEU allows for the free movement of goods and labour, but not services, between its members.

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

71. With reference to the concept of Geo-Economic Fragmentation (GEF), consider the following statements:

1. GEF could be accompanied by trade curbs.
2. GEF could lead to the practice of friendshoring.
3. GEF could alter the Foreign Direct Investment patterns of countries.

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. With reference to the USA's Reciprocal Tariff Plan, consider the following statements:

1. It could lead to an increase in the price of exported goods from India to the USA.
2. The trade deficit of the USA could be decreased by enhancing its domestic manufacturing efficiency.
3. India, unlike the US, doesn't have trade deficits with any country.

How many of the above statements is/are correct?

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

73. With reference to triangular cooperations, consider the following statements:

1. They generally have a beneficiary partner, a pivotal partner and a facilitating partner.
2. TriDeP is a triangular development partnership between India and the US for the Indo-Pacific region.

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

74. With reference to the Indian economy, cost-push inflation can be caused by which of the following?

1. Decrease in wage rate
2. Rise in raw material prices
3. Reduction in the rate of interest
4. Lack of labour availability
5. Increase in income

Select the correct answer using the code given below:

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

75. With reference to Bilateral Investment Treaties (BITs), consider the following statements:
 1. BITs protect foreign investors from policies that may adversely affect their investments.
 2. BITs are legally enforceable.
 3. BITs mandate signatory countries to maintain a predetermined level of foreign investment between them.
 4. India has signed BITs with Uzbekistan and Kyrgyzstan.

 How many of the above statements is/are correct?
 (a) Only one
 (b) Only two
 (c) Only three
 (d) All four

76. With reference to Account Aggregator – India's Digital Public Infrastructure, consider the following :
 1. An Account Aggregator is an entity that helps customers to share their financial data securely with other financial institutions for either a loan or an insurance product.
 2. It can handle both financial information and financial transactions like UPI.
 3. The license for account aggregators is issued by the Reserve Bank of India.

 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

77. Consider the following factors:
 1. Global crude oil prices
 2. India's Current Account Deficit
 3. US Dollar Index movement
 4. Domestic interest rate levels

 How many factors given above influence the exchange rate of the Indian Rupee?
 (a) Only one
 (b) Only two
 (c) Only three
 (d) All four

78. With reference to the RBI's Economic Capital Framework (ECF), consider the following statements:
 1. The framework provides the basis for determining risk provisioning and surplus distribution by the RBI to the Government.
 2. It was adopted by the RBI based on the recommendations of the Bimal Jalan Committee.
 3. The framework is required to be periodically reviewed every five years.

 Which of the statements given above is/are correct?
 (a) 1 and 2 only
 (b) 1 and 3 only
 (c) 1 only
 (d) 1, 2 and 3

79. With reference to the Financial Services Institutions Bureau (FSIB), consider the following statements:
    1. It recommends appointments of directors and chairpersons in Public Sector Banks, Financial Institutions and Public Sector Insurers.
    2. It is chaired by the governor of the Reserve Bank of India.
    3. The final decision on FSIB's recommendations is taken by the Union Finance Minister.

    How many statements given above is/are correct?
    (a) Only one
    (b) Only two
    (c) All three
    (d) None

80. With reference to Confidential IPO filings, consider the following statements:
    1. It allows a company to submit its draft documents to the market regulator without immediate public disclosure.
    2. This mechanism is prohibited under the current regulatory framework in India.
    3. Generally, only well-established companies opt for confidential IPO filings rather than startups.

    Which of the statements given above is/are correct?
    (a) 1 only
    (b) 1 and 3 only
    (c) 1 and 2 only
    (d) 1,2 and 3

81. With reference to short selling in equity markets, consider the following statements:
    1. Short selling involves selling a stock without owning it and buying it later to close the position.
    2. In the cash segment, short positions can be carried forward overnight without squaring off.
    3. Short selling is profitable if the stock price declines after selling.

    Which of the statements given above are correct?
    (a) 1 and 3 only
    (b) 1 and 2 only
    (c) 2 and 3 only
    (d) 1, 2 and 3

82. Consider the following statements regarding the Merchant Discount Rate (MDR):
    1. MDR is a fee that merchants must pay to a payment processing company for digital transactions.
    2. In India, the person-to-merchant transactions carried through any instrument are exempted from MDR.
    3. In India, the MDR is a tax that is passed to the customer by the merchants, similar to GST.

    Which of the statements given above is/are correct?
    (a) 1 only
    (b) 1 and 3 only
    (c) 2 only
    (d) 2 and 3 only

83. Which of the following best describes "Reverse Flipping"?
(a) The process of transferring ownership of an Indian company to a foreign entity for tax benefits.
(b) The process of transferring ownership of a foreign company to an Indian entity for tax benefits.
(c) The process of shifting the domicile of Indian start-ups incorporated abroad back to India.
(d) The process through which Foreign Institutional Investors (FIIs) convert their investments in Indian equities into debt instruments.

84. How many of the following provisions are available to Non-Banking Financial Companies in India?
1. Receiving 100% Foreign Direct Investment
2. Maintenance of Statutory Liquidity Ratio
3. Issuing their own cheque books
4. Providing Insurance under the Deposit Insurance and Credit Guarantee Corporation

Select the correct answer using the codes given below:
(a) All four
(b) Only three
(c) Only two
(d) Only one

85. With reference to the co-lending model of the Reserve Bank of India, consider the following statements:
1. It allows banks and Non-Banking Financial Companies (NBFCs) to lend loans together to priority sectors.
2. Banks and NBFCs are mandated to lend an equal share of the individual loans under this model.

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

86. Consider the following statements:
1. Total production of final goods and services within a country during a given period amounts to its Gross Domestic Product (GDP).
2. Net factor income from abroad is a component of the Gross National Product of a country.

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

87. Consider the following statements:

Statement I:

Treasury Bills (T-Bills) are issued at a discount to their face value and redeemed at face value upon maturity.

Statement II:

T-Bills do not carry periodic interest payments.

Statement III:

Only commercial banks are allowed to participate in the primary auction of T-Bills.

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

(a) Both Statement II and Statement III are correct and both of them explain Statement I.

(b) Both Statement I and Statement II are correct and Statement I explains Statement II.

(c) Only one of the Statements II and III is correct and that explains Statement I.

(d) Neither Statement II nor Statement III is correct.

88. With reference to the Alternative Minimum Tax (AMT) and the Minimum Alternate Tax (MAT), consider the following statements:

1. AMT is applicable to corporate taxpayers, while MAT is tax payable by non-corporate taxpayers.
2. AMT is calculated based on a company's book profit, while MAT is measured based on the adjusted total income of taxpayers.
3. Both AMT and MAT ensure minimum tax payment by entities in India.

How many of the above statements is/are correct?

(a) Only one

(b) Only two

(c) All three

(d) None

89. Which of the following mentioned below are true about Foreign Portfolio Investment?

1. It involves active investors.
2. It is an indirect investment method.
3. It doesn't include technology transfer.
4. It involves investing in securities outside the country.

Select the correct answer using the codes given below:

(a) 1 and 3 only

(b) 2 and 4 only

(c) 2, 3 and 4 only

(d) 1, 2, 3 and 4

90. Consider the following statements:

Statement I:

The Payments Regulatory Board, constituted under the provisions of the Payment and Settlement Systems Act, 2007, is headed by the Reserve Bank of India (RBI) Governor.

Statement II:

The RBI Governor is the sole authority to regulate payment systems in the country.

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

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

91. Consider the following statements:

1. GDP deflator helps to assess the change in Gross Domestic Product (GDP) due to the change in price levels rather than the change in output levels.
2. Nominal GDP calculation includes inflation, while that of Real GDP excludes inflation.
3. Nominal GDP could be higher than the Real GDP in an expanding economy.
4. Both the GDP deflator and the consumer price index are calculated based on the same basket of goods.

How many of the above statements is/are correct?

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

92. Consider the following taxes:

1. Corporation tax
2. Customs duty
3. Excise duty
4. Wealth tax

Which of the above is/are indirect taxes?

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

93. Consider the following statements:

Assertion (A):

An Increase in the higher runoff factor will also increase the Liquidity Coverage Ratio of the banks.

Reason (R):

The run-off factor refers to the percentage of deposits that depositors could withdraw in a stress scenario.

Which of the following statements is correct?

(a) Both A and R are true and R is the correct explanation of A.
(b) Both A and R are true but R is not the correct explanation of A.
(c) A is true but R is false.
(d) A is false but R is true.

94. Which of the following are the impacts of repo rate cut on the economy by the Reserve Bank of India?

1. Leads to higher inflation
2. EMI of home and vehicle loans will shoot up
3. Interest earned on savings will be reduced

Select the correct answer using the codes given below:

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

95. Consider the following statements regarding the Gold Monetisation Scheme:

1. It was announced in 2015 to reduce the import dependency on gold.
2. The Government has discontinued the scheme completely.

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. How can currency appreciation stimulate a decrease in net exports?

1. By increasing export costs
2. By increasing import prices

Select the answer using the code given below:

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

97. China recently imposed a ban on the export of several rare-earth elements (REEs). In this context, consider the following:

1. REEs are crucial inputs in the manufacture of permanent magnets used in the electric vehicle industry.
2. A majority of India's permanent magnet imports in FY25 came from China.

How many of the above statements is/are correct?

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

98. Consider the following:

1. Commercial papers
2. Treasury bills
3. Certificates of deposit
4. Preference shares

Which of the above are considered money market instruments in India?

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

99. India's Fiscal Deficit is projected at ₹125,000 crore in FY26, and interest liabilities are ₹106,500 crore. It is receiving ₹10,000 crores through non-debt-creating capital receipts. What is the total expenditure and the Primary deficit?

(a) Primary Deficit = ₹18,500 crore and Total Expenditure = ₹231,000 crore.
(b) Primary Deficit = ₹28,500 crore and Total Expenditure = ₹139,000 crore.
(c) Primary deficit would be equal to the Total Expenditure.
(d) Primary Deficit = ₹18,500 crore, and for Total Expenditure, the information is incomplete.

100. In the context of the Indian Economy, consider the following pairs

S.No.	***Term***		***Most appropriate description***
1	Melt Down	-	Fall in stock prices
2	Recession	-	Fall in growth rate
3	Slow down	-	Fall in GDP

How many of the pairs given above is/are correctly matched?

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

1. Consider the following:
   1. Indian embassy in the USA
   2. U.S Consulate in India's political frontiers
   3. Indian ships and aircraft operated between India and other countries

   Which of the above are included in the economic territory of India for national income accounting purposes?
   (a) 1 and 2 only
   (b) 1 and 3 only
   (c) 2 and 3 only
   (d) 1, 2 and 3

EXPLANATION:

The concept of economic territory (or domestic territory) is derived from geographical territory by making certain adjustments. This concept evolved in connection with the measurement of the economic activity of a country.

The economic territory of a country consists of the geographical territory administered by a government within which persons, goods and capital circulate freely. It includes:

- The airspace, territorial waters, and continental shelf lying in the international waters over which the country enjoys exclusive rights;
- Territorial enclaves in the rest of the world, such as embassies, consultants, military bases, etc. So, the Indian embassy in the USA is included in the economic territory of India for National income accounting purposes. **So, Statement 1 is correct.**
- Any free zones, bonded warehouses or factories operated by offshore enterprises under customs control.
- Ships and aircraft that are owned and operated by residents of a country are also part of that country's domestic territory, no matter where they are operating in the world. This includes commercial, military and private ships or aircraft. **So, Statement 3 is correct.**

Economic territory does not include

- Territorial enclaves used by foreign governments, such as foreign embassies, foreign consultants, etc. So, the U.S Consulate in India's political frontiers is not included in the economic territory of India for National income accounting purposes. **So, Statement 2 is not correct.**
- International organisations.

2. Consider the following pairs:

Tax levied		***Type of tax***
1. Excise duty	-	Production Tax
2. Stamp duty	-	Product Tax
3. Registration fee	-	Production Tax
4. Service Tax	-	Product Tax

   How many of the above pairs is/are correct?
   (a) Only one
   (b) Only two
   (c) Only three
   (d) All four

EXPLANATION:

Production taxes/Production subsidies are paid or received with relation to production and are independent of the volume of the actual output. Some examples are:

- Production Taxes - Land Revenues, Stamps & Registration fees and Tax on profession
- Production Subsidies - Production subsidies include subsidies to Railways, input subsidies to farmers, subsidies to village and small industries, administrative subsidies to corporations or cooperatives, etc.

Product taxes/Product subsidies are paid or received on a per-unit basis. Some examples are:

- Product Taxes- Excise duties, Sales tax, Service Tax and Import, Export duties
- Product Subsidies- Food, Petroleum and fertiliser subsidies, interest subsidies given to farmers, households, etc. through banks.

Excise duty comes under product tax, and stamp duty comes under production tax.
Registration fee comes under production tax, and service tax comes under product tax. **So, Option (b) is correct.**

ADDITIONAL INFORMATION:

<table>
<tr><th colspan="2">FACTOR COST, BASIC PRICES AND MARKET PRICES</th></tr>
<tr><td>About</td><td>
➢ In India, GDP at factor cost was traditionally the main measure of national income.
➢ It reflected the total income earned by factors of production such as wages, rent, interest, and profits.
➢ Since January 2015, the Central Statistics Office (CSO) has replaced GDP at factor cost with Gross Value Added (GVA) at basic prices, while GDP at market prices continues to be the most widely used indicator of the economy's size and performance. GVA = Total value of output minus intermediate consumption (goods/services used to produce further output).
➢ The difference between factor cost, basic prices, and market prices lies in how taxes and subsidies are treated.
• Factor Cost includes only the payments made to factors of production and excludes all taxes.
• Basic Prices include production taxes minus production subsidies. Production taxes are those related to the Act of producing goods or services and are independent of the quantity produced, such as land revenues, stamp duty, and tax on professions. Production subsidies are support payments to encourage production, such as subsidies to railways, farmers, small industries, or cooperatives. Product taxes, however, are not included at this stage.
• Market Prices (GDP) include all indirect taxes minus all subsidies, covering both production and product taxes.
→ Product taxes are levied per unit of a product, such as excise duties, sales tax, service tax, or import/export duties.
→ Product subsidies, like food, petroleum, and fertiliser subsidies or interest subsidies to households and farmers, are also subtracted.
➢ In essence, production taxes and subsidies affect the value of output at the basic price level (GVA), reflecting costs or support related to production itself.
➢ Product taxes and subsidies are added to arrive at market prices (GDP), reflecting the impact of taxation or support on the final value of goods and services.
This distinction between factor cost, basic prices, and market prices, along with production and product taxes, helps us understand the actual economic contribution of production versus the effect of government taxes and subsidies in measuring national income.
</td></tr>
</table>

3. Consider the following statements:
Statement I: Real Gross Domestic Product is considered a better measure for comparing economic growth across years.
Statement II: It eliminates the effect of price level changes by using constant prices.
Which of the following is correct with respect to the above statements?
(a) Both Statement-I and Statement-II are correct, and Statement-II is the correct explanation for Statement-I
(b) Both Statement-I and Statement-II are correct, and Statement-II is not the correct explanation for Statement-I
(c) Statement I is correct, but Statement II is incorrect
(d) Statement I is incorrect, but Statement II is correct

EXPLANATION:

Gross Domestic Product (GDP) is one of the most critical indicators of economic performance, measuring the total value of goods and services produced within a country over a specific period. GDP can be calculated in two primary ways: nominal GDP and real GDP.

- Nominal GDP:
  - Nominal GDP reflects the total value of goods and services produced within a country during a given period at current market prices. This figure does not account for inflation or deflation, capturing the economic output at prevailing prices.
  - Since it does not adjust for inflation, changes in nominal GDP may simply reflect price hikes rather than actual growth in production. This limitation makes nominal GDP less reliable for assessing an economy's long-term growth trends.
- Real GDP:
  - Real GDP adjusts for inflation by using prices from a fixed base year. This adjustment eliminates the effects of price changes, isolating the actual growth in production.
  - By focusing on constant prices, real GDP provides a more precise and more accurate measure of an economy's performance over time. It is beneficial for assessing long-term trends, formulating economic policies, and understanding changes in living standards when considered on a per capita basis.

Both nominal and real GDP play important roles in economic analysis, but real GDP is generally regarded as a better measure of economic growth. By eliminating the effect of price level changes by using constant prices, Real GDP provides a clearer, more accurate picture of an economy's performance, making it indispensable for policymakers, businesses, and investors alike.

So, Both Statement-I and Statement-II are correct, and Statement-II is the correct explanation for Statement I.

ADDITIONAL INFORMATION:

CALCULATION OF REAL AND NOMINAL GDP	
Nominal GDP calculation	In India, Nominal GDP is indeed calculated using the expenditure method, which sums up the total spending on final goods and services produced within the country during a specific period. This method includes: • Consumption expenditure (C): Spending by households on goods and services. • Investment expenditure (I): Spending on business investments in capital goods. • Government expenditure (G): Spending by the Government on goods and services. • Net exports (NX): Exports minus imports. Since this method uses current market prices, it reflects both changes in production and changes in price levels (inflation or deflation). Nominal GDP is calculated using the following equation: $GDP = C + I + G + (X - M)$

Real GDP Calculation	To calculate real GDP, we must discount the nominal GDP by a GDP deflator. ➢ The GDP deflator is a measure of the price levels of new goods that are available in a country's domestic market. ➢ It includes prices for businesses, the Government, and private consumers. The GDP deflator essentially removes inflation from the equation and enables us to compare the GDP of a recent year to the GDP of a target (or "base") year. ➢ Different price indices, such as the consumer price index, could theoretically also be used in the calculation of GDP. ➢ However, CPI only considers prices for consumer goods and thus ignores a substantial part of the economy. Thus, the GDP deflator is the preferred measure. The equation for calculating real GDP is: $Real\ GDP_{in\ base\ year\ dollars} = Nominal\ GDP \cdot \frac{GDPD_{base\ year}}{GDPD_{current\ year}}$ Where: GDPD- GDP Deflator.

4. The UNDP's Human Development Index (HDI) does ***not*** include which of the following indicators?
   (a) Life expectancy at birth
   (b) Gross National Income per capita
   (c) Mean years of schooling
   (d) Infant mortality rate

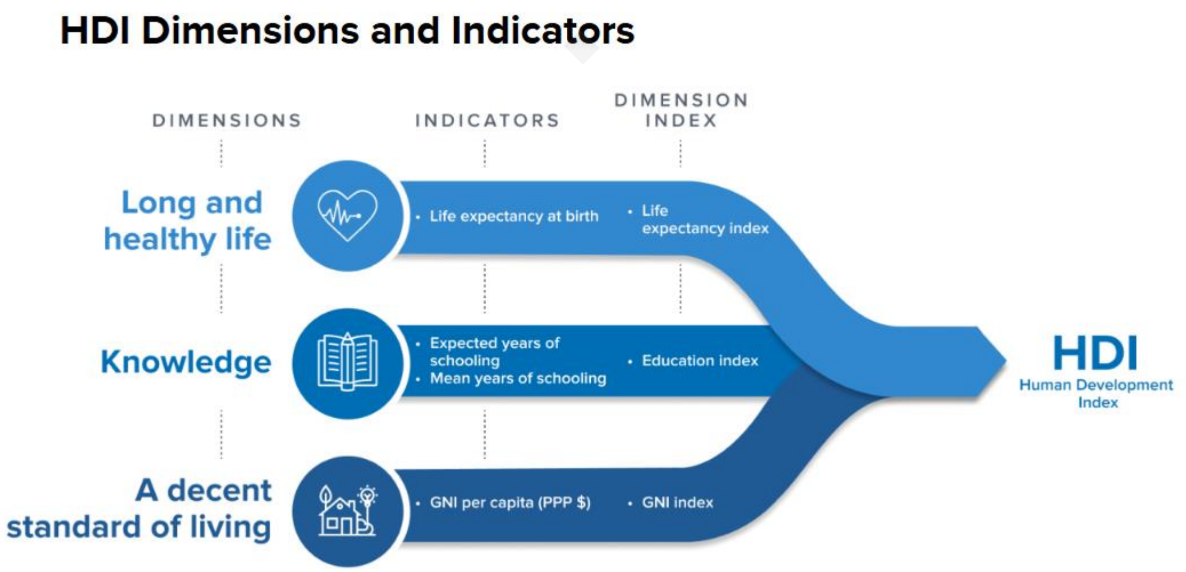
EXPLANATION:

The Human Development Index is published by the United Nations Development Programme (UNDP). It is the most well-known index of human development. It is based on the idea that human development means that people have long and healthy lives, are knowledgeable, and have a decent standard of living. More specifically, these three dimensions are measured with four indicators:

➢ A long and healthy life: measured by life expectancy at birth
➢ Knowledge: measured by expected years of schooling (for children of school entering age) and average years of schooling (for adults aged 25 and older)
➢ A decent standard of living: measured by Gross National Income (GNI) per capita

The scores for the three HDI dimension indices are then aggregated into a composite index using the geometric mean.

Infant mortality rate is not included in the UNDP's Human Development Index (HDI) indicators. **So, Option (d) is correct.**



ADDITIONAL INFORMATION:

<table>
<tr><th colspan="2">HUMAN DEVELOPMENT INDEX</th></tr>
<tr><td>Recently in the news</td><td>India ranked 130 out of 193 countries in the 2025 Human Development Report (HDR) released by the United Nations Development Programme (UNDP), with its Human Development Index (HDI) value rising to 0.685 from 0.676 in 2022.</td></tr>
<tr><td>About</td><td>Measuring human development helps us understand how people's lives and livelihoods vary across the world and how they have changed over time.
There are several prominent measures that try to capture these changes:
➢ The Human Development Index (HDI)
➢ The Inequality-adjusted Human Development Index (IHDI)
➢ The Gender Development Index (GDI)
➢ The Augmented Human Development Index (AHDI)
The first three are published by the United Nations Development Programme. The AHDI, meanwhile, was developed by the economic historian Leandro Prados de la Escosura.</td></tr>
<tr><td>Highlights of 2025 HDR India's Perspective</td><td>UNDP's 2025 Human Development Report highlights the role of AI in shaping future possibilities. The 2025 HDR, titled "A Matter of Choice: People and Possibilities in the Age of AI", highlights the critical role of artificial intelligence in shaping the next chapter of human development, particularly in fast-growing economies like India.
➢ Life expectancy rose from 58.6 years in 1990 to 72 years in 2023, the highest recorded since the index began.
➢ Children today are expected to stay in school for 13 years on average, up from 8.2 years in 1990.
➢ On the economic front, India's Gross National Income per capita rose over four times. Importantly, 135 million Indians escaped multidimensional poverty between 2015-16 and 2019-21.
Challenges:
➢ Inequality reduces India's HDI by 30.7%, one of the highest losses in the region.
➢ While health and education inequality have improved, income and gender disparities remain significant.
➢ Female labour force participation and political representation lag, though recent steps—such as the constitutional amendment reserving one-third of legislative seats for women—offer promise for transformative change.</td></tr>
<tr><td>India at the Forefront of AI for Human Development</td><td>➢ The report places India in a unique position globally as a rising AI powerhouse with the highest self-reported AI skills penetration and growing domestic retention of talent—20% of Indian AI researchers now remain in the country, up from nearly zero in 2019.
➢ India is leveraging AI to deliver inclusive growth.
➢ From agriculture to healthcare to public service delivery, AI is being developed and deployed to solve complex challenges at scale. Examples include:
• AI helping farmers access insurance, credit, and advisories in regional languages;
• Plans for a national compute facility to democratize AI access for researchers and startups.
• AI-powered inclusive skill development in states like Tamil Nadu and Telangana, supported by UNDP.
➢ A new global UNDP survey shows that 70% of people expect AI to boost productivity, and 64% believe it will create new jobs, with optimism highest among youth.</td></tr>
</table>

5. Consider the following statements :
Statement I: In India, the Consumer Price Index (CPI) is used as a macroeconomic indicator of inflation.
Statement-II: The CPI measures the changes in the general price level of goods and services that are consumed by households.
Statement-III: The CPI covers a broad range of goods, from intermediate goods to finished manufactures.
Which one of the following is correct with respect to the above statements?
(a) Both Statement-II and Statement-III are correct, and both of them explain Statement-I
(b) Both Statement-II and Statement-III are correct, but only one of them explains Statement-I
(c) Only one of the Statements II and III is correct, and that explains Statement I
(d) Neither Statement-II nor Statement-III is correct

EXPLANATION:

Consumer Price Index (CPI) is an economic indicator that measures the average change in prices of a basket of goods and services consumed by households over time.

- The CPI numbers in India are widely used
  - As a macroeconomic indicator of inflation,
  - As a tool for inflation targeting by the RBI,
  - For monitoring price stability by the Government,
  - For the indexation of dearness allowance to employees, and
  - As a deflator for national accounts.
- The Consumer Price Index (CPI) is used as a macroeconomic indicator of inflation by measuring the average change over time in the prices consumers pay for a basket of goods and services. **So, Statements I and II are correct. So, Only one of the Statements II and III is correct, and that explains Statement I**
- The Consumer Price Index (CPI) measures the average change in prices of goods and services at the retail level, reflecting the cost of living for consumers. It includes prices of goods and services consumed by households. Thus, it is the WPI (not CPI) that covers a broad range of goods, intermediate goods to finished manufactures. **So, Statement III is not correct.**

ADDITIONAL INFORMATION:

WHOLESALE PRICE INDEX and CONSUMER PRICE INDEX	
About	➢ An index number allows comparison of changes in a group of related variables over different time periods. ➢ A price index measures changes in the general price level of selected goods and services, with a base period set at 100 and other periods expressed relative to it. ➢ The two main price indices in India are the Wholesale Price Index (WPI) and the Consumer Price Index (CPI). ➢ They differ in the goods and services included, the weights assigned, and whether wholesale or retail prices are considered. ➢ Price indices are calculated using sample surveys. Their values depend on the commodities included, their assigned weights, and the chosen base year. These factors must be considered when comparing different indices. ➢ The CPI-based inflation data is compiled by the Ministry of Statistics and Programme Implementation (or MoSPI), and the WPI-based inflation data is compiled by the Department for Promotion of Industry and Internal Trade (or DPIIT).
Key Difference between WPI and CPI	➢ The Wholesale Price Index (WPI) is influenced mainly by the prices of manufactured goods, whereas the Consumer Price Index (CPI) is primarily influenced by the prices of food articles.

	➢ Therefore, when food prices rise sharply, the retail inflation rate (CPI) increases significantly more than the wholesale inflation rate (WPI). ➢ Conversely, when the prices of manufactured goods such as televisions, cars, and other consumer durables rise sharply, it is the WPI that shows a stronger impact compared to the CPI. ➢ Another key difference is that the WPI does not account for services. This means that price changes in services like haircuts, banking transactions, and other non-goods activities are not reflected in WPI. ➢ The CPI, however, includes services such as transport, education, recreation and amusement, and personal care. ➢ As a result, when service prices rise significantly, retail inflation (CPI) goes up, while wholesale inflation (WPI) remains unaffected.

6. "The Retail inflation in India has recently declined to an eight-year low of 1.55% in July 2025". How many of the following can lead to a decline in retail inflation?
   1. Improved agricultural output
   2. Increased fuel rate
   3. Reduction in GST rates
   4. Reduced imported inflation

   Select the correct answer using the codes given below:
   (a) 1
   (b) 2
   (c) 3
   (d) 4

EXPLANATION:

Retail inflation, also known as Consumer Price Index (CPI) inflation, refers to the rate at which the general level of prices for goods and services purchased by households changes over a period of time. It is measured through the Consumer Price Index, which tracks price movements in a fixed basket of goods and services representing consumer expenditure patterns.

➢ **Improved agricultural output reduces retail inflation:** Food is a large part of the consumer basket in India. If crops do well and supply rises, food prices fall (or stop rising). Cheaper vegetables, rice, pulses etc. directly pull down overall retail inflation. **So, Statement 1 is correct.**

➢ **Increased fuel rate increases the retail inflation:** Higher fuel prices make transport and production more expensive for almost everything (goods and services). That raises costs throughout the economy and pushes retail prices higher, not lower. **So, Statement 2 is not correct.**

➢ **Reduction in GST rates reduces retail inflation:** GST is a tax added to the price consumers pay. Cutting GST on goods/services reduces the final price immediately (for those items).

For example, if a product's pre-tax price is ₹100 and GST falls from 18% to 12%, the retail price falls from ₹118 to ₹112 — an instant downward effect on inflation for taxed items. **So, Statement 3 is correct.**

➢ **Reduced imported inflation reduces the inflation:** If global prices of imported goods or commodities (like crude oil, metals, electronics) fall or the rupee strengthens against the dollar — the domestic cost of imports drops. Because many domestic products use imported inputs, lower import costs ease production costs and reduce consumer prices. **So, Statement 4 is correct.**

ADDITIONAL INFORMATION:

INDIA'S RETAIL INFLATION	
Recently in news	In 2025, India's retail inflation moderated to eight year low of 1.55 per cent in July, down from 2.1 per cent in June. According to data released by the Ministry of Statistics and Programme Implementation, it is the lowest year-on-year inflation rate after June, 2017.
Retail Inflation Data	➢ Retail inflation (CPI) fell to 1.55% in July 2025, lowest since June 2017, showing easing price pressures. ➢ Food inflation (CFPI) dropped to -1.76%, the lowest since January 2019, due to broad-based declines in pulses, vegetables, cereals, eggs, sugar, and confectionery, as well as transport and communication services. ➢ Rural inflation: Headline 1.18%, food -1.74%; ➢ Urban inflation: Headline 2.05%, food -1.90%. ➢ Sector-wise inflation: • Housing inflation: 3.17% (nearly unchanged) • Education inflation: 4.00% (down from 4.37%) • Health inflation: 4.57% (slightly up from 4.38%) • Transport & communication: 2.12% (down from 3.90%) • Fuel & light: 2.67% (up slightly from 2.55%)

7. Consider the following statements regarding the Inflation Targeting Framework in India:
   1. It has been provided a statutory backup under the Reserve Bank of India Act, 1934.
   2. A medium-term inflation target with a tolerance band of 4% is provided under the framework.
   3. Under this framework, RBI is required to publish a monetary policy report once every six months.

   Which of the statements given above is/are correct?
   (a) 1 and 3 only
   (b) 2 only
   (c) 1 and 2 only
   (d) 1, 2 and 3 only

EXPLANATION:

Inflation targeting may be defined as a framework for policy decisions in which the central bank makes an explicit commitment to conduct monetary policy to achieve a publicly announced numerical inflation target within a specified time frame. Some countries adopt a fixed-point target, while others follow a more flexible approach by targeting inflation within a band. ➢ The Flexible Inflation Targeting (FIT) framework, signed by the Government and the RBI in 2015, received statutory backing in May 2016 through amendments to the RBI Act, 1934. ➢ India adopted a Flexible Inflation Targeting (FIT) framework in 2016, mandated by an amendment to the Reserve Bank of India (RBI) Act. ➢ As per Section 45ZA, the Government, in consultation with the RBI, is required to set an inflation target in terms of the Consumer Price Index (CPI) every five years. The target, first notified in August 2016 for 2016–2021, was retained in March 2021 until March 2026. Since the framework's inception, the medium-term target for the RBI has been 4 per cent in terms of the Consumer Price Index (CPI)-based inflation, within a band of 2-6 per cent (not 4 per cent). **So, Statement 1 is correct, and Statement 2 is not correct.**
Under the Inflation Targeting Framework (as per the amended RBI Act, 1934 – Section 45ZL), the RBI is required to publish a document called the Monetary Policy Report once every six months. This report explains the sources of inflation and provides a forecast for inflation over the next 6-18 months. The Monetary Policy Committee (MPC) is a six-member panel which sets the repo rate. According to the amended RBI Act, the MPC is required to meet at least four times in a year. The quorum for the

meeting of the MPC is four members. Each member of the MPC has one vote, and in the event of an equality of votes, the Governor has a second or casting vote. **So, Statement 3 is correct.**

ADDITIONAL INFORMATION:

MONETARY POLICY INSTRUMENTS	
About	There are numerous direct and indirect instruments used for executing monetary policy, which are as follows: ➢ **Repo Rate:** The fixed interest rate that the RBI provides to lend instant money to banks against the government security and other approved collaterals under the liquidity adjustment facility (LAF). ➢ **Reverse Repo Rate:** The fixed interest rate at which the RBI absorbs liquidity, on an instant basis, from banks against the security of eligible government securities under the LAF. ➢ **Liquidity Adjustment Facility (LAF)**: The LAF comprises overnight and term repo auctions. The objective of the term repo is to help develop the interbank term money market, which can set market-based standards for loan prices and deposits, and hence develop transmission of monetary policy. The RBI also offers variable interest rate reverse repo auctions, as imposed under the market conditions. ➢ **Marginal Standing Facility (MSF)**: A facility under which planned commercial banks can lend an extra amount of immediate cash from the RBI by dipping into their Statutory Liquidity Ratio (SLR) collection up to a limit at a penal rate of interest. This, in turn, provides a safety valve against unexpected liquidity shocks to the banking system. ➢ **Corridor:** The MSF rate and reverse repo rate regulate the corridor for the daily movement in the weighted average call money rate. ➢ **Bank Rate:** It's the rate at which the RBI is ready to purchase or rediscount invoices of exchange or other commercial papers. The bank rate is available under Section 49 of the Reserve Bank of India Act, 1934. The rate is associated with the MSF rate and changes automatically as the MSF rate changes, along with the policy repo rate. ➢ **Cash Reserve Ratio (CRR):** The average day-to-day balance a bank is required to sustain with the RBI as a share of such per cent of its net demand and time liabilities (NDTL) that the RBI may advise from time to time in the Gazette of India. ➢ **Statutory Liquidity Ratio (SLR):** The share of NDTL that a bank is required to retain in safe and liquid assets, such as tangential government securities, cash, and gold. Variations in SLR often affect the availability of resources in the banking system for lending to the private sector. ➢ **Open Market Operations (OMOs):** These include outright purchase and transaction of government securities, for the injection and absorption of durable liquidity, respectively. ➢ **Market Stabilisation Scheme (MSS):** This tool for monetary supervision was introduced in 2004. Excess liquidity of a more lasting nature arising from the inflow of large capital is absorbed via the sale of short-dated government collaterals and treasury bills. The cash received is held in a separate government account with the RBI.

8. Which of the following statements regarding the Reserve Bank of India (RBI) is/are correct?
   1. RBI was initially constituted as a shareholders' bank.
   2. RBI was nationalised after the commencement of the Constitution of India.
   3. RBI introduced the official fiat money in India after its nationalisation.

   Select the correct answer using the codes given below:

   (a) 1 only

   (b) 1 and 2 only

   (c) 3 only

   (d) 1, 2 and 3

EXPLANATION:

The Reserve Bank of India (RBI) is the central bank of the country. Central banks, as we know them today, are a relatively recent innovation, with most established around the early twentieth century.

The RBI was set up based on the recommendations of the Hilton Young Commission. Its functioning is governed by the Reserve Bank of India Act, 1934, and it officially commenced operations on April 1, 1935.

- Initially, the RBI also acted as the central bank for Burma until the Japanese occupation and later up to April 1947, even after Burma seceded from India in 1937. Following the partition of India, the RBI served as the central bank of Pakistan until June 1948, when the State Bank of Pakistan was established.

The RBI was originally set up as a shareholders' bank and was nationalised in 1949, before the commencement of the Constitution of India on January 26, 1950. **So, Statement 1 is correct, and Statement 2 is not correct.**

The Reserve Bank of India, in 1940, replaced the quaternary alloy rupee with the silver rupee. One Rupee note was reintroduced. This note had the status of a rupee coin and represented the introduction of official fiat money in India.

Therefore, the RBI introduced the official fiat money in India in 1940, well before its nationalisation in 1949. **So, Statement 3 is not correct.**

ADDITIONAL INFORMATION:

RESERVE BANK OF INDIA	
About	The Reserve Bank of India was constituted to: ➢ Regulate the issue of banknotes ➢ Maintain reserves with a view to securing monetary stability ➢ To operate the credit and currency system of the country to its advantage. The Bank began its operations by taking over from the Government the functions so far being performed by the Controller of Currency and from the Imperial Bank of India, the management of Government accounts and public debt.
Central Board	The Central Board of Directors is the main governing body of the Reserve Bank of India (RBI). Its structure and appointment process are defined under the RBI Act. The Government of India appoints/nominates members to the board for a term of four years. The board consists of both Official Directors and Non-Official Directors: **Official Directors** ➢ Governor (full-time head of RBI) ➢ Up to four Deputy Governors (full-time) **Non-Official Directors** ➢ Ten directors nominated by the Government from different fields (like economics, banking, finance, etc.) ➢ Two government officials nominated by the Government **Other Directors** ➢ Four directors, one each representing the four local boards of RBI (located in Mumbai, Kolkata, Chennai, and New Delhi).
Functions	**Monetary Authority:** ➢ Formulates, implements and monitors the monetary policy. ➢ Objective: maintaining price stability while keeping in mind the objective of growth. **Regulator and supervisor of the financial system:** ➢ Prescribes broad parameters of banking operations within which the country's banking and financial system functions. ➢ Objective: maintain public confidence in the system, protect depositors' interests and provide cost-effective banking services to the public. **Manager of Foreign Exchange** ➢ Manages the Foreign Exchange Management Act, 1999.

	➢ Objective: to facilitate external trade and payment and promote orderly development and maintenance of the foreign exchange market in India. **Issuer of currency:** ➢ Issues, exchanges and destroys currency notes as well as puts into circulation coins minted by the Government of India. ➢ Objective: to give the public an adequate quantity of supplies of currency notes and coins of good quality. **Related Functions** ➢ Banker to the Government: performs merchant banking functions for the central and state governments; also acts as their banker. ➢ Banker to banks: maintains banking accounts of all scheduled banks.

9. Consider the following statements regarding the Board for Regulation of Payment and Settlement Systems (BPSS) in India:
   1. Any entity intending to commence payment systems should obtain prior approval from BPSS.
   2. Foreign entities are prohibited from operating a payment system 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

EXPLANATION:

The Payment and Settlement Systems (PSS) Act, 2007, provides the legal framework for the regulation and supervision of payment systems in India, and designates the Reserve Bank of India (RBI) as the authority responsible for this. Under the Act, the RBI can form a committee of its Central Board called the Board for Regulation and Supervision of Payment and Settlement Systems (BPSS). The BPSS exercises the RBI's powers regarding the regulation and supervision of payment systems, including matters like netting and settlement finality. The Act also defines the composition, powers, functions, meetings, quorum, and sub-committees of the BPSS. **Key provisions:** Section 4: No person other than the RBI can operate or start a payment system in India without RBI authorization. Section 5: Any entity wishing to start a payment system must apply for authorization from the RBI. **So, Statement 1 is correct.**
The PSS Act 2007 does not prohibit foreign entities from operating a payment system in India, and the Act does not discriminate/differentiate between foreign entities and domestic entities. All entities, irrespective of domestic or foreign, need to obtain a license/approval/authorisation from the Reserve Bank before commencing payment system operations in the country. The PSS Act indicates that "No person can operate a payment system except under and in accordance with an authorisation issued by the Reserve Bank". **So, Statement 2 is not correct.**

10. Recently, El Salvador has authorised Bitcoin as a legal tender. In this context, consider the following:
    1. Metallic Money
    2. Paper Money
    3. Electronic payments
    4. Plastic Money

    How many of the above-mentioned are recognised as legal tenders in India?
    (a) Only one
    (b) Only two
    (c) Only three
    (d) All four

EXPLANATION:

Recently, El Salvador passed a law helping Bitcoin qualify as a legal tender in the country.

Legal tender is money that is valid for the payment of debts and is recognised by the law of the land. It must be accepted for discharging debts.

According to the Reserve Bank of India, A legal tender is a coin or a banknote that is legally tenderable for the discharge of debt or obligation.

- The Government of India issues coins under Section 6 of The Coinage Act, 2011, which are considered legal tender for making payments or settling accounts, provided that the coins are undamaged and meet the prescribed weight requirements. So, metallic money (coins) is legal tender in India.
- In terms of Section 26 of the Reserve Bank of India (RBI) Act, 1934, every ₹ bank note shall be legal tender at any place in India in payment or on account for the amount expressed therein and is guaranteed by the Central Government. e₹, being a digital form of the ₹ bank note, is legal tender and is the liability of the Reserve Bank of India. So, Paper money (bank note) is legal tender in India.
- Electronic orders generally refer to instructions to transfer money electronically between accounts, such as through systems like NEFT (National Electronic Funds Transfer), RTGS (Real Time Gross Settlement), or UPI (Unified Payments Interface).
  These electronic payment systems are popular for instant money transfers but are not legal tender themselves; they are simply platforms that facilitate transactions between bank accounts. Therefore, electronic orders are not recognised as legal tender in India.
- Plastic money is a technological invention that enables transactions without physical cash expenditure. It can be defined as the currency stored in plastic cards, such as debit and credit cards, facilitating transactions without cash and encouraging online payments. Plastic money is not legal tender in India.

Hence, in India, only metallic coins and paper currency are recognised as legal tender. **So, Option (b) is correct.**

11. In an economy, the overall money supply is Rs . 5,00,000 Crore, and the value of the high-powered money is Rs. 1,00,000 Crore. Determine the value of the money multiplier.
    Select the correct answer using the codes given below:
    (a) 0.2
    (b) 5
    (c) 4
    (d) 2.5

EXPLANATION:

Money Multiplier is the ratio of Broad Money (M3) to Reserve Money (M0). It shows how much the total money supply in the economy expands for every unit of high-powered money (also called reserve money or base money) issued by the central bank.

- This happens because banks do not keep all the money deposited with them. They keep only a fraction as reserves (to meet withdrawal needs) and lend out the rest. The money lent is again deposited in banks, which is partly lent out again, and the cycle continues. This process of credit creation by banks makes the total money supply much larger than the original base money.
- The Money Multiplier is a concept that shows how an initial amount of high-powered money (M0) supplied by the central bank can lead to a multiple increase in the total money supply (M3) in the economy.

Money Multiplier (MM) = M3 / M0

- High-powered money (M0), also known as the monetary base or base money, refers to the total amount of money issued by a central bank in an economy

➢ M0 (Reserve Money / Monetary Base): Currency in circulation + bankers' deposits with RBI + other deposits with RBI. ➢ M3 (Broad Money): M1 (currency with Public + demand deposits + other deposits) + time deposits of banks. The money multiplier tells us how ₹1 of base money (issued by the RBI) supports a larger amount of total money supply through the credit creation process of banks. Example: If Broad Money (M3) = ₹5,00,000 crore and Reserve Money (M0) = ₹1,00,000 crore, then Money multiplier (MM) = Overall Money supply (M) / High-powered money (H) = 5,00,000/1,00,000 = 5. **So, Option (b) is correct.**

ADDITIONAL INFORMATION:

MONETARY AGGREGATE	
Monetary Aggregate	The new monetary aggregates are of four types. They are: ➢ Reserve money or Base money (M) ➢ Narrow money (M1) ➢ Intermediate money (M2) and ➢ Broad money (M3)
Reserve money	The financial assets in the M0 category are called reserve money because these are held in reserve either by the Public and banks (Currency in Circulation) or by the RBI (Bankers' Deposits with the RBI + Other Deposits with the RBI), and these are not available for the lending purposes of banks. M0 = Currency in Circulation + Bankers' Deposits with the RBI + Other Deposits with the RBI
Narrow money	The financial assets included in the category of M, are fewer than those included in the category of M1. That means it defines money in a narrower sense. So, it is called Narrow Money. M1 Currency with the Public + Demand Deposits with the Banking System + Other Deposits with the RBI.
Intermediate money	It is called intermediate money for the reason that financial assets included in this category are more than those contained in M1, but less than those included in M3. M2 = M1 + Time Liabilities portion of savings, Deposits with the Banking system + Certificates of Deposit issued by Banks + Term Deposits (excluding Foreign Currency Non-Resident (Bank) (FCNR (B)) Deposits) up to one year maturity with the Banking system.
Broad money	The financial assets included in the category of M3, are more than those included in the category of M2. That means, it defines money in a wider sense. So, it is called Broad Money. M3 = M2 +Term Deposits (excluding FCNR (B) Deposits) over one year maturity with the Banking system + Call borrowings from "Non-Depository Financial Corporations by the banking system.

12. Which of the following measures can lead to a decline in aggregate demand in an economy?
   1. Increased repo rate
   2. Carrying out open market operations
   3. Reducing the Cash Reserve Ratio
   4. Executing the selective credit rationing method

   Select the correct answer using the codes given below:

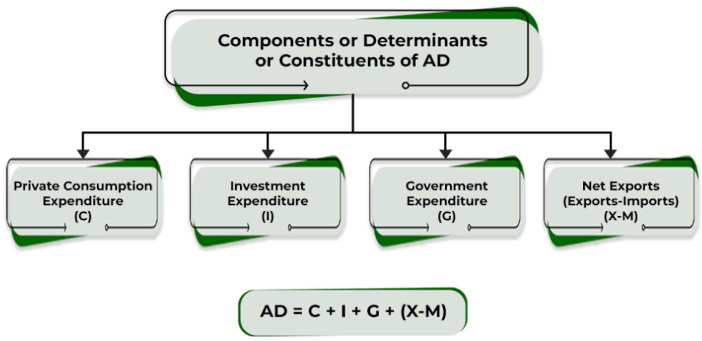
   (a) 2 and 4 only
   (b) 1 and 3 only
   (c) 1, 2 and 4 only
   (d) 1, 2, 3 and 4

EXPLANATION:

Aggregate demand (AD) refers to the total demand for goods and services in an economy within a given period of time. It reflects the spending behaviour of consumers, businesses, and the Government, and is influenced by several monetary policy tools. One such tool is the repo rate, which is the rate at which the Reserve Bank of India (RBI) lends short-term funds to commercial banks against government securities. It plays a critical role in regulating money supply, controlling inflation, and maintaining economic stability. ➢ When the RBI increases the repo rate, borrowing becomes more expensive for commercial banks. This results in higher lending rates for businesses and households, reducing their capacity and willingness to borrow and spend. Consequently, aggregate demand in the economy declines. ➢ Conversely, when the repo rate is reduced, borrowing becomes cheaper, encouraging higher spending and investment. This stimulates aggregate demand, thereby supporting economic growth during periods of slowdown. **So, Statement 1 is correct.**
Purchase and sale of securities in the open market by the central bank or the monetary authority is popularly known as Open Market Operations (OMO). It is an essential tool of economic policy used to regulate liquidity in the economy. ➢ When the central bank sells government securities, it absorbs money from the banking system, reducing the availability of funds for lending. This contraction in liquidity makes borrowing more expensive, leading to a decline in investment and consumption, thereby reducing aggregate demand. ➢ On the other hand, when the central bank purchases government securities, it injects liquidity into the economy. This increases the availability of funds with banks, lowers borrowing costs, and encourages higher investment and spending, thereby raising aggregate demand. Thus, carrying out open market operations leads to both an increase and a decline in aggregate demand in an economy. **So, Statement 2 is correct.**
Cash Reserve Ratio (CRR) is the minimum fraction of a commercial bank’s total deposits that it is required to keep as reserves with the central bank, as per the guidelines of the central bank. CRR is an important monetary policy tool used to control liquidity in the economy and maintain financial stability. ➢ When the central bank increases CRR, commercial banks are required to keep a larger portion of their deposits as reserves, leaving them with less money available for lending. This contraction in credit reduces borrowing by businesses and consumers, leading to a slowdown in investment, consumption, and overall economic activity, thereby lowering aggregate demand. ➢ Conversely, reducing CRR releases additional funds for banks to lend, making credit more accessible and affordable. This encourages businesses to invest in expansion and consumers to spend more, boosting overall demand for goods and services in the economy and stimulating aggregate demand. Thus, reducing CRR increases the aggregate Demand (AD), but it does not decrease it. **So, Statement 3 is not correct.** In India, the RBI has the power to impose statutorily a 'cash reserve ratio' (CRR) on banks anywhere between 3-15 per cent of the net demand and time liabilities.
Selective credit rationing is a monetary policy tool used by the central bank to regulate the allocation of credit in the economy. It channels lending to priority sectors, such as agriculture and small-scale industries, while restricting credit to less productive or speculative sectors. By limiting credit availability, businesses in restricted sectors delay investment, and consumers borrow less for items like cars, homes, or durable goods. This reduces overall consumption and investment, leading to a decline in aggregate demand. In India, the RBI controls the supply of credit and money through various policy measures, including the bank rate, cash reserve ratio (CRR), statutory liquidity ratio (SLR), and open market operations (OMO). Other qualitative instruments adopted by the RBI include credit rationing, selective credit control, liquidity adjustment facility, and moral suasion, which help guide the flow of credit in the economy according to national priorities. **So, Statement 4 is correct.** RBI controls supply of credit money through various policy measures like (i) bank rate, (ii) cash reserve ratio (CRR), (iii) statutory liquidity ratio (SLR), (iv) open market operations, etc. Some of the other measures (Qualitative Instruments) adopted by the RBI are credit rationing, selective credit control, liquidity adjustment facility and moral suasion.

➢ Credit Rationing: To restrict credit to certain sectors, the central Bank may ration credit by putting certain limit on the amount the Bank can lend to particular sector or section of society. Thus, the purchasing power is reduced it will lead to a decline in aggregate demand in an economy. **So, Statement 4 is correct.**

ADDITIONAL INFORMATION:

<table>
<tr><th colspan="2">MAJOR COMPONENTS OF AGGREGATE DEMAND</th></tr>
<tr><td>About</td><td>
The word “aggregate” means total. The aggregate demand (AD) is the total demand in an economy.
➢ It represents the total demand for all finished goods and services over a certain period and is closely related to a country’s GDP.
➢ Aggregate demand is also called aggregate expenditure (AE), which is the total spending by households, businesses, the Government, and for net exports. AD increases when spending by these sectors rises.
➢ The Aggregate Demand of an economy is typically a sum of four components, Government Expenditure (G), Consumption Expenditure (C), Investment Expenditure (I), and Net Export (X – M).


➢ Consumer Spending: The demand by individuals and households within the economy.
➢ Investment Spending: Business investment to support current output and increase production capability. It may include spending on new capital assets such as equipment, facilities, and raw materials.
➢ Government Spending: The demand of government entities, such as infrastructure spending and public goods. This does not include services such as Medicare or Social Security, because these programs simply transfer demand from one group to another.
➢ Net Exports: The demand for foreign goods, as well as the foreign demand for domestic goods. It is calculated by subtracting the total value of a country's exports from the total value of all imports.
</td></tr>
</table>

13. Which of the following best describes “Currency Demand Paradox”?
   (a) Increase in the supply of currency exceeding the demand in the economy.
   (b) The demand for the currency remains stable despite the inflationary effect.
   (c) Increase in demand for cash despite increased digital payment transactions.
   (d) Decrease in demand for cash due to increased digital payment transactions.

EXPLANATION:

According to the RBI, the simultaneous growth of both cash and digital payments is widely referred to as a "currency demand" paradox. Since cash and digital modes are generally expected to substitute each other, the simultaneous rise in both seems counterintuitive. Between 2016-17 and 2021-22, digital payments in India through UPI grew very quickly. ➢ The number of transactions increased at an average rate of 50% per year, while the value of these payments rose by 27% per year. ➢ Despite this rapid shift toward digital modes, people continued to rely heavily on cash.

- The share of currency in circulation compared to the country's GDP went up from about 8.7% in 2016-17 to 10.7% in 2017-18, 12% in 2019-20, and reached a peak of 14.4% in 2020-21 before easing slightly to 13.3% in 2021-22.
- Therefore, in India, digital payments became more popular, but cash in the economy also kept growing at the same time, which is considered the Currency Paradox. **So, Option (c) is correct.**

ADDITIONAL INFORMATION:

CURRENCY PARADOX	
About	➢ The European Central Bank, in a 2021 report, highlighted what it termed the "paradox of banknotes." ➢ This refers to the observation that, despite the growing digitisation of retail payments and the declining use of cash for everyday transactions, the demand for physical currency has not diminished. On the contrary, the circulation of euro banknotes has been consistently increasing since 2007. ➢ The report emphasises that while consumers are relying more on digital modes of payment in shops and online platforms, many still prefer to hold cash as a secure store of value, for precautionary savings, or for use in times of uncertainty. ➢ This suggests that cash continues to play a vital role in the financial system, even if its use in direct retail spending has reduced.
Reasons for Currency Paradox	In its Annual Report, the RBI attributes the currency paradox to four reasons: ➢ The persistent affinity for cash has been attributed to factors such as the decline in opportunity costs of holding currency, i.e., interest rates. ➢ Precautionary holdings amid uncertainty; ➢ Presence of a large informal economy; and ➢ Direct benefit transfers by the Government, promoting both cash and digital modes, as routing of benefits digitally tends to be followed by cash withdrawals.

14. Which of the following best describes "White Label ATM"?
   (a) An ATM that exclusively serves customers of a particular bank.
   (b) An ATM that provides services to the customer only for transactions above a particular value.
   (c) An ATM owned and operated by a non-banking entity but available for use by customers of all banks.
   (d) An ATM owned and operated by a foreign bank in which services are restricted to the specific bank account holders.

EXPLANATION:

An Automated Teller Machine (ATM) is a computerised machine that provides customers of banks the facility of accessing their accounts for dispensing cash and to carry out other financial & non-financial transactions without the need to visit the bank branch.
ATMs that are set up, owned and operated by non-banks are called White Label ATM's (WLAs). WLAs were introduced by the Reserve Bank of India (RBI) under the Payment and Settlement Systems Act 2007 to enhance financial inclusion and expand ATM networks in rural and semi-urban areas. These ATMs are managed and operated by non-banking entities, offering a unique solution to the challenges faced in these regions.
Unlike traditional bank-operated ATMs, WLAs enable customers to perform banking transactions, such as cash deposits, withdrawals, and bill payments, regardless of which Bank they hold an account with. WLAs provide essential banking services but typically charge a minor fee for card issuance and transaction facilities. **So, Option (c) is correct.**

ADDITIONAL INFORMATION:

TYPES OF ATM LABEL	
Recently in news	RBI grants white-label ATM licence to Mumbai-based EPS
Yellow Label ATMs	ATMs are tailored to support online shopping and e-commerce-related financial transactions. **Features:** ➢ Allows payment for online purchases. ➢ Facilitates management of other e-commerce financial needs. ➢ Supports integration with digital payment platforms. **Uses:** Convenient for customers who shop online and need a seamless way to handle e-commerce payments.
Green Label ATMs	ATMs that are designed to cater to the financial needs of the agricultural sector. **Features:** ➢ Supports transactions related to agricultural subsidies and farming. ➢ Enables withdrawals from accounts linked to agricultural benefits. ➢ Provides a user-friendly interface for rural users. **Uses:** Beneficial for farmers and agricultural workers seeking easy access to funds and government subsidies.
Pink Label ATMs	ATMs that are designed to prioritise the safety and convenience of women. **Features:** ➢ Located in secure areas with enhanced safety measures. ➢ Tailored to encourage independent banking by women. ➢ User-friendly interface for a smooth experience. **Uses:** Encourages women to engage in banking services independently, especially in areas with security concerns. They are monitored by security personnel to ensure safety
Brown Label ATMs	Brown Label ATMs are operated where the ATM hardware and lease are owned by a third-party service provider, but cash management and connectivity to banking networks are provided by a sponsor bank. **Ownership and Operation:** The service provider owns the ATM machine, arranges for its placement, and manages the infrastructure. The sponsor bank provides the cash and network connectivity. **Features:** ➢ Banks manage branding and cash. ➢ Service providers handle installation, maintenance, and technical support. ➢ Expands ATM networks without logistical strain on banks. **Uses:** Efficient for banks looking to expand their ATM presence cost-effectively.

15. Consider the following pairs:

	Type of Deficit	Description
1.	Fiscal deficit	It is a measure that suggests the total borrowing requirements of the government.
2.	Revenue deficit	It indicates the excess of government revenue expenditure over revenue receipts.
3.	Primary deficit	It highlights the present fiscal imbalances and is measured as fiscal deficit minus the interest liabilities.

How many of the above pairs is/are correctly matched?

(a) Only one

(b) Only two

(c) All three

(d) None

EXPLANATION:

In simple terms, a deficit occurs when a government spends more money than it collects through various sources of revenue, such as taxes. A high deficit can indicate an unstable economic situation and signal potential financial challenges for a country.

- **Fiscal Deficit:** It occurs when a government's total expenditures exceed its total revenue (excluding borrowings) during a fiscal year. In simpler terms, it represents the total borrowing requirements of the Government to bridge the gap between its expenses and revenues. A high Fiscal Deficit often stems from excessive or unnecessary government spending.
- **Formula:** Fiscal deficit = Total Expenditure - (Total Revenue Receipts + Recovery of Loans + Other Receipts). **So, Pair 1 is correct.**

- **Revenue Deficit:** It occurs when the Government's total revenue expenditure exceeds its total revenue receipts. It reflects a shortfall in regular operational revenue to meet day-to-day expenses.
  - Revenue receipts consist of tax revenues, non-tax revenues, the State's share of Union taxes and duties and grants-in-aid from the Government of India.
  - A high Revenue Deficit indicates that the Government is spending beyond its means for routine operations, potentially requiring borrowing or asset sales. This can lead to Inflation and increase the country's debt burden.
- **Formula:** Revenue Deficit = Total Revenue Expenditure - Total Revenue Receipts. **So, Pair 2 is correct.**

- **Primary deficit**: It refers to the Fiscal Deficit (fiscal imbalances) of the current year, excluding interest payments on previous borrowings. It highlights the Government's borrowing needs without accounting for past interest liabilities.
  - Monitoring the primary deficit is crucial for assessing a government's ability to meet its financial obligations and manage its budget effectively. A sustained primary deficit over time can indicate fiscal imbalance and may lead to increased borrowing, higher debt levels, and potential economic instability.
- **Formula**: Gross primary deficit = Gross fiscal deficit – Net interest liabilities

(Net interest liabilities consist of interest payments minus interest receipts by the Government on net domestic lending). **So, Pair 3 is correct**

16. Which of the following is the common characteristic of Wholesale Central Bank Digital Currency and Retail Central Bank Digital Currency?
    1. It can be used for person-to-person Payments.
    2. It has no denomination.
    3. It is an account-based CBDC.

    Select the correct answer using the codes given below:
    (a) 1 only
    (b) 2 only
    (c) 3 only
    (d) None

EXPLANATION:

Central Bank Digital Currencies (CBDCs) are digital versions of a country's official currency, issued and regulated by the central bank. Their value is fixed by the Government, making them stable and government-backed forms of money.

For example - Digital Rupee (e₹) issued by the Reserve Bank of India (RBI) is India's Central Bank Digital Currency (CBDC), representing the digital form of the physical Indian Rupee (₹).

There are two types of CBDC in India:

- **Wholesale CBDC (e₹-W):** Designed for financial institutions and intermediaries, e₹-W is used for interbank settlements and large-value transactions. It operates within a restricted ecosystem and leverages technologies like smart contracts to improve the efficiency, speed, and security of the wholesale payment system.
- **Retail CBDC (e₹-R):** Intended for the general public, retail CBDC can be used for everyday transactions. It enhances accessibility, financial inclusion, and convenience, allowing individuals and businesses to use digital currency in place of physical cash. **So, Statement 1 is not correct.**

CBDCs are a form of digital money, denominated in the national unit of account, which is a direct liability of the central bank. CBDCs can be designed for use either among financial intermediaries only (ie wholesale CBDCs), or by the broader economy (ie retail CBDCs). **So, Statement 2 is not correct.**

CBDC can be structured as 'token-based' or 'account-based'. A token-based CBDC is a bearer instrument like banknotes, meaning whoever holds the tokens at a given point in time would be presumed to own them.

In contrast, an account-based system would require maintenance of a record of balances and transactions of all holders of the CBDC and indicate the ownership of the monetary balances.

Considering the features offered by both forms of CBDCs, a token-based CBDC is viewed as a preferred mode for CBDC-R as it would be closer to physical cash, while an account-based CBDC may be considered for CBDC-W. **So, Statement 3 is not correct.**

ADDITIONAL INFORMATION:

CENTRAL BANK DIGITAL CURRENCY (CBDC)	
Recently in the news Cash, but Digital ! **Official logo of India's CBDC**	The value of India's Central Bank Digital Currency (CBDC), or e-Rupee, rose sharply from ₹234 crore in March 2024 to ₹1,016 crore by March 2025, according to the Reserve Bank of India (RBI). The RBI also stated in its annual report that it is exploring pilot projects for using CBDC in cross-border payments, though no timeline has been announced yet. ➢ Reserve Bank of India broadly defines CBDC (Digital Rupee (e₹)) as the legal tender issued by a central bank in a digital form. ➢ It is akin to sovereign paper currency but takes a different form, exchangeable at par with the existing currency and shall be accepted as a medium of payment, legal tender and a safe store of value.

Growth of India's CBDC	➢ India's Central Bank Digital Currency (CBDC), or e-Rupee, was first introduced in November 2022, starting with a wholesale pilot and later followed by a retail pilot. ➢ One of its main goals is to simplify cross-border payments and address challenges posed by non-fiat digital currencies like Bitcoin. ➢ The Reserve Bank of India (RBI) is also considering participation in multilateral CBDC initiatives, especially under the Bank for International Settlements (BIS) Innovation Hub. ➢ The RBI aims to expand the scope of ongoing pilots—both retail (e₹-R) and wholesale (e₹-W)—by introducing new use cases, features, and technological improvements, including enhancements to the account aggregator framework for better transparency, convenience, and efficiency. ➢ As of March 2025, the total e-Rupee in circulation reached ₹1,016 crore, with the majority (₹857 crore) in ₹500 notes, followed by ₹200 (₹91 crore) and ₹100 (₹38 crore) denominations. ➢ The retail pilot has expanded from initial person-to-person (P2P) and person-to-merchant (P2M) use cases to include offline transactions and programmable features. ➢ To boost adoption, certain non-bank entities have also been allowed to offer CBDC wallets. ➢ The wholesale CBDC pilot has been expanded and diversified, with the addition of four standalone primary dealers (SPDs), improving the efficiency and reach of large-value and interbank transactions.

Parameters	**UPI**	**CBDC**
Form of payment	➢ UPI is a real-time payment system that transfers money from one account to another instantly. ➢ It is not a digital rupee, but a facilitator of transactions.	➢ CBDC or e-Rupee is akin to sovereign paper currency. ➢ A wallet is loaded with e-Rupee, which can then be transferred to another wallet.
Dependency	➢ UPI transactions happen between bank accounts, and hence they are dependent on banks, the National Payments Corporation of India (NPCI) and payment service providers (PSPs). ➢ When a payer makes a UPI payment to a payee, the transaction flow involves the NPCI, payer bank, payee bank, payer PSP and payee PSP.	➢ A CBDC wallet is independent of the bank account, and transactions can happen using the wallet balance. ➢ When a payer CBDC wallet scans or adds details of the payee CBDC wallet, the money is sent from one wallet to another, like cash balances, without any involvement of third parties.
Settlement	➢ Settlement for end users happens instantly as the money gets immediately debited or credited. However, interbank settlement occurs on a deferred net basis.	➢ There is no settlement as the wallet balance gets transferred to another wallet.
Anonymity	➢ UPI transactions are recorded by banks and reflected in the statement. ➢ When a payer makes a transaction through UPI, the money gets debited from the payer's bank account and credited to the payee. This gets reflected in both bank statements and the bank's ledger, making it non-anonymous.	➢ Anonymity is a key feature of the CBDC. No data is captured on transactions from one wallet to another. ➢ During CBDC wallet transactions, there is no dependency or intermediation by the bank. This implies that the transaction will not be recorded in the statements, making it anonymous. This is true for all transactions lower than INR 50,000.
Liability	➢ The liability lies with the users and the bank accounts.	➢ The liability lies with the central bank, i.e. the RBI.

17. Consider the following statements:

Statement-I: A Positive value of Net International Investment Position (NIIP) reveals that a country is a creditor nation.

Statement-II: The NIIP measures the gap between a nation's stock of foreign assets and a foreigner's stock of that nation's assets.

Which one of the following is correct with respect to the above statements?

(a) Both Statement-I and Statement-II are correct and Statement-II is the correct explanation for Statement-I

(b) Both Statement-I and Statement-II are correct and Statement-II is not the correct explanation for Statement-I

(c) Statement-I is correct but Statement-II is incorrect

(d) Statement-I is incorrect but Statement-II is correct

EXPLANATION:

A Net international investment position (NIIP) measures the gap between a nation's stock of foreign assets and a foreigner's stock of that nation's assets.

- It can be viewed as a nation's balance sheet with the rest of the world at a specific point in time.
- NIIP is an important barometer of a nation's financial condition and creditworthiness.
- A nation with a positive NIIP figure indicates that the domestic nation's ownership of foreign assets is greater than the foreign nation's ownership of that domestic nation's assets, thus making it a creditor nation.
- NIIP includes overseas assets and liabilities held by a nation's Government, the private sector, and its citizens. The NIIP is analogous to net foreign assets (NFA), which determines whether a country is a creditor or debtor nation by measuring the difference in its external assets and liabilities.

So, both Statement I and Statement II are correct, and Statement II is the correct explanation for Statement I.

ADDITIONAL INFORMATION:

NET INTERNATIONAL INVESTMENT POSITION (NIIP)	
Recently in the News	NIIP is in the news amidst the Global tariff war, mentioning the US has the largest negative net international investment position (NIIP), financed by global capital. As this rebalances, the dollar may weaken.
About	➢ In the NIIP, assets are divided into direct investment, portfolio investment, other investment, and reserve assets, which include foreign currencies, gold, and special drawing rights. ➢ A negative NIIP figure indicates that foreign nations own more of the domestic nation's assets than the domestic nation does of foreign assets, thus making it a debtor nation. ➢ India's Net International Investment Position (NIIP) is Negative with -348.501 USD bn in Sep 2024.

18. Consider the following foreign reserves:
    1. Foreign currency assets
    2. Gold
    3. Special Drawing Rights
    4. Reserve position in the International Monetary Fund

Arrange the above given foreign reserves of India in the increasing order of their value using the codes given below:

(a) 1 - 2 - 3 - 4

(b) 2 - 1 - 4 - 3

(c) 2 - 1 - 3 - 4

(d) 4 - 3 - 2 - 1

EXPLANATION:

Foreign exchange reserves are assets denominated in a foreign currency held by a central bank. These reserves are used to back liabilities and influence monetary policy.

As per the Reserve Bank of India,

- Foreign currency assets (FCAs) — the largest component of the reserves — declined by $864 million to **$586.15 billion**. Foreign currency assets are maintained in major currencies like the US dollar, euro, pound sterling, Australian dollar and Japanese yen. Foreign exchange reserves are denominated and expressed in the US dollar only. Both the US dollar and euro are intervention currencies.
- Gold reserves were up by $360 million, standing at **$92.78 billion**.
- Special Drawing Rights (SDRs) were up by $105 million to reach **$18.88 billion**. SDRs are international foreign exchange reserve assets. Allocated to nations by the International Monetary Fund (IMF), an SDR represents a claim to foreign currencies for which it may be exchanged in times of need. Although denominated in US dollars, the nominal value of an SDR is derived from a basket of currencies; in this case, a fixed amount of Japanese Yen, US Dollars, British Pounds and Euros. SDRs are the IMF's unit of account and are denoted with the ISO 4217 currency code XDR.
- India's Reserve Tranche Position (RTP) with the International Monetary Fund (IMF) was up by $2 million at **$4.76 billion**. The primary means of financing the IMF is through members' quotas. Each member of the IMF is assigned a quota, part of which is payable in SDRs or specified usable currencies ("reserve assets"), and part in the member's own currency. The difference between a member's quota and the IMF's holdings of its currency is a country's Reserve Tranche Position (RTP).

Therefore, Foreign reserves of India, arranged in increasing order of their value, are as follows: 4 → 3 → 2 → 1. **So, Option (d) is correct.**

ADDITIONAL INFORMATION:

FOREIGN EXCHANGE RESERVES	
About	➢ Foreign exchange reserves can include banknotes, deposits, bonds, treasury bills, and other government securities. They mainly serve as backup funds for a central government if its currency loses value or becomes insolvent. ➢ The reserves of most countries are in US dollars, and China holds the largest amount of foreign currency reserves globally. ➢ Reserves are crucial for stabilising a national currency and supporting monetary policy during economic uncertainties. ➢ India's gross foreign exchange reserves comprise foreign currency assets of the Reserve Bank, Gold held by RBI and Special Drawing Rights (SDRs) of the Government of India. India's Reserve Position in the International Monetary Fund is not included as part of foreign exchange reserves, as they may not be available on immediate demand, although some countries do include these balances as part of their reserves.
Importance	➢ **Currency Stability:** They help maintain the value of a country's currency by managing fluctuations in exchange rates. ➢ **Smooth International Trade:** Reserves ensure that a country can pay for essential imports like oil, food, and machinery, even during economic downturns. ➢ **Crisis Management:** In times of global financial crises or sudden economic shocks, reserves act as a safety net to support the economy. ➢ **Boosts Investor Confidence:** A high level of reserves reassures foreign investors that the country is financially stable and can handle uncertainties.

	➢ **Supports Debt Repayments:** Countries with reserves can easily repay international loans, avoiding defaults. ➢ **Emergency Funding:** They provide quick access to funds during national emergencies, reducing the need to borrow externally.

19. Consider the following statements:
    1. The merchandise trade deficit of India has been consistently increasing for the past 5 years.
    2. The merchandise imports of India have been consistently increasing for the past 5 years.

    Which of the statements given above is/are ***not*** correct?

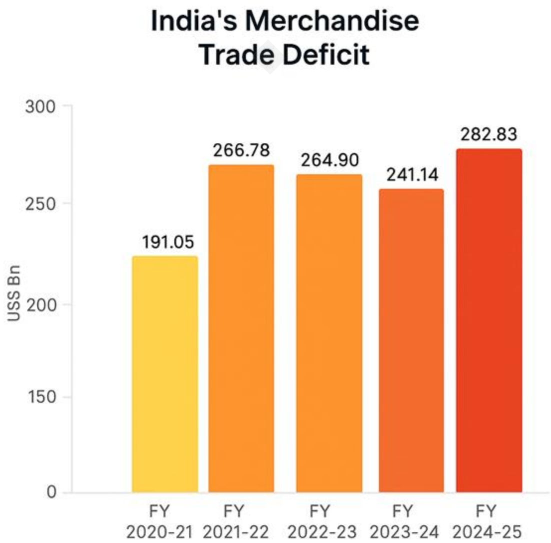
    (a) 1 only
    (b) 2 only
    (c) Both 1 and 2
    (d) Neither 1 nor 2

EXPLANATION:

A trade deficit occurs when a country's imports exceed its exports. A trade deficit is also referred to as a negative balance of trade (BOT). The balance can be calculated on different categories of transactions: goods (also known as "merchandise"), services, goods and services. Balances are also calculated for international transactions—current Account, capital account, and financial Account.

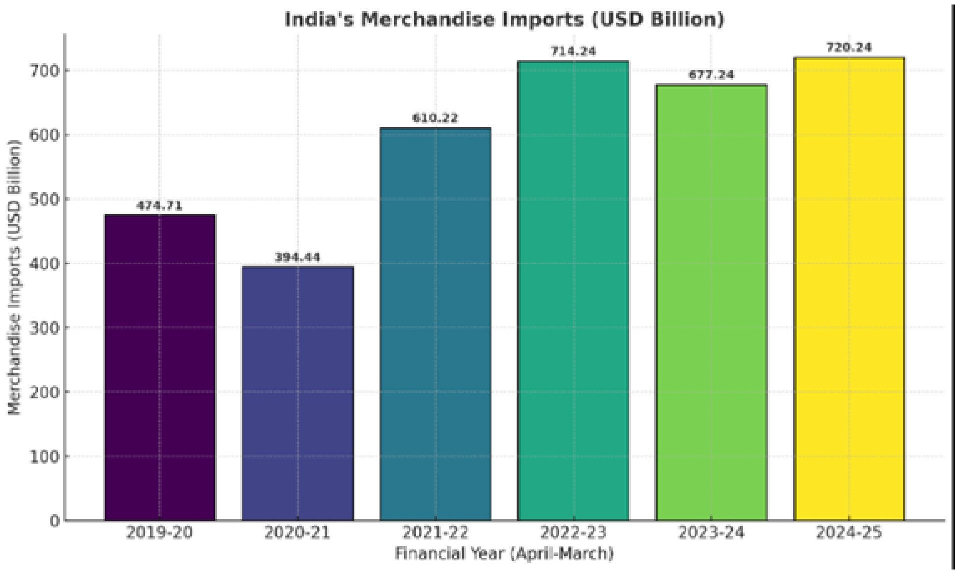
- India's merchandise trade deficit during FY 2024-25 (April–March) stood at US$282.83 billion, compared to US$241.14 billion in FY 2023-24 (April–March).
- In FY 2023-24, the merchandise trade deficit was estimated at US$240.17 billion as against US$264.90 billion in FY 2022-23 (April–March).
- For FY 2022-23, the deficit was estimated at US$266.78 billion, up from US$191.05 billion during FY 2021-22 (April–March).
- Meanwhile, India's merchandise imports in April 2021–March 2022 amounted to US$610.22 billion, reflecting an increase of 54.71% over US$394.44 billion in April 2020–March 2021 and a rise of 28.55% over US$474.71 billion in April 2019–March 2020.
- India's merchandise trade consists of the export of goods such as petroleum products, gems & jewellery, textiles, engineering goods, agricultural products, and pharmaceuticals, while imports include crude oil, gold, electronic goods, machinery, and chemicals.

Therefore, the Merchandise Trade Deficit of India has not been consistently increasing for the past 5 years. **So, Statement 1 is not correct.**



➢ India's merchandise imports during FY 2024–25 (April–March) stood at USD 720.24 billion, increasing from USD 678.21 billion recorded in FY 2023–24.
➢ In FY 2023–24, imports were USD 677.24 billion as against USD 715.97 billion in FY 2022–23, reflecting a decline from the previous year.
➢ In FY 2022–23, imports rose to USD 714.24 billion compared to USD 613.05 billion in FY 2021–22.
➢ During FY 2021–22, India's merchandise imports were USD 610.22 billion, registering a 54.71% increase over USD 394.44 billion in FY 2020–21 and a 28.55% increase over USD 474.71 billion in FY 2019–20.

Therefore, India's merchandise imports have not shown a consistent increase over the past five years. **So, Statement 2 is not correct.**



20. Which of the following can reduce the current account deficit of a country in the Balance of Payments?
    1. Reduced remittances from abroad
    2. Increased Foreign Direct Investment
    3. Increased tourism services

    Select the correct answer using the codes given below:
    (a) 1 only
    (b) 1 and 2 only
    (c) 3 only
    (d) 2 and 3 only

EXPLANATION:

A country's current account is its record of the flow of money into and out of the country in the form of imports and exports, investment earnings, and foreign aid. The level of a country's current account surplus or deficit has an impact on its employment levels, economic stability, and more.

A Current Account Deficit (CAD) occurs when the total value of money flowing out (from imports, payments, etc.) is greater than the total value of money flowing in (from exports, earnings, etc.). Conversely, a current account surplus means the country is earning more than it's spending internationally.

India manages its Current Account Deficit through a mix of monetary, trade, and structural measures designed to keep the Rupee stable and external finances resilient. The Reserve Bank of India (RBI) remains central to this strategy, intervening in currency markets when needed and maintaining over $650 billion in forex reserves as a cushion against global volatility.

On the Government's side, policies target both imports and exports to reduce the Current account deficit, including: ➢ **Import curbs**: Duties or restrictions on non-essential goods like gold and electronics are often introduced during high-deficit periods. ➢ **Export promotion**: Incentives and schemes supporting IT, manufacturing, and high-value sectors help improve the trade balance. Alongside, export promotion schemes such as Production-linked incentive (PLI) schemes aim to reduce import dependence. ➢ **Bilateral trade agreements**: Diversifying export markets reduces reliance on a few trading partners. ➢ **Remittances**: Policies encouraging inflows from non-resident Indians (NRIs) provide a steady stream of foreign exchange. Schemes such as NRI deposit schemes (Bank Account) encourage remittance that provide attractive interest rates, repatriation benefits, and tax advantages. In FY 2024-25, inward remittances (private transfers by overseas Indians) hit US$135.46 billion, a record high, up ~14% over the previous year. **So, Statement 1 is not correct.** ➢ **Foreign direct investment (FDI):** FDI is a stable source of foreign capital that can help to finance the captial account deficit. **So, Statement 2 is not correct.** ➢ **Tourism:** Foreign exchange earnings through tourism were 28 billion USD in FY2023. Tourism contributes to reducing the current account deficit. **So, Statement 3 is correct**.

ADDITIONAL INFORMATION:

BALANCE OF PAYMENTS	
About	The Balance of Payments (BoP) for a country can be defined as a systematic record of all the transactions between the economic units of one country (such as households, firms and the Government) and the rest of the world in any given period of time. This includes all the transaction records made among the individuals, corporates and the Government and helps in keeping the flow of funds on track, to develop the economy as a whole.
Components	➢ **Current Account -** The current Account in the BoP comprises the transactions in goods and services, alongside transfers during the current time period. ➢ Current account = (value of exports – value of imports) + net transfers from abroad = net exports + net transfers from abroad… ➢ **Capital Account -** The capital account records all transactions in assets. • An asset may include any one of the types in which wealth can be held, for instance, stocks, bonds, government debt, etc. Purchase of an asset records a deduction in the capital account. • If an Indian is purchasing a US Car company, then it is recorded as a debit in the capital account of India (as the Indian has to pay in dollars, which means that the foreign exchange is going out of India). • The sale of assets, for instance, the sale of shares of an Indian company to a US customer, is recorded as a surplus in India's capital account (as the sale of assets to a foreign country will bring foreign exchange into the country).
Balance of Payment (FY2025)	➢ In Q4 FY25, India had a surplus of USD 13.5 billion (1.3% of GDP) — meaning more money came into the country than went out. This is a major shift from the USD 11.3 billion deficit (1.1% of GDP) in the previous quarter. ➢ For the full year FY25, the current account deficit (CAD) shrank to 0.6% of GDP (USD 23.3 billion) from 0.7% of GDP (USD 26.0 billion) in FY24 — a sign of improved external trade health. ➢ In the face of ongoing global uncertainty, India achieved a capital and financial account surplus of USD 21.7 billion in FY25 on Account of higher NRI deposits (USD 16.2 billion) and external commercial borrowings (USD 18.4 billion).

21. Consider the following statements:

Statement-I: An increase in the value of the Real Effective Exchange Rate (REER) denotes a decline in the trade competitiveness of the country.

Statement-II: The REER measures the value of the domestic currency of the major trading partners.

Which one of the following is correct with respect to the above statements?

(a) Both Statement-I and Statement-II are correct and Statement-II is the correct explanation for Statement-I

(b) Both Statement-I and Statement-II are correct and Statement-II is not the correct explanation for Statement-I

(c) **Statement-I is correct but Statement-II is incorrect**

(d) Statement-I is incorrect but Statement-II is correct

EXPLANATION:

The Real effective exchange rate (REER) is a measure of the comparative health of a nation's currency against the currencies of the nations it trades with.

- A real effective exchange rate (REER) is the Nominal effective exchange rate (NEER) after factoring in relative Inflation (consumer price-based index) using some measure of relative prices or costs such as consumer prices, producer prices, unit labor costs, or GDP deflators; changes in the REER thus take into account both nominal exchange rate changes and the Inflation differential vis-à-vis trading partners.
- REER is more relevant as it takes into account a whole host of factors that actually determine an exchange rate, the key being the inflation differential.
- An increase in REER signifies a loss in trade competitiveness, as it indicates that a country's exports become more expensive while imports become cheaper. **So, Statement I is correct.**

  For example, India's REER goes up from 100 to 110.
  - Earlier, a shirt made in India cost ₹1,000, which a US buyer could buy for \$10 (assuming \$1 = ₹100).
  - After the REER increase, the Rupee is stronger in real terms (assuming \$1.1 = ₹100). Now the same shirt effectively costs the US buyer \$11.

REER measures the value of the home country's currency relative to a basket of its trading partners' currencies, adjusted for relative prices/costs. It does not measure the value of domestic currency of the trading partners.

The REER measures the Rupee's value with the dollar, and other major global currencies.

It is a weighted average of the Rupee's exchange rate against a basket of 40 currencies of countries that account for about 88 per cent of India's annual exports and imports. The REER also adjusts for inflation differentials between India and each of these trading partners. **So, Statement II is not correct.**

ADDITIONAL INFORMATION:

REAL EFFECTIVE EXCHANGE RATE (REER)	
Recently in the News	The Indian Rupee (INR) has entered a stage of adjusted valuation, with the Real Effective Exchange Rate (REER) of 100.36, marking a significant decline from 105.28 in March and 101.12 in May. REER is a weighted index that compares a country's currency against a basket of 40 foreign currencies, adjusted for Inflation.
About	REER is used to determine whether a nation's currency is undervalued or overvalued, or fairly valued, allowing the nation's central bank to adjust its currency accordingly.
Nominal Effective	➢ The nominal effective exchange rate (NEER) is an unadjusted weighted average rate at which one country's currency is exchanged for a basket of multiple foreign currencies.

Exchange Rate (NEER)	➢ The nominal exchange rate is the amount of domestic currency that's needed to purchase foreign currency. ➢ The NEER describes only relative value. It can't definitively show whether a currency is strong or gaining strength in real terms. ➢ The NEER can help identify which currencies store value more or less effectively.

22. Consider the following methods:
    1. Greenfield investment
    2. Mergers and acquisitions
    3. Joint ventures
    4. Establishment of subsidiary companies

    How many of the above-mentioned are methods of Foreign Direct Investment?

    (a) 1

    (b) 2

    (c) 3

    (d) 4

EXPLANATION:

Foreign investment is defined as an investment (either in debt or equity) made by a company or entity based in one country into a company or entity based in another country.

Foreign investment is broadly classified into Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI).

Foreign Direct Investment (FDI) is defined as an investment in which a company takes controlling ownership of a business entity in another country. Therefore, foreign companies get directly involved with day-to-day operations in other countries. It is generally made in open economies that have a skilled workforce and growth prospects.

The most common methods of Foreign Direct Investment (FDI) are:

- **Greenfield Investment:** It refers to a type of investment where a foreign entity, like a company, an individual, or an organisation, invests in another country by establishing a new business or by expanding its existing operations. For example, in the year 2019, Samsung, which is a South Korean company, invested $500 million in India to set up a mobile phone manufacturing plant in Noida, Uttar Pradesh, for manufacturing smartphones and other electronic devices.
- **Mergers and Acquisitions (M&A):** It refers to investing (FDI) for acquiring or merging with an existing foreign company. For example, Walmart's (The US Conglomerate) acquisition of Flipkart in 2018.
- **Joint Ventures:** Foreign Direct Investment (FDI) in joint ventures is a popular business in India. It allows foreign companies to collaborate and invest in various sectors of the Indian economy. For example, Tata-Singapore Airlines formed a joint venture for the Airline Vistara, the former Hero Honda JV between the Hero Group and Honda Motor Company.
- **Subsidiary Companies:** FDI in subsidiary companies results in establishing a wholly-owned subsidiary in a foreign country. For example, Suzuki Motor Corporation owns a majority stake in Maruti Suzuki India Ltd., a subsidiary that manufactures and sells cars in India.

Thus, the Greenfield Investment, Mergers & Acquisitions, Joint Ventures, and Subsidiary Companies are methods of Foreign Direct Investment. **So, Option (d) is correct.**

ADDITIONAL INFORMATION:

FOREIGN DIRECT INVESTMENT	
Recently in the News	Gross foreign direct investment (FDI) inflows into India surged to 8.8 billion dollars in April this year, higher than 5.9 billion dollars in March and 7.2 billion dollars in April 2024.
About	➢ Foreign Direct Investment can come through two routes, viz., the automatic and the government approval route. ➢ More than 95% of the FDI comes in India through the "Automatic Route", where no government approval is required and is subject to only sectoral laws. ➢ Certain sectors (Railways, Aviation, Media and Publishing) that are still under the "Government approval route" are scrutinised and cleared by the respective departments and ministries.
Foreign Portfolio Investment (FPI)	➢ Foreign portfolio investment (FPI) consists of securities and other financial assets held by investors outside of their domestic market. ➢ It does not provide the investor with direct ownership of a company's assets and is relatively liquid, depending on the volatility of the market.
FDI Prohibited	There are a few industries where FDI is strictly prohibited under any route. These industries are: ➢ Atomic Energy Generation ➢ Any Gambling or Betting businesses ➢ Lotteries (online, private, government, etc.) ➢ Investment in Chit Funds ➢ Nidhi Company ➢ Agricultural or Plantation Activities (although there are many exceptions like horticulture, fisheries, tea plantations, Pisciculture, animal husbandry, etc.) ➢ Housing and Real Estate (except townships, commercial projects, etc) ➢ Cigars, Cigarettes, or any related tobacco industry

23. Consider the following information:

1. Generally, core inflation tends to be more stable than headline inflation.
2. In India, the Wholesale Price Index is used to measure 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

EXPLANATION:

Headline inflation is defined as a rise in prices of all items in the Consumer Price Index (CPI), including food and energy. Whereas changes in prices of goods and services other than energy and food, such as property, consumer products, industrial products, service products, etc., fall under the Core inflation. Since core inflation subtracts the volatile products (food and energy commodities) from its calculation, it gives a more stable and accurate result. It helps in showing the country's economic status. It doesn't carry any fluctuating ability like headline inflation, which also goes by long-term Inflation. **So, Statement 1 is correct.**

Headline inflation is measured using the Consumer Price Index (CPI). The CPI calculates the cost of purchasing a fixed basket of goods to determine the rate of Inflation in the broader economy. It takes into account the base year (2024) and indexes the current year's commodity prices in accordance with the base year's values. This helps determine the economy's raw or total Inflation, which is represented by headline inflation. The National Statistics Office under the Ministry of Statistics and Programme Implementation releases the headline inflation for every Inflation. **So, Statement 2 is not correct.**

ADDITIONAL INFORMATION:

WPI VS CPI	
Recently in the News	RBI has launched a discussion paper to review its Inflation targeting framework, focusing on the core vs headline inflation debate, the 4% target, and the tolerance band before the next review in March 2026.
Wholesale Price Index (WPI) Vs Consumer Price Index (CPI)	➢ WPI reflects the change in average prices for bulk sale of commodities at the first stage of transaction, while CPI reflects the average change in prices at the retail level paid by the consumer. ➢ The prices used for compilation of WPI are collected at the ex-factory level for manufactured products, at the ex-mine level for mineral products and the mandi level for agricultural products. ➢ In contrast, retail prices applicable to consumers and collected from various markets are used to compile CPI. ➢ The reasons for the divergence between the two indices can also be partly attributed to the difference in the weight of the food group in the two baskets. CPI Food group has a weight of 39.1 per cent as compared to the combined weight of 24.4 per cent (Food articles and Manufactured Food products) in the WPI basket. ➢ Similarly, the movement in prices of non-tradable items (Housing, education, healthcare, etc.), included in the CPI basket, widens the gap between WPI and CPI movements. The relative price trends of tradable vis-à-vis non-tradable are an important explanatory factor for divergence in the two indices in the short term.

24. Consider the following:
    1. Reduction of government expenditure
    2. Increased taxation
    3. Rationing of commodities in short supply

    How many of the above measures could control inflation?
    (a) Only one
    (b) Only two
    (c) All three
    (d) None

EXPLANATION:

Inflation is the rate at which prices rise over a period of time, usually measured broadly as the overall increase in prices or the cost of living in a country. The following measures can be used to control Inflation, they are: ➢ **Increasing the repo rate –** The repo rate is the rate at which the Reserve Bank of India (RBI) lends money to commercial banks for short-term needs. By raising the repo rate, borrowing becomes costlier for banks, reducing their lending capacity. This lowers the money supply in the economy and helps control Inflation. ➢ **Reducing government expenditure –** When the Government reduces public spending and borrowing, less money flows into the economy, which helps minimise demand and control inflation.

On the other hand, when demand is low, the Government can increase spending on welfare, infrastructure, and employment to boost the economy. ➢ **Increasing taxation –** Higher taxes reduce people's disposable income, which lowers their consumption demand. This decrease in demand helps bring down Inflation. ➢ **Rationing of commodities in short supply –** Governments may also directly control Inflation through price control and rationing. Rationing limits the supply of essential goods that are in short supply and in high demand. Inflation can be open, when prices rise freely, or suppressed, when price increases are kept in check by such government policies. Thus, it shows all the above measures could control inflation. **So, Option (c) is correct.**

ADDITIONAL INFORMATION:

INFLATION	
Recently in News	RBI holds repo rate at 5.5%, lowers inflation forecast, raises GDP growth projections RBI now sees India's inflation rate in FY26 at 2.6% as against 3.1% earlier, and GDP growth rate at 6.8% versus 6.5% earlier.
About	➢ Inflation is measured by tracking the average change in a selected basket of commodities and services prices. ➢ In India, Inflation is calculated and reported by the Ministry of Statistics and Programme Implementation (MoSPI).
Causes of Inflation	➢ **Money Supply:** Excess currency (money) supply in an economy is one of the primary causes of Inflation. This happens when the money supply/circulation in a nation grows above the economic growth, therefore reducing the value of the currency. ➢ **National Debt:** There are a number of factors that influence national debt, which include the nation's borrowing and spending. In a situation where a country's debt increases, the respective country is left with two options: • Taxes can be raised internally. • Additional money can be printed to pay off the debt. ➢ **Demand-Pull Effect:** The demand-pull effect states that in a growing economy, as wages increase within an economy, people will have more money to spend on goods and services. The increase in demand for goods and services will result in companies raising prices that the consumers will bear in order to balance supply and demand. ➢ **Cost-Push Effect:** This theory states that when companies face increased input costs on raw materials and wages for manufacturing consumer goods, they will preserve their profitability by passing the increased production cost to the end consumer in the form of increased prices. ➢ **Exchange Rates:** An economy with exposure to foreign markets primarily functions on the basis of the dollar value. In a global trading economy, exchange rates play an important factor in determining the rate of Inflation.
Effects of Inflation	➢ **Reduced Purchasing Power:** As prices rise, the same amount of money buys fewer goods and services, decreasing people's purchasing power. ➢ **Currency Value Declines:** The value of each currency unit falls, making everyday expenses costlier and impacting the overall cost of living. ➢ **Higher Cost of Living:** A high inflation rate increases living expenses, which can slow down economic growth. ➢ **Positive Side of Moderate Inflation:** A controlled inflation rate (around 2–3%) is generally healthy—it can lead to higher wages, improved corporate profits, and sustained economic momentum.

25. With reference to Consumer Price Index (CPI) and Wholesale Price Index (WPI), consider the following statements:
   1. Both WPI and CPI are published by the Ministry of Statistics and Programme Implementation of India.
   2. Unlike WPI, the CPI does not include changes in the prices of services.

   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

EXPLANATION:

Changes in prices over time are measured using price indices, which can be at the wholesale level (WPI) or at the consumer/retail level (CPI). These indices help track Inflation and the overall price movement in the economy.

- **The Consumer Price Index (CPI)** measures changes in the prices of goods and services purchased by households for consumption. It is widely used as an indicator of Inflation, a tool for inflation targeting by the Government and the Reserve Bank of India.
  - CPI data is published monthly by the Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation. The data is usually released on the 12th of every month.
- **The Wholesale Price Index (WPI)** measures prices of goods at the wholesale stage, i.e., goods sold in bulk and traded between organisations rather than consumers. WPI is an essential measure of Inflation in India and influences fiscal and monetary policy.
  - It is compiled and released weekly by the Office of Economic Adviser (OEA), Ministry of Industry, with a base year of 1993–94, covering 435 selected items in its basket.

While both CPI and WPI are price indices, they cover different baskets of goods and services. CPI includes both goods and services, such as haircuts or banking services, whereas WPI includes only goods. Additionally, CPI is published by the Ministry of Statistics, while WPI is published by the Ministry of Industry. **So, Statements 1 and 2 are not correct.**

ADDITIONAL INFORMATION:

INDIA INDEX OF INDUSTRIAL PRODUCTION	
About	The Central Statistical Organisation (CSO) is responsible for the compilation and publication of the Index of Industrial Production (IIP) since 1950. ➢ The IIP is compiled as a simple weighted arithmetic mean of production relatives by using Laspeyre's formula. ➢ The IIP is a quantum index, the production of items being expressed in physical terms. ➢ However, the unit of reporting in respect of certain items like machinery, machine tools, shipbuilding, etc., is in value terms. ➢ The monthly figure of production value in such cases is first deflated by the Wholesale Price Index (WPI) of the corresponding categories, released by the Office of the Economic Adviser, Ministry of Industry.
Scope of IIP	➢ The scope of the IIP as recommended by the United Nations Statistical Office (UNSO) includes mining, manufacturing, construction, electricity, gas and water supply. ➢ But due to constraints of data availability, the IIP compiled in India has excluded construction, gas and water supply sectors.

Base Year	➢ As the structure of the Industrial Sector changes over time, it is necessary to revise the base period and the weighting diagram of the IIP periodically so as to measure the real growth in the industrial sector. ➢ When the compilation of the index commenced in India, the base year adopted was 1946, and this was revised successively to 1951, 1956, 1960, 1970, 1980-81 and 1993-94.

26. Which of the following are ways adopted by the Government to reduce the fiscal deficit in India?
    1. Increasing direct taxes
    2. Selling shares in Public Sector Undertakings
    3. Increasing government expenditure

    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

EXPLANATION:

A fiscal deficit is defined as the discrepancy between a government's revenue and its expenditures over a designated timeframe, usually a fiscal year. High fiscal deficits can lead to inflation, lower investment, reduced confidence in the economy, and may necessitate borrowing, potentially increasing debt levels.

- **Increasing direct taxes**: The Government's fiscal deficit can be reduced by an increase in taxes or a reduction in expenditure. In India, the Government has been trying to increase tax revenue with greater reliance on direct taxes whereas indirect taxes are regressive in nature – they impact all income groups equally. **So, Statement 1 is correct.**
- **Selling shares in Public Sector Undertakings**: There has also been an attempt to raise receipts and reduce the fiscal deficit through the sale of shares in Public Sector Undertakings (PSUs). This process is known as disinvestment. By selling part of its stake in PSUs, the Government mobilises additional funds, which are then used to bridge the gap between revenue and expenditure, thereby reducing the deficit. **So, Statement 2 is correct.**
- **Increasing government expenditure**: It generally leads to a higher deficit, since more money is going out, unless it is matched by higher revenues. However, government spending plays an essential role in the economy, as it funds investments in infrastructure, healthcare, education, human capital, unemployment benefits, pension programs, and other welfare measures. At times, a government may deliberately choose to spend more than its revenues allow, thereby running a deficit, in order to stimulate growth or provide social support. **So, Statement 3 is not correct.**

27. Monetization of deficit could lead to:
    1. Increase in rupee value
    2. Decrease in inflation rate
    3. Outflow of foreign investment

    Select the correct answer using the codes given below:
    (a) 1 and 2 only
    (b) 2 only
    (c) 3 only
    (d) 1 and 3 only

EXPLANATION:

Monetisation of deficit refers to the process where the Reserve Bank of India (RBI) directly purchases government securities from the primary market to help the government finance its expenditure.

When the government's spending exceeds its revenue, it results in a fiscal deficit. To bridge this gap, the RBI provides funds by creating new money, essentially printing currency to support the government's borrowing needs.

This action increases the money supply in the economy, which can have several consequences:

- **Inflationary Pressure:** When more money enters the system without a corresponding rise in goods and services, it leads to inflation (a general rise in prices).because monetisation usually increases, not decreases, inflation. **So, Statement 2 is not correct**
- **Impact on Rupee Value:** Higher inflation reduces the purchasing power of money and can lead to depreciation of the rupee, not appreciation. **So, Statement 1 is not correct.**
- **Outflow of Foreign Investment:** Rising inflation and a depreciating rupee make the domestic market less attractive to foreign investors, which may lead to outflow of foreign investment. **So, Statement 3 is correct.**

ADDITIONAL INFORMATION:

<table>
<tr><th colspan="2">KEY DEFICIT-RELATED TERMS</th></tr>
<tr><td>About</td><td>A deficit occurs when spending or liabilities exceed income or assets, leading to potential debt for governments, businesses, or individuals.
In the context of a government, a deficit means its expenditure exceeds revenue. The two main types of national deficits are:
➢ Budget Deficit: Happens when the government spends more than it earns in a year through taxes and other revenues. Continuous budget deficits add up to form the national debt.
➢ Trade Deficit: Occurs when a country's imports exceed its exports, meaning more money flows out of the country than comes in. This can weaken the currency and affect domestic employment.</td></tr>
<tr><td>Key deficit-related terms</td><td>➢ Current Account Deficit: Occurs when a country imports more goods and services than it exports.
➢ Cyclical Deficit: Arises when an economy experiences a downturn due to a weak business cycle or recession.
➢ Deficit Financing: Refers to the practice of financing a budget deficit by issuing government bonds or printing additional money.
➢ Deficit Spending: Happens when a government's expenditure exceeds the revenue it collects during a specific period.
➢ Fiscal Deficit: The amount by which a government's total expenditure exceeds its total revenue, excluding borrowings.
➢ Income Deficit: A measure used by the U.S. Census Bureau to indicate the dollar amount by which a family's income falls short of the poverty line.
➢ Primary Deficit: The fiscal deficit of the current year minus the interest payments on past borrowings.
➢ Revenue Deficit: The shortfall that occurs when total revenue receipts are less than total revenue expenditures of the government.
➢ Structural Deficit: Occurs when a government continues to post a deficit even when the economy is operating at its full potential output.
➢ Twin Deficits: Refers to a situation where an economy simultaneously experiences both a fiscal deficit and a current account deficit.</td></tr>
</table>

28. Consider the following statements:

Statement I: Proportional income tax can be a tool to stabilise the economy.

Statement II: Proportional income tax can restrict the upward fluctuation in consumption spending when the GDP rises.

Statement III: Proportional income tax can limit the fall in disposable income during a recession.

Which of the following is correct with respect to the above statements?

(a) Both Statement II and Statement III are correct and both of them explain Statement I.

(b) Both Statement II and Statement III are correct but only one of them explains Statement I.

(c) Only one of the Statements II and III is correct and that explains Statement I.

(d) Neither Statement II nor Statement III is correct.

EXPLANATION:

A proportional tax is a type of tax in which the tax rate remains constant and does not change with the increase in the taxpayer's income.

In a proportional income tax system, all individuals pay the same tax rate, regardless of their income level. However, the actual tax amount varies according to income. This means that both the average tax rate and the marginal tax rate remain the same.

For example, if the proportional income tax is 10%, then:

- An individual earning ₹1,000 will pay ₹100 as tax.
- An individual earning ₹2,000 will pay ₹200 as tax.

A proportional income tax acts as an automatic stabiliser in the economy by moderating fluctuations in disposable income and consumption.

Proportional Tax as an Automatic Stabiliser: A proportional income tax can act as an automatic stabiliser in the economy by moderating fluctuations in disposable income and consumption.

- **During a boom,** when GDP rises, incomes increase, but a portion is automatically collected as taxes. As a result, disposable income and consumption rise less than the increase in GDP. This dampens excessive growth in aggregate demand and prevents the economy from overheating.
- **During a recession,** When GDP falls, tax liabilities also decline proportionately. This cushions the fall in disposable income, so consumption declines less sharply than it would have if taxes were fixed. This reduces the severity of the downturn.

Thus, by automatically adjusting disposable income in response to changes in GDP, a proportional income tax stabilises the economy without requiring new government action.

Therefore, a proportional income tax can help restrict excessive consumption growth during booms and limit the fall in disposable income during recessions. **Both Statement II and Statement III are correct, and both of them explain Statement I.**

ADDITIONAL INFORMATION:

ADVANTAGES OF PROPORTIONAL TAX	DISADVANTAGES OF PROPORTIONAL TAX
➢ **Simplicity:** It's simple to understand and easy to implement a proportional tax for different income levels. ➢ **Fairness:** The proportional tax is considered a fair tax system for both high-income earners and low-income earners because they pay tax at the same flat rate. ➢ **Transparency:** The tax rate is fixed for every individual, providing transparency to taxpayers for paying tax amounts. ➢ **Incentives for Growth:** Higher-income earners are not discouraged from growing more. It provides incentives for growth for both high-income and low-income individuals. ➢ **Encourage Investment:** It also encourages individuals to invest in different businesses and grow their income. ➢ **Encourage Entrepreneurship:** Proportional tax allows entrepreneurs to start a business in a country because it has fixed tax rates to pay.	➢ **Burden on the Poor:** This imposes a high tax burden on lower-wage earners because of its rigid nature. A proportional tax fixes the tax rate, so every individual must pay this tax amount, regardless of their income. ➢ **Lack of Progressivity:** The proportional tax system does not consider the income imbalance; hence, it is unfair for low-income individuals to pay the same tax rates as high-income individuals. ➢ **Impact on Disposal Income:** A large portion of the income of lower-income earners may be paid as tax. So these individuals are not able to compensate for their basic needs.

29. Consider the following statements:
    1. Both cess and surcharge are taxes levied in addition to the existing tax amount.
    2. While cess is imposed for a specific purpose, surcharge is imposed to generate additional revenue.

    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

EXPLANATION:

Cess and Surcharge are additional levies applied over and above the existing tax liability. These extra charges are designed to address specific needs or raise funds for targeted purposes. **So, Statement 1 is correct.**

- A cess is imposed for a specific purpose, and the Government is obligated to use the revenue collected from it exclusively for that purpose. For instance, the "Education Cess" is used to fund educational initiatives, while the "Health and Education Cess" aims to improve healthcare and education infrastructure.
- A surcharge, on the other hand, is an additional tax levied on individuals or entities with higher incomes. Unlike a cess, the revenue from a surcharge is not earmarked for any particular purpose; it goes directly into the Government's consolidated fund. **So, Statement 2 is correct.**

30. Consider the following statements:

Statement I: The Fiscal Responsibility and Budget Management (FRBM) Act seeks to ensure inter-generational equity in fiscal management.

Statement-II: This is achieved by eliminating fiscal deficit and revenue deficit.

Which of the following is correct with respect to the above statements?

(a) Both Statement-I and Statement-II are correct, and Statement-II is the correct explanation for Statement-I

(b) Both Statement-I and Statement-II are correct, and Statement-II is not the correct explanation for Statement-I

(c) Statement I is correct, but Statement II is incorrect

(d) Statement I is incorrect, but Statement II is correct

EXPLANATION:

The Fiscal Responsibility and Budget Management Act (FRBM), 2003, was enacted to ensure inter-generational equity in fiscal management, long-term macroeconomic stability, better coordination between fiscal and monetary policy, and transparency in the Government's fiscal operations. The Act came into effect in July 2004. **Statement I is correct.** The Government notified the FRBM rules in July 2004 to specify annual reduction targets for fiscal indicators. The rules set a target to reduce the fiscal deficit to 3% of GDP by 2008-09, with an annual reduction of 0.3% of GDP by the Central Government. Similarly, the revenue deficit was to be reduced by 0.5% of GDP per year, with complete elimination by 2008-09. Therefore, the FRBM rules aimed to reduce the fiscal deficit and eliminate the revenue deficit, not to eliminate both deficits entirely at once. **Statement II is not correct.**

ADDITIONAL INFORMATION:

THE FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT ACT	
Recently in the News	A recent Comptroller and Auditor General of India (CAG) review of the FRBM Act indicates India is progressing towards long-term macroeconomic stability.
About	The FRBM framework, enforced in July 2004 to ensure long-term macroeconomic stability, mandates that the Union govt limit the fiscal deficit to 3% of GDP by March 2021, and limit the general government debt to 60% and the central debt to 40% of GDP by 2024-2025. It allows CAG to undertake an annual review of the Act. ➢ The Union government's debt has decreased from 61.38% of GDP in 2020-21 to 57% by March 2024. While debt sustainability shows positive signs, interest payments relative to revenue receipts have seen a slight increase in the last two fiscal years. ➢ "Debt sustainability, as measured by the debt stabilisation indicator, was positive in 2023-24 which is a positive indicator towards stability," the auditor said. ➢ Interest payments to revenue receipts ratio is an important indicator of govt's fiscal health. The ratio reached its peak at 38.66% in 2020-21, declined to 33.99% in 2021-22, but increased to 35.35% in 2022-23 and 35.72% in 2023-24, CAG said.

31. Money borrowed by the Government of India from the public through Treasury Bills is credited to:

(a) Public Account of India

(b) Contingency Fund of India

(c) Consolidated Fund of India

(d) National Investment Fund

EXPLANATION:

The Money borrowed by the Government of India from the public through Treasury Bills is credited to the Consolidated Fund of India.

The Consolidated Fund of India was constituted under Article 266 (1) of the Constitution of India. All revenues received by the Government by way of direct taxes and indirect taxes, Money borrowed, and receipts from loans given by the Government flow into the Consolidated Fund of India.

- All revenues received by the Government by way of taxation, like income-tax, central excise, customs, land revenue (tax revenues) and other receipts flowing to the Government in connection with the conduct of Government business, like receipts from Railways, Posts, Transport, etc. (non-tax revenues), are credited into the Consolidated Fund.
- Similarly, all loans raised by the Government by issue of public notifications, treasury bills (internal debt) and loans obtained from foreign governments and international monetary institutions (external debt) and all monies received by the Government in repayment of loans and interest thereon are also credited into this Fund.
- All expenditure incurred by the Government for the conduct of its business, including repayment of internal and external debt and release of loans to States/Union Territory Governments for various purposes, is debited against this Fund. **So, Option (c) is correct.**

ADDITIONAL INFORMATION:

GOVERNMENT ACCOUNTS	
Recently in the News	Finance Minister moves and introduces a bill to authorise payment from/out of the consolidated Fund of India for the services of the financial year 2025-26.
Public Account of India	Constituted under Article 266 (2) of the Constitution, this fund accounts for those transactions wherein the funds belong to others and the Government is merely a banker. ➢ Because these funds do not belong to the Government, no approval from Parliament is required for withdrawal when they have to be paid back to the depositors. ➢ However, Money allocated from the Consolidated Fund of India for specific objectives or projects to the Public Account has to go through a vote of the Parliament before it can be withdrawn. The Public Account of India has five sub-heads. They are: o Small savings—provident funds and other accounts o Reserve funds o Deposits and advances o Suspense and miscellaneous o Remittances o Cash balance.
Contingency Fund of India	This Fund is in the nature of an imprest (a fixed fund for a specific purpose) account and is kept at the disposal of the President of India (by the Secretary to the Government of India, Ministry of Finance, Department of Economic Affairs) to enable the Government to meet unforeseen expenses pending authorisation by the Parliament. ➢ The Money is used to provide immediate relief to victims of natural calamities and also to implement any new policy decision taken by the Government pending its approval by the Parliament. ➢ In all such cases, after the Parliament meets, a Bill is presented indicating the total expenditure to be incurred on the scheme/ project during the current financial year.

	➢ After the Parliament votes on the Bill, the Money already spent out of the Contingency Fund is recouped/ withdrawn from the Consolidated Fund of India to ensure that the corpus of the Contingency Fund remains intact. The corpus of the Fund has been increased to Rs. 30,000 crores (as proposed in the budget 2021-22, earlier it was Rs. 500 crore) and can be enhanced from time to time by the Parliament.
National Investment Fund	The Government has decided that with effect from 1st April, 2005, the realisations from the disinvestment of Public Sector Enterprises (PSEs), which are credited to the Consolidated Fund of India, will be appropriated from the Consolidated Fund of India for the creation of the National Investment Fund (NIF). ➢ The NIF would be professionally managed by selected Public Sector Financial Entities, with the requisite experience, to provide sustainable returns to the Government without affecting the corpus. ➢ The annual returns from the NIF will be market-determined. However, since the NIF will be actively managed by selected professional Public Sector Financial Entities, with the requisite expertise, the returns are expected to be good. ➢ The investment strategy for the NIF will be implemented by the Public Sector Financial Entities managing the NIF. The income from the NIF would be credited to the Consolidated Fund of India and would thereafter be appropriated to finance selected social sector schemes, which promote education and health care and for capital investment in selected profitable and viable PSEs that yield adequate returns, in order to enlarge their capital base and to finance their expansion/diversification.

32. Consider the following factors:
   1. Increase in reserve requirement ratio
   2. Higher public preference for currency over deposits
   3. Excess reserves held by banks

   How many of the above factors can lead to a decrease in the money multiplier?
   (a) Only one
   (b) Only two
   (c) All three
   (d) None

EXPLANATION:

Money multiplier (Mb) is the ratio between Broad money (M3) and reserve money (M0).

Mb = M3/M0 = M3 x 1/M0

The money multiplier represents the ratio of the change in the money supply to the change in the monetary base. It illustrates how an initial injection of high-powered money (Base money or Reserve Money) into the banking system leads to a multiple expansion of the broader money supply through the process of bank lending and deposit creation.

Factors Affecting the Money Multiplier:

- **Reserve Requirements:** When the central bank alters reserve requirements, it directly affects the amount of excess reserves that banks hold. Lowering reserve requirements increases excess reserves, providing banks with more capacity to extend loans, thereby expanding the money supply. Conversely, raising reserve requirements reduces excess reserves, limiting banks' lending capacity and contracting the money supply. **So, Statement 1 is correct.**
- **Higher public preference for currency over deposits:** When individuals hold more currency rather than depositing it in banks, the money multiplier decreases. This is because currency held

by the public does not contribute to the creation of new deposits through the banking system. **So, Statement 2 is correct.** ➢ **Banking Behaviour:** The behaviour of banks also affects the money multiplier. If banks become more cautious and hold excess reserves rather than lending them out, the money multiplier decreases. Conversely, if banks are more aggressive in lending, the money multiplier increases. **So, Statement 3 is correct.** ➢ **Central Bank Policy:** Monetary policy actions by the central bank, such as open market operations and changes in the discount rate, can influence the money multiplier. For example, when the central bank purchases government securities in open market operations, it injects reserves into the banking system, potentially increasing the money multiplier. ➢ **Deposit Leakage:** Leakage of deposits from the banking system, such as through excess reserves, excess currency holdings, or withdrawals for purchases of securities or assets outside the banking system, reduces the effectiveness of the money multiplier.

ADDITIONAL INFORMATION:

MONEY MULTIPLIER	
About	India banks' loan growth may show a slight improvement in the financial year 2025-26 (FY26) due to the cash reserve ratio (CRR) cut, assuming a money multiplier of 5x (1/reserve ratio).
Mechanisms	The money multiplier process operates through a series of steps, as outlined below: ➢ **Initial Injection of Base Money:** The process begins with the central bank injecting base money into the banking system through open market operations, discount window lending, or other monetary policy tools. ➢ **Reserve Requirement:** Commercial banks are required to hold a certain percentage of their deposits as reserves, either as vault cash or as deposits with the central bank. This reserve requirement acts as a constraint on the amount of money banks can create through lending. ➢ **Deposit Creation through Lending:** When banks receive additional reserves, either through central bank injections or deposit inflows, they can expand their lending activities. Loans create new deposits, effectively increasing the money supply beyond the initial injection of base money. ➢ **Multiplier Effect:** The expansion of bank loans and deposits sets off a multiplier effect as the newly created deposits become a part of the broader money supply. These deposits are re-deposited in banks or spent in the economy, leading to further rounds of lending and deposit creation. ➢ **Limitations and Leakages:** The money multiplier process is subject to limitations and leakages that can dampen its impact on the money supply. These include excess reserve holdings by banks, currency drain (withdrawal of currency from banks), and non-bank financial intermediaries that do not fall under traditional reserve requirements. The money multiplier process serves as a cornerstone of monetary economics, providing insights into the mechanisms through which changes in the monetary base propagate through the financial system to impact the broader money supply.

33. Consider the following:
   1. Certificates of deposit
   2. Treasury bills
   3. Freely convertible foreign currencies
   4. Savings accounts

   Which of the above are considered near money in the context of the economy?
   (a) 1, 2 and 4 only
   (b) 2, 3 and 4 only
   (c) 1 and 4 only
   (d) 1, 2, 3 and 4

EXPLANATION:

Near Money, sometimes referred to as quasi-money or cash equivalents, is a financial economics term describing non-cash assets that are highly liquid and easily converted to cash with minimal loss or delay. The nearness of near Money will vary depending on the actual time frames to cash conversion. Other factors affecting near Money may also include transactional fees or penalties involved with withdrawals.

Examples of near-money assets include:

- Savings Accounts
- Certificates Of Deposit
- Freely convertible foreign currencies
- Money Market Accounts
- Marketable Securities
- Treasury Bills (T-Bills).

In general, near money assets included in near money analysis will vary depending on the type of analysis. **So, Option (d) is correct.**

ADDITIONAL INFORMATION:

NEAR MONEY	
About	Near-Money There are certain assets which are highly liquid, though not perfectly liquid, like Money. These assets can easily be converted into Money without much loss of time or value and have, therefore, come to be known as 'Near-Money.' ➢ Examples of near-money are bills of exchange, bonds, savings certificates, treasury bills, debentures, etc. Such near-money assets are claims on Money, i.e., these assets have to be first converted into actual Money before using them for the purchase of any commodity. ➢ The importance of near-money assets, therefore, lies in the ease with which they can be sold in the market without much loss of time or value. However, both Money and near-money are similar in one respect: that both of them are claims. ➢ Money is a claim over the Government or central bank of the country, which has issued it, while bank money is a claim over banks with which Money is held as public deposits. Likewise, near-money is also a claim over its issuing authority. ➢ For instance, a bill of exchange is a claim over the party which has agreed to pay the amount specified in the Bill at the expiry of the specified period, say 91 days. Represents a claim on the Government which has issued it.

34. With reference to Collateralised Borrowing and Lending Obligation (CBLO), consider the following statements:
    1. It is operated by the Securities and Exchange Board of India and the Reserve Bank of India.
    2. It is a mechanism that allows institutions to access short-term loans.
    3. Treasury bills are eligible to be used as collateral in this system.

    How many of the above statements is/are correct?

    (a) Only one

    (b) Only two

    (c) All three

    (d) None

EXPLANATION:

A collateralised borrowing and lending obligation (CBLO) is a money market instrument that represents an obligation between a borrower and a lender concerning the terms and conditions of a loan. CBLOs allow those restricted from using the interbank call money market in any given specific country to participate in the short-term money markets.

➢ CBLOs are operated by the Clearing Corporation of India Ltd. (CCIL) and the Reserve Bank of India (RBI) (not the Securities and Exchange Board of India). **So, Statement 1 is not correct.**

- CBLOs allow short-term loans to be secured by financial institutions, helping to cover their transactions. **So, Statement 2 is correct.**
- To access these funds, the institution must provide eligible securities as collateral, such as Treasury Bills that are at least six months from maturity. **So, Statement 3 is correct.**
- In a CBLO, the borrower borrows Money by selling the instrument, and the lender lends Money by buying it and earns interest on the amount lent.

In India, the CBLO (Collateralised Borrowing and Lending Obligation) system was indeed phased out in 2018 and replaced by the Triparty Repo (TREPS) mechanism, under the regulation of RBI and operated by the CCIL.

35. With reference to the Liquidity Coverage Ratio (LCR), consider the following statements:
    1. It requires banks to maintain a particular stock of High Quality Liquid Assets to withstand liquidity crises.
    2. It was introduced by the Reserve Bank of India, as per the guidelines of the Basel Committee on Banking Supervision.

    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

EXPLANATION:

The Liquidity Coverage Ratio (LCR) is one of the Basel Committee's key reforms to develop a more resilient banking sector. The LCR is expected to improve the banking sector's ability to absorb shocks arising from financial and economic stress, thus reducing the risk of spilling over from the financial sector to the real economy.

A major fault line that the financial crisis of 2008 exposed in banking sectors worldwide was the improper monitoring of liquidity risk.

- As part of post-Global Financial Crisis (GFC) reforms, the Basel Committee on Banking Supervision (BCBS) had introduced the Liquidity Coverage Ratio (LCR), which requires banks to maintain High Quality Liquid Assets (HQLAs) to meet 30 days' net to help it weather a stressful period, like the financial crisis of 2008. **So, Statement 1 is correct.**
- In India, the Reserve Bank of India (RBI) implemented LCR on 1st January 2015, as per the guidelines of the Basel Committee on Banking Supervision (BCBS). Further, as per the Banking Regulation Act, 1949, the banks in India are required to hold liquid assets to maintain the Statutory Liquidity Ratio (SLR). **So, Statement 2 is correct.**

Example: In effect, if a bank expects ₹120 to go out and ₹100 to come in over a month, it must hold liquid assets worth ₹20 to bridge the shortfall.

- The LCR is calculated as under: The LCR is calculated by dividing a Bank's stock of HQLA by its total net cash outflows over a 30-day stress period.

$$LCR = \frac{\text{High Quality Liquid Assets (HQLA)}}{\text{Total Net Cash Outflows}} \geq 100\%$$

ADDITIONAL INFORMATION:

LIQUIDITY COVERAGE RATIO(LCR)	
Recently in News	The Reserve Bank of India has finalised guidelines amending the Liquidity Coverage Ratio (LCR) framework, set to take effect on April 1, 2026. These revisions include adjusted run-off rates for specific deposit types and haircuts on government securities, aiming to bolster banks' liquidity resilience.

About	➢ The liquidity coverage ratio denotes the proportion or percentage of High-Quality Liquid Assets (HQLA) that a banking institution or financial house must mandatorily maintain to easily pay for or fulfil any short-term obligations. ➢ An international banking agreement called the Basel Accords mandated a fixed and standard liquidity coverage ratio after the 2008 financial crisis, which saw banks collapse due to irregularities. This measure ensures that banks can stay afloat during times of financial stress and buys them some time before the Government or central banks can intervene to help them salvage the situation. ➢ The liquidity coverage ratio demands that a bank hold high-quality liquid assets that match or exceed 100% of their anticipated cash outflows in a stress scenario.
How does LCR works for Indian Banks	➢ Level 1 assets encompass deposits with the Reserve Bank of India (RBI), highly liquid foreign assets, securities issued or backed by the Government of India, and securities guaranteed by other sovereign bodies. ➢ Level 2A assets include securities issued or supported by specific multilateral development banks, the Government of India, or Indian government-affiliated organisations. ➢ Level 2B assets feature publicly traded equity shares and investment-grade corporate bonds issued by non-financial companies based in India. ➢ A time period of 30 days was suggested since, in the face of a serious financial meltdown, this time frame would provide sufficient time for Central Banks of various countries to intervene, rescue, and help add stability to the banking system. ➢ Simply put, the liquidity coverage ratio is supposed to act like a stress test for banks to make sure they have the required amount of capital to survive any short-term financial.

36. Consider the following statements:
   1. The yield on a bond may increase during inflation.
   2. The yield on a bond may decrease if interest rates decline.
   3. The yield on a bond may be higher if the bond has a lower credit rating.

   How many of the above statements is/are correct?
   (a) Only one
   (b) Only two
   (c) All three
   (d) None

EXPLANATION:

A bond yield is the return on the capital invested in a bond. The yield matches the bond's coupon rate when the bond is issued, though the yield often changes while the bond is outstanding. Price and yield are inversely related, and as the price of a bond goes up, its yield goes down.

- **During Inflation**: If market participants believe that there is higher inflation on the horizon, interest rates and bond yields will rise, and prices will decrease to compensate for the loss of the purchasing power of future cash flows. Bonds with the longest cash flows will see their yields rise and prices fall the most. **So, Statement 1 is correct.**
- **Interest Rates**: When interest rates rise, prices of existing bonds tend to fall, even though the coupon rates remain constant, and yields go up. Conversely, when interest rates fall, prices of existing bonds tend to rise, their coupon remains constant, and yields go down. **So, Statement 2 is correct.**
- **Credit Rating**: The bond credit rating indicates the creditworthiness of the issuer. In general, the higher the ratings, the lower the default risk. Investors prefer bonds with higher ratings. Therefore, credit ratings can indicate the potential liquidity of the instrument. High-yield bonds have a low credit rating, which indicates high risk. **So, Statement 3 is correct.**

ADDITIONAL INFORMATION:

THE RELATIONSHIP BETWEEN YIELD AND BOND PRICES	
Bond	It is a debt instrument that provides investors with a steady income stream via interest payments and repays the principal amount on a pre-defined maturity date.
Relationship of the bond price and yield	The yield and bond price have an important but inverse relationship. When the bond price is lower than the face value, the bond yield is higher than the coupon rate. When the bond price is higher than the face value, the bond yield is lower than the coupon rate. So, the bond yield calculation depends on the price of the bond and the coupon rate of the bond. If the bond price falls, the yield rises, and if the bond price rises, the yield falls. Let us understand why this is the case: ➢ When interest rates fall, it causes a fall in the value of the related investments. However, bonds that have been issued will not be affected in such a way. They will keep paying the same coupon rate as issued from the beginning, which will now be at a higher rate than the prevailing interest rate. This higher coupon rate makes these bonds attractive to investors willing to buy these bonds at a premium. ➢ Conversely, when interest rates rise, newer bonds will pay investors better interest rates than existing bonds. Here, the older bonds are less attractive and will drop their prices as compensation and sell at a discounted price

37. With reference to the Certificate of Deposit (CDs), consider the following statements:
   1. In India, they are only issued by commercial banks.
   2. They are generally freely transferable between entities.
   3. They can be issued to individuals and corporations.

   How many of the above statements is/are correct?
   (a) Only one
   (b) Only two
   (c) All three
   (d) None

EXPLANATION:

A Certificate of Deposit (CD) is issued by the RBI (Reserve Bank of India) in a dematerialised form. It is a Money Market financial instrument with fixed-income facilities and assured payout from the beginning. Both the Scheduled Commercial Bank and the All-India Financial Institutions are authorised to issue a CD at a discount on its face value. ➢ CDs can be issued by • Scheduled Commercial Banks (excluding Regional Rural Banks and Local Area Banks); and • Select All-India Financial Institutions (FIs) that have been permitted by RBI to raise short-term resources within the umbrella limit fixed by RBI. **So, Statement 1 is not correct.**
Certificate of Deposit (CD) in physical form are freely transferable by endorsement and delivery. CDs in demat form can be transferred as per the procedure applicable to other demat securities. There is no lock-in period for the CDs. Certificates of Deposit (CDs) serve as freely transferable assets from one party to another entity, commonly known as Negotiable Certificates of Deposit. These were introduced in India back in 1989 with the objective of diversifying the spectrum of money market instruments and offering investors increased versatility in allocating their short-term excess funds. **So, Statement 2 is correct.**
Certificate of Deposit (CDs) can be issued to individuals, corporations, companies (including banks and Primary Dealers-PDs), trusts, funds, associations, etc. Non-Resident Indians (NRIs) may also subscribe to CDs, but only on a non-repatriable basis, which should be clearly stated on the Certificate. Such CDs cannot be endorsed to another NRI in the secondary market. **So, Statement 3 is correct.**

ADDITIONAL INFORMATION:

CERTIFICATE OF DEPOSIT	
Recently in the News	Banks in India saw a record surge in Certificate of Deposit (CD) issuances in March and FY2025, driven by tight liquidity and the need to fund credit growth outpacing deposit growth.
Maturity	➢ The maturity period of Certificate of Deposit (CDs) issued by banks should not be less than 7 days and not more than one year, from the date of issue. ➢ There is a term period of 3 months to 1 year for CDs that are issued by SCBs. ➢ The Financial Institutions (FIs) can issue CDs for a period not less than 1 year and not exceeding 3 years from the date of issue.
Features	➢ Interest rate: The financial institutions and credit authorities offering a certificate of deposit provide it on a floating rate basis. ➢ Minimum investment: In India, the certificate of deposit minimum amount is Rs . 1 lakh. ➢ Eligibility: Every small-scale and large-scale business, individuals, corporations, etc. can make their investment in certificates of deposit. However, NRI individuals can get CDs on a non-repatriable basis. ➢ Lock-in period: Unlike authorised financial institutions, they cannot provide credit facilities to depositors against certificates of deposits since this type of money market instrument does not come with any lock-in period. The investment amount cannot be recovered before the completion of the predetermined maturity tenure.
Benefits	Benefits of Issuing a Certificate of Deposit in India ➢ A Certificate of Deposit (CD) is a secure financial instrument that shields your capital from market volatility, ensuring a predetermined amount upon maturity. The deposited funds continue to grow predictably and often offer higher interest rates on lump-sum investments. ➢ CDs provide flexibility in terms of payouts, including monthly, annual, or lump-sum options at maturity. While certain bank parameters exist, they can be customised to suit your investment preferences. ➢ Typically, CDs do not entail additional costs or fees, ensuring that your investment remains focused solely on the principal amount.

38. With reference to Market Infrastructure Institutions (MIIs), consider the following statements:
   1. MIIs are entities that ensure efficient and secure transactions in the financial market.
   2. MIIs include stock exchanges, depositories and clearing houses 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

EXPLANATION:

Market Infrastructure Institutions (MIIs) ensure that financial transactions are executed efficiently and securely. Their role is critical in maintaining investor confidence, reducing systemic risk and enabling smooth capital market operations. **So, Statement 1 is correct.**

➢ Securities and Exchange Board of India (SEBI) regulates MIIs to maintain transparency, investor protection, and financial stability, i.e. the integrity of the financial ecosystem.

➢ Market Infrastructure Institutions (MIIs) are the backbone of a robust and well-regulated financial market. These institutions include stock exchanges, depositories and clearing houses that facilitate seamless trading, clearing, and settlement of securities, ensuring transparency, investor protection, and financial stability. **So, Statement 2 is correct.**

ADDITIONAL INFORMATION:

MARKET INFRASTRUCTURE INSTITUTIONS (MIIs)	
Recently in the News	The Securities and Exchange Board of India (Sebi) allowed market infrastructure institutions (MIIs) to carry out joint inspections of stock brokers. Now, annual inspections of stock brokers and depository participants are conducted by each MII, including stock exchanges, depositories and clearing corporations separately.
Stock Exchanges	Stock Exchanges – Driving Capital Market Efficiency ➢ Stock exchanges provide a centralised platform where investors can buy and sell financial instruments like stocks, bonds, and derivatives. They ensure fair and efficient price discovery, liquidity and transparency, thereby contributing to the overall stability of financial markets. ➢ Roles of Stock Exchanges: • **Trading Platform:** Exchanges provide a structured and regulated environment where buyers and sellers can trade securities efficiently. • **Liquidity:** Exchanges allow investors to buy and sell securities, ensuring that the investors can exit or enter positions easily. • **Price Discovery:** Through continuous trading, exchanges help in the determination of the fair valuation of securities based on demand and supply. • **Regulatory Oversight:** Exchanges monitor trading activities and follow SEBI regulations to prevent fraud, insider trading and market manipulation. • **Economic Growth Enabler**: Companies raise capital through stock exchanges by issuing shares, contributing to economic expansion.
Depositories	Depositories – Securing Investor Assets ➢ Depositories provide a secure and paperless way of holding securities electronically. They eliminate the need for physical certificates, reducing risks such as theft, loss, or forgery. ➢ They play an essential role in the overall functioning of the financial system by ensuring: • **Electronic Custody:** Investors' securities are held in a digital format, reducing risks of loss or forgery. • **Efficient Settlement:** Depositories ensure timely and accurate transfer of securities after a trade. • **Corporate Actions Management:** They help in the seamless processing of dividends, interest payments, stock splits, and bonus issues in the demat account of the investors • **Pledging & Borrowing:** Investors can pledge securities as collateral for loans without requiring physical certificates. • **Regulatory Compliance:** Depositories maintain record of ownership and transactions, ensuring market transparency and accountability.

39. With reference to Opinion trading platforms, consider the following statements:
1. The payout on these platforms is determined by the likelihood of specific events occurring.
2. Only India and the USA have regulated such platforms.

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

EXPLANATION:

Opinion trading platforms provide their users or participants a platform to trade or enter into arrangements wherein the payout is dependent on the outcome of a yes/no proposition of happening or not happening of the specific events. **So, Statement 1 is correct.**

- In some cases, opinion trading platforms are designed in a manner so as to resemble an investment platform as they use terminologies such as profits, stop loss, trading, etc., terms closely associated with trades in securities.
- The sector in India has companies like Gurugram-based Probo and MPL Opinio. While the former offers questions on a varied set of sectors like sports, elections and cryptocurrency, the latter only deals with questions related to cricket matches.
- These platforms are neither registered nor regulated by SEBI in India. Globally, in countries like the United States, the United Kingdom, and Australia, opinion trading apps and websites are classified as wagering platforms and are regulated. **So, Statement 2 is not correct.**
- Recently, SEBI has issued a warning to equity investors regarding 'Opinion Trading platforms,' clarifying that its investor protection framework does not govern these platforms. These platforms allow users to trade on the likelihood of specific events, but SEBI emphasises that such trading does not involve securities.

40. With reference to Hedge funds, consider the following statements:
    1. They are private investment partnerships.
    2. They are categorised as Alternative Investment Funds in India.
    3. They need not be registered with the Securities and Exchange Board of India.

    How many of the above statements is/are correct?

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

EXPLANATION:

A hedge fund is a private investment partnership and a fund pool that uses varied and complex proprietary strategies and invests or trades in complex products, including listed and unlisted derivatives.

- A hedge fund is a pool of Money that takes both short and long positions, buys and sells equities, initiates arbitrage, and trades bonds, currencies, convertible securities, commodities and derivative products to generate returns at reduced risk.
- As the name suggests, the Fund tries to hedge risks to investors' capital against market volatility by employing alternative investment approaches. **So, Statement 1 is correct.**

Alternative Investment Funds (AIFs) are privately pooled investment vehicles that collect funds from investors, whether Indian or foreign, for investing in accordance with a defined investment policy for the benefit of their investors.

- Unlike traditional investment options such as mutual funds, AIFs typically invest in asset classes such as private equity, hedge funds, venture capital, infrastructure, and structured credit products.
- In India, AIFs are regulated by the Securities and Exchange Board of India (SEBI).
- These funds are categorised into three broad classes:
    - Category I (which includes funds investing in start-ups, SMEs, infrastructure, etc.)
    - Category II (which includes private equity funds and debt funds)
    - Category III (which includes hedge funds and other complex strategies). **So, Statement 2 is correct.**

Hedge funds are not registered or regulated by SEBI and are subject to very few regulations and compliance when compared to mutual funds. However, they are still required to comply with general investment and taxation laws set by the Indian Government.
In Securities and Exchange Board of India (SEBI's) words, "Hedge funds, including fund of funds, are unregistered private investment partnerships, funds or pools that may invest and trade in many different markets, strategies and instruments (including securities, non-securities and derivatives) and are not subject to the same regulatory requirements as mutual funds." **So, Statement 3 is correct.**

ADDITIONAL INFORMATION:

HEDGE FUNDS AND MUTUAL FUNDS	
Recently in the News	Hedge fund-style strategies lure India's rich as private market premiums shrink with clearer tax rules and strong distribution incentives, wealth managers are likely to ramp up Category III AIF offerings this year, predict market experts.
Mutual Funds	➢ Mutual funds in India have become a cornerstone for personal investment strategies, offering an accessible way to dive into the stock market. ➢ These mutual fund schemes pool money from various investors to invest in a diversified portfolio of stocks, bonds, or other securities. ➢ Governed by the Securities and Exchange Board of India (SEBI), mutual funds are transparent, requiring a prospectus that outlines their goals and methodologies.

Hedge fund and Mutual Fund - Key differences in a comparison table. Mutual funds are publicly offered and regulated, allowing for daily trading. In contrast, hedge funds are privately available to accredited investors and employ higher-risk strategies to target higher returns.

Aspect	Mutual funds	Hedge funds
Investor Base	Open to the public, ideal for individuals at various income levels	Reserved for high-net-worth individuals and institutional investors.
Objective	Aim for steady growth, mirroring or slightly outperforming market indices	Seek aggressive growth, employing high-risk strategies for potentially high returns
Management and Ownership	Managed by professional fund managers without significant ownership stakes.	Fund managers often have personal investments in the Fund, aligning their interests with investors.
Regulation	Strictly regulated by SEBI, ensuring transparency and investor protection	Less regulated, with more flexibility in investment strategies, but with higher risk.
Transparency	High, with mandatory disclosure of financial statements and performance reports	Low, with disclosures primarily to investors, maintaining a veil of secrecy around strategies
Fees	Lower fees, generally a percentage of assets under management	Higher fees, including management fees and performance fees.
Liquidity	High, with the ability to buy or sell shares at net asset value daily	Lower, with restrictions on withdrawals and potential lock-up periods
Investment Strategy	Conservative, focusing on publicly traded securities for lower-risk, stable returns.	Aggressive, employing strategies like leverage and short selling for high-risk, high-return potentials.

41. With reference to the Bombay Stock Exchange (BSE), consider the following statements:
   1. BSE allows trading in equities as well as commodities.
   2. The BSE 150 Index evaluates India's top 150 listed companies based on their market capitalisation and liquidity.

   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

EXPLANATION:

Bombay Stock Exchange (BSE) is the oldest stock exchange in Asia and the first in India, established in 1875. It is located in Mumbai and offers trading in equities, derivatives, mutual funds, and currency futures. ➢ In 2015, the Forward Markets Commission (FMC), which previously regulated the commodity derivatives market, was merged with the Securities and Exchange Board of India (SEBI). ➢ This merger was aimed at creating a unified regulatory body capable of governing both the securities and commodities markets more effectively. ➢ Following the merger, several structural changes were introduced in India's commodity market. Currently, there are three national commodity exchanges, such as Multi Commodity Exchange, National Commodity & Derivatives Exchange Ltd. and Indian Commodity Exchange Limited. ➢ Additionally, both the Bombay Stock Exchange (BSE) and the National Stock Exchange of India (NSE) are also permitted to offer commodity trading. ➢ The regional commodity exchanges that once operated across India were closed down to streamline market operations and ensure uniform regulation. ➢ SEBI allowed option trading in commodities in 2017. Thus, the Bombay Stock Exchange (BSE) allows trading in equities, derivatives, mutual funds, currency futures, as well as commodities. **So, Statement 1 is correct.**
Recently, the Bombay Stock Exchange (BSE) marked a historic milestone as it celebrated its 150th anniversary. On this landmark occasion, the finance minister launched the BSE 150 Index, a new benchmark index designed to track the performance of the top 150 listed companies based on market capitalisation and liquidity. The new index aims to offer investors a more comprehensive view of India's rapidly evolving equity landscape. **So, Statement 2 is correct.**

ADDITIONAL INFORMATION:

DIFFERENT STOCK MARKETS	
National Stock Exchange of India (NSE)	It is the leading stock exchange in India in terms of market capitalisation and trading volumes. NSE was founded in 1992 and is headquartered in Mumbai, India. ➢ NSE offers a platform for trading in equities, equity derivatives, debt instruments, currencies, commodities and exchange-traded funds (ETFs). ➢ The exchange operates on an electronic trading platform, which enables investors to trade securities from anywhere in India through a network of brokers. ➢ The NSE has significantly contributed to the growth of Indian capital markets by introducing innovative products, adopting global best practices, and promoting equity investments among retail investors through initiatives like

	the National Stock Exchange's Certification in Financial Markets (NCFM) program, which offers financial market education and training. ➢ NSE is regulated by the Securities and Exchange Board of India (SEBI), which sets the rules and regulations governing the exchange. ➢ The exchange is also a member of the World Federation of Exchanges (WFE), which represents the interests of the global exchange industry.
Metropolitan Stock Exchange of India (MSEI)	➢ It is a stock exchange in India that was founded in 2008 and received recognition as a stock exchange in 2012. It is headquartered in Mumbai, India. ➢ MSEI has been known for its innovative products, including its flagship product, the Multi-Commodity Exchange (MCX) Currency Futures, which enables trading in currency derivatives. ➢ MSEI is regulated by the Securities and Exchange Board of India (SEBI), which sets the rules and regulations governing the exchange. However, in 2019, MSEI was placed under a surveillance mechanism by SEBI due to concerns over its financial viability and governance issues. ➢ As of 2025, MSEI (Metropolitan Stock Exchange of India Ltd.) is operational, though with limited activity and under close regulatory supervision.
Indian Commodity Exchange Limited (ICEX)	➢ It is a national-level commodity futures exchange in India that was launched in 2009. The exchange offers a platform for trading in a wide range of commodities, including precious metals, base metals, energy, and agricultural commodities. ➢ ICEX is known for its flagship product, the Diamond Futures Contract, which enables trading in diamonds as a commodity. ➢ ICEX is regulated by the Securities and Exchange Board of India (SEBI). The exchange is also a member of the World Federation of Diamond Bourses (WFDB).
National Commodity and Derivatives Exchange Limited (NCDEX)	➢ It is a national-level commodity futures exchange in India that was launched in 2003. The exchange offers a platform for trading in a wide range of commodities, including agricultural commodities, metals, energy, and other raw materials. ➢ NCDEX is known for its flagship products, including futures contracts for agricultural commodities like wheat, soybean, chana, and castor seed. ➢ NCDEX is regulated by the Securities and Exchange Board of India (SEBI). The exchange is also a member of the World Federation of Exchanges (WFE).
Multi-Commodity Exchange of India Ltd. (MCX)	➢ It is India's largest commodity derivatives exchange, with a market share of over 90%. MCX facilitates online trading of a wide range of commodities, including metals, energy, agricultural commodities, and bullion. MCX was established in 2003 and has since become a leading player in the Indian commodities market. ➢ MCX is regulated by the Securities and Exchange Board of India (SEBI). The exchange is also a member of the Federation of Indian Commodity Exchanges (FICE), which represents the interests of the commodity exchanges in India. ➢ The commodities that are traded on MCX are Gold, Crude Oil, Copper, and Natural Gas. The exchange offers a range of other commodities as well, such as silver, zinc, lead, and agricultural products like cotton, soybean, and crude palm oil.

42. How many of the following are covered under the Deposit Insurance in India?
1. Deposits of State Governments
2. Deposits of foreign Governments
3. Deposits mobilised by Non-Banking Financial Company
4. Mutual funds

Select the correct answer using the codes given below:
(a) Only one
(b) Only two
(c) Only three
(d) None

EXPLANATION:

Deposit insurance a special type of insurance under which depositors are guaranteed against loss in the event of a bank failure.

- The Deposit Insurance and Credit Guarantee Corporation (DICGC) is a wholly-owned subsidiary of the Reserve Bank of India (RBI), established to provide insurance protection to bank deposit holders. In the event of a bank's failure, the DICGC insures depositors by covering their deposits up to a specified limit.
- Under DICGC's insurance cover, up to ₹5 lakh (including principal and interest) per depositor per bank is guaranteed. This limit applies regardless of the type of deposit—whether it is a savings account, fixed deposit, current account, or recurring deposit.
- The DICGC insures all deposits, such as savings, fixed, current, recurring, etc., except the following types of deposits:
    - Deposits of foreign Governments; **So, Statement 2 is not correct.**
    - Deposits of Central/State Governments; **So, Statement 1 is not correct.**
    - Inter-bank deposits;
    - Any amount due on account of a deposit received outside India.
    - Any amount which has been specifically exempted by the corporation with the previous approval of the Reserve Bank of India.
    - Deposits mobilised by Non-Banking Financial Company (NBFC). **So, Statement 3 is not correct.**
    - Deposits mobilised by Land Development Banks.
    - Mutual funds. **So, Statement 4 is not correct.**
    - Stocks and bonds.
    - Exchange Traded Funds (ETFs).
    - Cryptocurrencies.

ADDITIONAL INFORMATION:

DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION (DICGC)	
Recently in the News	Finance Ministry may introduce revised bank deposit insurance cover by next year.
About	The DICGC insurance scheme covers deposits in the following ways: ➢ **Commercial Banks** – Includes public, private, and foreign banks operating in India. ➢ **Co-operative Banks** – Covers central, state, and urban co-operative banks. ➢ **Regional Rural Banks (RRBs)** – Ensure protection for depositors in rural banking institutions. ➢ **Local Area Banks (LABs)** – Smaller regional banks also come under its purview.

Advantages of DICGC	➢ **For Depositors** • **Protection against bank failure:** Depositors are assured of receiving up to ₹5 lakh of their deposits, even if a bank becomes insolvent. • **Broad coverage:** The scheme covers deposits in almost all types of banks, including co-operative and regional banks. • **Trust in the banking system:** The provision of deposit insurance gives confidence among the depositors to save money and invest in the bank. ➢ **For the Economy** • **Financial stability:** While protecting the depositors' rights, DICGC helps to sustain the stability. • **Encourages savings:** With the security of deposit insurance, people tend to deposit more money in banks, thus promoting financial inclusion and liquidity in the economy.

43. With reference to the Union Budget, consider the following statements:
1. Capital expenditure results in the creation of assets.
2. Loans to public enterprises are treated as revenue expenditure.
3. Cash grants-in-aid from foreign countries are classified as Revenue Receipts.

Which of the statements given above is/are correct?

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

EXPLANATION:

Capital expenditures (CapEx) are funds allocated by the Government to acquire, upgrade, and maintain essential physical assets such as property, technology, or equipment. ➢ It plays a crucial role in contributing to national investment and enhancing the stock of physical assets within the economy. ➢ CAPEX leads to the creation of long-term assets, which not only generate revenue for many years but also improve the overall operational efficiency of economic activities. **So, Statement 1 is correct.** ➢ Capital Expenditure includes expenditure on the acquisition of land, buildings, machinery, equipment, investment in shares, and loans and advances by the central Government to state and union territory governments, PSUs and other parties. Therefore, Loans to public enterprises are treated as capital expenditure (not revenue expenditure). **So, Statement 2 is not correct.**
Revenue receipts refer to the receipts of income which the Government makes from its day-to-day activities. It does not involve the creation of liabilities or the sale of assets. Revenue Receipts consist of: ➢ Regular grants and subsidies are received from the Government to support operational activities. ➢ Any other minor or irregular income, such as gains from foreign exchange fluctuations, recovery of bad debts, or refunds and rebates, grants-in-aid from foreign countries, is also classified as Revenue Receipts. **So, Statement 3 is correct.**

ADDITIONAL INFORMATION:

REVENUE RECEIPTS	
About	➢ Revenue receipts are those receipts that do not lead to a claim on the Government. They are therefore termed non-redeemable. ➢ They are divided into tax and non-tax revenues.

	➢ Tax revenues, an essential component of revenue receipts, have long been divided into direct taxes (personal income 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. ➢ Other direct taxes like wealth tax, gift tax and estate duty (now abolished) have never brought in a large amount of revenue and thus have been referred to as 'paper taxes'. ➢ Non-tax revenue of the central Government mainly consists of interest receipts on account of loans by the central Government, 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 organisations are also included.

44. Consider the following:
1. Currency held by commercial banks
2. Currency held by businesses
3. Cash that commercial banks hold at the Reserve Bank of India.
4. Currency held by individuals

Which of the above are components of 'high-powered money'?

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

EXPLANATION:

High-Powered Money (HPM), also called Monetary Base or Reserve Money (Mo), is the total currency in circulation plus the reserves held by commercial banks with the central bank. It is the foundation of the money supply and serves as a basis for the creation of other forms of money in the economy.

Mo= Currency in Circulation (C) + Bankers Deposits with the RBI + Other Deposits with the RBI

The components of high-powered money (M0) typically include:

➢ **Currency in circulation:** It includes all the physical currency (notes and coins) circulating within an economy. It includes the money held by individuals, businesses, and institutions such as banks. **So, Statements 1, 2 and 4 are correct.**

➢ **Reserves of commercial banks:** Commercial banks are required to hold a certain percentage of their deposits as reserves, either in the form of cash in their vaults or as deposits with the central bank. **So, Statement 3 is correct.**

➢ **Other deposits of the Central Bank:** This includes the time deposits of the semi-government organizations with the central bank.

ADDITIONAL INFORMATION:

MONETARY AGGREGATES	
About	Following the recommendations of the Second Working Group on Money Supply (SWG), 1977, the Reserve Bank of India (RBI) publishes four monetary aggregates — M1, M2, M3, and M4, in addition to Reserve Money (M0). ➢ When the Reserve Bank of India (RBI) publishes monetary data such as M0, M1, M2, and M3, it does not release all aggregates at the same frequency. ➢ Each monetary aggregate is compiled and published at different intervals, depending on how frequently its underlying components change and its relevance for short-term monetary monitoring. **Weekly Compilation:** ➢ **M0** = Currency in Circulation + Bankers' Deposits with RBI + 'Other' Deposits with RBI*

	Fortnightly Compilation: ➢ **M1 (Narrow Money)** = Currency with the Public + Demand Deposits with the Banking System + 'Other' Deposits with RBI* = Currency with the Public + Current Deposits + Demand Liabilities Portion of Savings Deposits + 'Other' Deposits with RBI ➢ **M2** = M1+ Time Liabilities Portion of Savings Deposits with the Banking System + Certificates of Deposit issued by Banks + Term Deposits of residents with a contractual maturity of up to and including one year with the Banking System = Currency with the Public + Current Deposits with the Banking System + Savings Deposits with the Banking System + Certificates of Deposits issued by Banks + Term Deposits of residents with a contractual maturity up to and including one year with the Banking System + 'Other' Deposits with RBI ➢ **M3 (Broad Money)** = M2+ Term Deposits of residents with a contractual maturity of over one year with the Banking System + Call/Term borrowings from 'non-depository' financial corporations by the Banking System. The Other Deposits with RBI' mainly include: • Deposits of quasi-government and other financial institutions (including primary dealers) • Balances of foreign central banks and governments • Accounts of international agencies such as the International Monetary Fund (IMF).

45. With reference to External Commercial Borrowings (ECBs), consider the following statements:
   1. ECBs are available to finance only existing projects.
   2. ECBs tend to have end-use restrictions.
   3. ECBs might give international recognition to enterprises.

   How many of the above statements is/are ***not*** correct?

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

EXPLANATION:

The borrowings raised by an Indian corporate from confirmed banking sources outside India, such as international banks, multilateral financial institutions, export credit agencies, suppliers of equipment, and foreign collaborators, are called External Commercial Borrowings (ECBs). These borrowings can be raised either in Indian Rupees (INR) or in any freely convertible foreign currency.

➢ ECBs may take the form of bank loans, buyers' credit, suppliers' credit, and securitised instruments such as floating-rate notes and fixed-rate bonds. They generally carry a minimum average maturity of 3 years.

➢ ECBs can be raised only for investment purposes, such as the import of capital goods, setting up of new projects, or the modernisation/expansion of existing production units in the real sector-which includes the industrial sector (including Small and Medium Enterprises – SMEs) and the infrastructure sector in India.

➢ For this purpose, the infrastructure sector is defined to include:
- Power
- Telecommunications
- Railways
- Roads, including bridges
- Seaports and airports
- Industrial parks
- Urban infrastructure (water supply, sanitation, and sewage projects)

Thus, ECBs can also be availed for new projects. **So, Statement 1 is not correct.**

External Commercial Borrowings (ECBs) are subject to end-use guidelines prescribed by the Reserve Bank of India (RBI). ➢ These guidelines specify the purposes for which ECB proceeds may or may not be used, ensuring that borrowings are directed toward productive sectors of the economy and not diverted for speculative or non-productive purposes. ➢ Over time, the RBI has relaxed these restrictions to provide greater flexibility to borrowers. In particular, relaxation was extended to Non-Banking Financial Companies (NBFCs) and companies with stressed loans. ➢ The most significant reforms were introduced through the Foreign Exchange Management (Borrowing and Lending) Regulations, 2018, along with the "New ECB Policy" notified on 16 January 2019. ➢ Further, through a circular issued on 30 July 2019, the RBI eased strict restrictions on the end-use of ECBs, allowing funds to be used (under longer maturity norms) for working capital, general corporate purposes, and repayment of rupee loans, which were earlier disallowed. Therefore, External Commercial Borrowings (ECBs) are subject to end-use guidelines prescribed by the RBI, though the RBI has relaxed several restrictions over time; still, ECBs are not allowed for Real estate, capital investment. **So, Statement 2 is correct.**
External Commercial Borrowings (ECBs) provide Indian companies with access to international lenders, helping diversify their investor base and enhancing global recognition. They allow firms to raise significant funds in foreign currency, which is useful for overseas acquisitions, cross-border business, and international expansion. Being debt instruments, ECBs also avoid equity dilution, allowing companies to raise capital without giving up ownership. Overall, ECBs enable Indian enterprises to tap global markets efficiently while supporting growth and international ventures. Therefore, ECBs might give international recognition to enterprises. **So, Statement 3 is correct.**

ADDITIONAL INFORMATION:

EXTERNAL COMMERCIAL BORROWINGS	
About	External Commercial Borrowings (ECBs) are commercial loans raised by eligible resident entities in India from recognised non-resident entities. External Commercial Borrowings (ECBs) can be accessed through two routes: ➢ Automatic Route ➢ Approval Route ECBs raised for investment in the real sector—particularly the industrial and infrastructure sectors—fall under the Automatic Route and therefore do not require prior approval from the RBI or Government. However, in cases where eligibility under the Automatic Route is unclear, applicants may seek approval under the Approval Route.
ECBs in FY25	➢ By November 2024, total ECB registrations stood at $33.8 billion. ➢ Nearly half of the registrations, in FY24, are for the import of capital goods, modernisation, local capital expenditure, and new projects. ➢ ECB registration as a percentage of GDP declined from 1.9% in FY20 to 1.2% in FY24, suggesting improved domestic financing options.

46. With reference to the Comprehensive Economic and Trade Agreement (CETA), consider the following statements:
   1. All items of export from India will have duty-free access in the UK.
   2. Double Contribution Convention mandates Indian professionals to make social security payments for ten 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

EXPLANATION:

Recently, India and the United Kingdom signed the Comprehensive Economic and Trade Agreement (CETA), a bilateral free trade agreement that strengthens their longstanding partnership.
- CETA provides duty-free access to 99% of India's exports to the UK, covering nearly the entire trade value.
- However, some goods will still attract minor duties, so not all Indian exports are fully duty-free.
- The agreement benefits labour-intensive sectors such as textiles, leather, marine products, gems and jewellery, and toys, as well as high-growth sectors like engineering goods, chemicals, and auto components.
- This is expected to create jobs, support artisans, women-led enterprises, and MSMEs.
- CETA also covers services sectors including IT/IT-enabled services, financial and professional services, business consulting, education, telecom, architecture, and engineering, unlocking high-value opportunities and further job creation. **So, Statement 1 is not correct.**

Under the CETA, the Double Contributions Convention (DCC) between India and the United Kingdom is designed to prevent double payment of social security contributions by employees temporarily working in each other's countries.
The DCC will exempt Indian workers and their employers from UK social security contributions for three years (not 10 years), boosting competitiveness and earnings. **So, Statement 2 is not correct.**

ADDITIONAL INFORMATION:

INDIA–UK CETA	
Recently in the News	The India–UK Comprehensive Economic and Trade Agreement (CETA) was signed and exchanged during the official visit of the Prime Minister of India to the United Kingdom.
Features	➢ The Agreement eliminates tariffs on 99% of India's exports to the UK, covering nearly 100% of the trade value. ➢ Tariffs on marine products, textiles, leather, and processed foods have been reduced from up to 70% to zero. ➢ A big win for Indian Agriculture as UK markets open up duty-free for nearly all Indian Agri exports, with limited exceptions. ➢ Services commitments cover IT, financial, education, healthcare, and other high-value sectors. ➢ Mobility provisions simplify entry for business visitors, professionals, and intra-corporate transferees. ➢ The UK will allow 1,800 Indian chefs, yoga instructors, and artists to work annually under contractual service quotas. ➢ Consumers will benefit from wider product choice, lower prices, and strong digital trade protections.

Accessibility of UK Products	➢ India has opened 89.5 % of its tariff lines, covering 91 % of the UK's exports. ➢ Only 24.5 % of the UK's exports will enjoy immediate duty-free market access. ➢ India has safeguarded sensitive sectors like dairy, cereal, millets, pulses, certain essential oils, apples, certain vegetables, gold, jewellery, and lab-grown diamonds. ➢ Strategic exclusions also cover critical energy, fuels, marine vessels, some polymers, worn clothing, smartphones, and optical fibres. ➢ For strategically important products where domestic capacity is being built, for example, under Make in India or PLI, India will provide a gradual tariff reduction over 5, 7 or 10 years. ➢ India has gradually and selectively opened its markets to alcoholic beverages.

47. Consider the following statements regarding the Reserve Bank of India:
1. RBI has the sole right to issue banknotes in India.
2. RBI has the sole power to fix the conditions of license to the banks.
3. Without the approval of the RBI, no scheduled commercial banking company can open a new place of business within or outside India.

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

EXPLANATION:

In India, the Reserve Bank of India (RBI) has the exclusive authority to issue banknotes, as given under Section 22 of the RBI Act, 1934. However, the design, form, and material of these notes are decided by the Central Government, based on recommendations made by the RBI's Central Board, as per Section 25 of the Act. Every year, the RBI works with the Central Government and other stakeholders to estimate the demand for currency notes across different denominations. Once this requirement is assessed, the RBI places indents (orders) with the country's currency printing presses to ensure an adequate supply of banknotes for the economy. **So, Statement 1 is correct.**
The Reserve Bank of India (RBI) regulates and supervises banks to maintain the stability of the banking system and protect depositors' interests. Its authority comes from the Banking Regulation Act, 1949, the RBI Act, 1934, and related laws. RBI regulates commercial banks, Local Area Banks (LABs), and cooperative banks. It issues licenses to cooperative banks under Section 22 of the Banking Regulation Act. It oversees their banking functions through its Department of Cooperative Bank Regulation (DCBR), which monitors State Cooperative Banks (StCBs), District Central Cooperative Banks (DCCBs), and Urban Cooperative Banks (UCBs). Key responsibilities of RBI include: ➢ Issuing licenses for banks and new branches ➢ Ensuring banks maintain required reserves ➢ Supervising bank management ➢ Approving bank subsidiaries and new banking activities The RBI aims to create a strong, diverse, and competitive banking system, aligning regulations with domestic needs and international best practices. **So, Statement 2 is correct.**
The opening of new branches and shifting of existing branches of scheduled commercial banks is governed by the provisions of Section 23 of the Banking Regulation Act, 1949. Section 23(1) of the Banking Regulation Act states that:

- A banking company cannot open a new branch in India or change the location of an existing branch (outside the same city, town, or village) without RBI approval.
- Similarly, a bank incorporated in India cannot open or move a branch abroad without RBI approval, except within the same city, town, or village.

Exception: However, this restriction does not apply to the temporary opening of a branch for up to one month within the same locality where the banking company already operates, for events like exhibitions, conferences, fairs, or similar occasions, to provide banking services to the public. **So, Statement 3 is correct.**

ADDITIONAL INFORMATION:

BANKING SYSTEM IN INDIA	
About	The Indian banking system is broadly divided into scheduled banks, non-scheduled banks, and development banks. Scheduled Banks: These are banks included in the Second Schedule of the RBI Act, 1934. Currently, India has 135 scheduled commercial banks providing a range of banking services. This category also includes cooperative banks and local area banks.
Scheduled Commercial Banks	Scheduled Commercial banks include public sector, private sector, foreign banks, Regional Rural Banks, Small Finance Banks and Payment Banks.  ➢ **Public Sector Banks**: State Bank of India and 11 Nationalised Banks are established under the State Bank of India Act, 1955 and Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980, respectively. ➢ **Foreign Bank:** It is a bank that has its headquarters outside India but runs its offices as a private entity at any other locations in India. Such banks are under an obligation to operate under the regulations provided by RBI as well as the rules prescribed by the parent organisation located outside India. ➢ **Private Sector Banks** are banking companies licensed to operate under the Banking Regulation Act, 1949. ➢ **Regional Rural Banks** (RRB) are the banks established under the Regional Rural Banks Act, 1976, with the aim of ensuring sufficient institutional credit for agriculture and other rural sectors. The area of operation of RRBs is limited to the area notified by the Central Government. RRBs are owned jointly by the Government of India, the State Government and Sponsor Banks. ➢ **Small Finance Banks** licensed under the Banking Regulation Act, 1949 and created with an objective of furthering financial inclusion by primarily undertaking basic banking activities to unserved and underserved sections, including small business units, small and marginal farmers, micro and small enterprises and other underserved sections. ➢ **Payment Banks** are public limited companies licensed under the Banking Regulation Act, 1949, with specific licensing conditions restricting their activities mainly to the acceptance of demand deposits and provision of payments and remittance services.
Non-Banking Financial	A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 2013 that provides loans and advances and deals in shares, stocks,

Companies (NBFCs)	bonds, debentures, or government/local authority securities. NBFCs are regulated by the Reserve Bank of India (RBI). NBFCs play a crucial role in supporting consumption demand and capital formation, especially in the small and medium industrial sectors. Their extensive reach and ability to operate at the last mile give them agility and innovation, using advanced technology to provide formal financial services to underbanked and unserved sections of society.

48. With reference to the tax-to-GDP ratio, consider the following statements:
    1. It indicates the capacity of a government to generate revenue without excessive borrowing.
    2. It reflects the share of the national income utilized for government spending.

    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

EXPLANATION:

The tax-to-GDP ratio represents the proportion of a country's gross domestic product (GDP) that is collected by the government through taxes. ➢ The ratio is used for inter-country comparison with higher tax-GDP ratio indicating the government's capacity to provide public goods and visa-versa. ➢ A higher tax-to-GDP ratio indicates that the government has a stronger capacity to generate revenue from its economy without relying excessively on borrowing. ➢ The formula for tax-to-GDP ratio is : **Tax-to-GDP ratio = (Total tax revenue / GDP) x 100** **So, Statement 1 is correct**
The tax-to-GDP ratio reflects the share of national income mobilized by the government for public spending and developmental purposes, reflecting the extent of government involvement in the economy. ➢ Developed countries often exhibit higher tax-to-GDP ratios, reflecting their governments' ability to fund infrastructure, health, and education. ➢ The World Bank emphasizes that a tax-to-GDP ratio above 15% is vital for fostering economic growth and reducing poverty. ➢ Comparing tax-to-GDP ratios among countries can highlight variations in tax policies and their potential impact on economic development. **So, Statement 2 is correct**

49. Rule of origin helps to:
    1. Curb tariff avoidance
    2. Identify goods that satisfy preferential trade clauses between nations
    3. Implement anti-dumping duties

    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

EXPLANATION:

Rules of origin (RoO) are the criteria needed to determine the national source of a product. Their importance is derived from the fact that duties and restrictions in several cases depend upon the source of imports.

Rules of Origin (RoO) are developed and guided by international organisations like the World Trade Organisation (WTO) (Agreement on Rules of Origin) and the World Customs Organisation (WCO), which set standards and promote harmonisation.

At the same time, individual countries and regional trade blocs create their own laws, regulations, and administrative rules to determine a product's origin, often using these international standards as a reference.

Rules of origin are used:

- To determining customs duties and taxes – Rule of Origin help curb tariff avoidance and calculate applicable customs duties and taxes. **So, Statement 1 is correct.**
- To implement measures and instruments of commercial policy, such as anti-dumping duties and safeguard measures. **So, Statement 3 is correct.**
- To determine whether imported products shall receive most-favored-nation (MFN) treatment or preferential treatment. **So, Statement 2 is correct.**
- For the purpose of trade statistics;
- For the application of labelling and marking requirements; and
- For government procurement.

ADDITIONAL INFORMATION:

TYPES OF ORIGIN CRITERIA	
Recently in the News	The rules of origin in the free trade agreement with the UK will facilitate India's e-commerce exports to Britain, as consignments valued below 1,000 pounds are exempt from submitting origin documentation.
WTO agreement on rules of origin	➢ The Rules of Origin Agreement of the World Trade Organisation (WTO) requires WTO members to apply their rules of origin in an impartial, transparent, and consistent manner. ➢ The Agreement also requires that rules of origin not restrict, distort or disrupt international trade. ➢ This Agreement sets the framework for how countries determine the origin of goods in international trade. ➢ Its main goals are to promote transparency, predictability, and harmonisation in applying origin criteria. The Agreement distinguishes between: • Preferential Rules of Origin • Non-Preferential Rules of Origin ➢ All WTO members are parties to this Agreement. ➢ The Agreement entered into force on 1st January 1995.

Preferential Origin	➢ This determines whether products are eligible for preferential (lower or zero) tariffs and other benefits provided under preferential regimes, either in the context of trade agreements or unilateral preferential schemes. ➢ Qualifying under preferential origin may require imports to be completely or partially produced in a country that is a beneficiary of the preferential regime under consideration.
Non-Preferential Origin	➢ Non-preferential rules of origin are the criteria used to decide a product's country of origin when no trade agreement is involved. ➢ They do not give tariff benefits but are important for applying measures like trade remedies (anti-dumping duties, safeguards), quotas, labelling requirements, and collecting trade statistics. ➢ Not all countries have specific legislation on non-preferential rules, and negotiations at the WTO to create a single, harmonised system are still ongoing.

50. With reference to the Sagarmala Finance Corporation Limited (SMFCL), consider the following statements:
    1. It is registered as a Non-Banking Financial Company with the Securities and Exchange Board of India.
    2. It is a Central Public Sector Enterprise that has been accorded the Mini Ratna Status.

    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

EXPLANATION:

Recently, the Union Minister of Ports, Shipping & Waterways (MoPSW) inaugurated Sagarmala Finance Corporation Limited (SMFCL), India's first Non-Banking Financial Company (NBFC) in the maritime sector.

➢ Formerly known as Sagarmala Development Company Limited, SMFCL is now positioned to play a transformative role in India's maritime infrastructure development, in alignment with the Amrit Kaal Vision 2047.
➢ SMFCL will bridge crucial financing gaps and offer sector-specific financial solutions, empowering ports, MSMEs, startups, and institutions. It has fulfilled a long-standing demand of the maritime industry in the country.
➢ The company was registered as an NBFC with the Reserve Bank of India (RBI) (Not with the Securities and Exchange Board of India). **So, Statement 1 is not correct.**
➢ Sagarmala Finance Corporation Limited (SMFCL), a Central Public Sector Enterprise, has earned the status of a Mini Ratna, Category I. The move marks a major milestone under the Government's Amrit Kaal Vision 2047, aimed at bolstering the maritime infrastructure and transforming India into a global maritime power. **So, Statement 2 is correct.**

ADDITIONAL INFORMATION:

Sagarmala Finance Corporation Limited (SMFCL)	
About	As a sector-specific Non-Banking Financial Company (NBFC), Sagarmala Development Company Limited SMFCL is uniquely poised to bridge financing gaps in the maritime sector and catalyse economic growth.

	➢ The corporation will offer tailored financial products—including short, medium, and long-term funding—to a diverse range of stakeholders such as port authorities, shipping companies, MSMEs, startups, and maritime educational institutions. ➢ In its expanded mandate, SMFCL will also support strategic sectors like shipbuilding, renewable energy, cruise tourism, and maritime education, further reinforcing India's vision to emerge as a global maritime leader.
Sagarmala 2.0	➢ The Government of India is advancing the Sagarmala Programme with Sagarmala 2.0, focusing on shipbuilding, repair, recycling, and port modernisation to enhance India's maritime competitiveness. ➢ Aligning with the vision of a Viksit Bharat and Atmanirbhar Bharat by 2047, Sagarmala 2.0 will accelerate port-led development and strengthen India's position as a global maritime leader.
Central Public Sector Enterprises Status	➢ India's central public sector enterprises (CPSEs) are classified into three major categories - Miniratna, Navratna and Maharatna CPSEs. ➢ This classification has been done by the Department of Public Enterprises (DPE), under the Ministry of Finance, based on their financial performance and other criteria, providing them with enhanced financial and managerial autonomy to improve their competitiveness.
Miniratna status	India's central public sector enterprises (CPSEs) are put in two sub-categories under the Miniratna status - Miniratna-I and Miniratna-II. ➢ Miniratna Category-I status: • CPSEs which reported profits in three consecutive years, have a pre-tax profit of ₹30 crore or more in at least one of the three years, and have a positive net worth are classified as a Miniratna-I Public Sector Undertaking (PSU). ➢ Miniratna Category-II status • PSUs with a profit for the last three successive years and have a positive net worth are classified as Miniratna-II companies. • In addition to these conditions, a CPSE should not have defaulted on repayment of loans or interest due to the Government. • Also, Miniratna entities need not depend upon budgetary support or government guarantees.
Navratna status	Public Sector Undertakings (PSUs) that have a Miniratna-I status and have obtained an "Excellent" or "Very Good" MoU rating in three out of the last five years and have a composite score of 60 or more in six selected performance indicators are eligible to be considered for a "Navratna" upgrade. These are the six parameters: • Net Profit to Net Worth • Manpower Cost to Total Cost of Production • PBDIT to Capital Employed • PBIT To Turnover • Earnings Per Share • Inter-Sectoral Performance
Maharatna status	A PSU is eligible for being granted a "Maharatna" status, in case it meets the following criteria: • Should have a "Navratna" status • Should be listed on the Indian stock exchanges • Should be compliant with minimum shareholding norms • Average annual turnover of more than ₹25,000 crore and average annual net worth of over ₹15,000 crore in the last three years • Average annual net profit of over ₹5,000 crore in the last three years, along with a significant global presence.

51. Consider the following information:

	Report	Published by
1.	A World of Debt Report	Organisation for Economic Co-operation and Development
2.	The Global Financial Stability Report	International Monetary Fund
3.	World Investment Report	United Nations Conference on Trade and Development
4.	Global Trade Outlook and Statistics Report	World Trade Organisation

How many of the above pairs are correctly matched?

(a) Only one

(b) Only two

(c) Only three

(d) All four

EXPLANATION:

A World of Debt Report was prepared and published by the Innovation and Research Coordination Unit at the United Nations Conference on Trade and Development (UNCTAD). **So, Pair 1 is not correct.**

- UNCTAD is the UN's leading institution dealing with trade and development.
- This report highlights the surge in global public debt, aggravated by a series of cascading crises in recent years. It also underscores how the growing debt burden disproportionately impacts developing countries, where public resources are increasingly diverted from essential development needs to service debt.

The Global Financial Stability Report (GFSR) is a survey by the International Monetary Fund (IMF) published twice a year. **So, Pair 2 is correct.**

- The report draws out the financial ramifications of economic issues highlighted in the IMF's World Economic Outlook (WEO).
- This report assesses key risks facing the global financial system.
- It seeks to play a role in preventing crises by highlighting policies that may mitigate systemic risks, thereby contributing to global financial stability and the sustained economic growth of the IMF's member countries.

The World Investment Report is published by the United Nations Conference on Trade and Development (UNCTAD). **So, Pair 3 is correct.**

- The report focuses on trends in foreign direct investment (FDI) worldwide, at the regional and country levels, and emerging measures to improve its contribution to development.
- It also provides an analysis of global value chains and the operations of multinational enterprises, with special attention to their development implications.

Global Trade Outlook and Statistics report published by the World Trade Organisation (WTO). **So, Pair 4 is correct.**

- The report provides breakdowns of merchandise (goods) and commercial services trade by sector (e.g. manufacturing, agriculture, transport services, business services, digital services) and by region (e.g. Asia, Europe, North America, Africa, Latin America).
- Gives details on leading traders (i.e. top exporters/importers) in goods and services.
- The report is timed to coincide with the release of the WTO's latest quarterly and annual trade statistics.

52. Changes made to which one of the following Acts is more likely to help the realisation of internationalisation of the rupee?
(a) Foreign Contribution Regulation Act
(b) Prevention of Money Laundering Act
(c) Companies Act
(d) Foreign Exchange Management Act

EXPLANATION:

The Foreign Contribution Regulation Act (FCRA) regulates foreign donations and ensures that such contributions do not adversely affect internal security.
- First enacted in 1976, it was amended in 2010 when a slew of new measures were adopted to regulate foreign donations.
- The FCRA is applicable to all associations, groups and NGOs which intend to receive foreign donations. It is mandatory for all such NGOs to register themselves under the FCRA.
- The registration is initially valid for five years, and it can be renewed subsequently if they comply with all norms.
- Registered associations can receive foreign contributions for social, educational, religious, economic and cultural purposes.
- Filing of annual returns, on the lines of Income Tax, is compulsory.
- In 2015, the Ministry of Home Affairs (MHA) notified new rules, which required NGOs to give an undertaking that the acceptance of foreign funds is not likely to prejudicially affect the sovereignty and integrity of India or impact friendly relations with any foreign state and does not disrupt communal harmony.
- It also said all such NGOs would have to operate accounts in either nationalised or private banks, which have core banking facilities to allow security agencies access on a real-time basis.

Therefore, FCRA is related to the regulation of foreign donations; it is not directly related to the internationalisation of the rupee. **So, Option (a) is not correct.**

The Prevention of Money Laundering Act, 2002 (PMLA) forms the core of the legal framework put in place by India to combat money laundering. PMLA and the Rules notified thereunder came into force with effect from 1st July 2005.
- This Act provides for the confiscation of property derived from, or involved in, money-laundering and for matters connected therewith or incidental thereto.
- This Act is extended to the whole of India, including Jammu and Kashmir.
- The Director, Financial Intelligence Unit (FIU), India and the Director (Enforcement) have been conferred with exclusive and concurrent powers under relevant sections of the Act to implement the provisions of the Act.

Therefore, PMLA is related to money laundering, not to the internationalisation of rupees. **So, Option (b) is not correct.**

The Companies Act, 2013, which replaced the older 1956 law, modernised India's corporate framework to align with global standards by emphasising transparency, accountability, investor protection, and ease of doing business.

Enforced in phases from April 2014, it introduced key reforms such as mandatory independent directors, audit and nomination committees, stricter disclosure norms, class action suits, and simplified compliance for small firms and start-ups.

It also pioneered new concepts like the One Person Company (OPC), dormant companies, and made Corporate Social Responsibility (CSR) spending of at least 2% of profits mandatory for certain companies, making India the first country to do so.

Therefore, the Companies Act is related to the regulation of the corporate framework in India. **So, Option (c) is not correct.**
The Foreign Exchange Management Act (FEMA), 1999, is India's modern law for regulating foreign exchange. It replaced the earlier Foreign Exchange Regulation Act (FERA), 1973, which was much stricter and even criminalised violations. The main objective of FEMA is to consolidate and amend laws related to foreign exchange in order to: ➢ Facilitate external trade and payments, and ➢ Promote the orderly development and maintenance of the foreign exchange market in India. This Act simplifies rules for cross-border transactions, foreign investments, and remittances, thereby making India's economy more global, transparent, and investor-friendly. FEMA is applicable across all parts of India and also to branches, offices, and agencies outside India that are owned or controlled by a person who is a resident of India. Objectives of FEMA: ➢ **Ease of Trade:** FEMA helps people and businesses in India smoothly send and receive money from other countries, whether for travel, education, business, or investments. ➢ **Money Flow Control:** FEMA tracks all foreign exchange coming into and leaving the country. This helps the Government maintain the rupee's value stability. ➢ **Reserve Management:** FEMA ensures that foreign currency is appropriately used and not misused. This helps the country keep enough reserves for emergencies or global trade. ➢ **Boost to the Economy:** FEMA allows foreign investments in India and encourages Indian businesses to go global while keeping things legal and transparent. ➢ **Global Alignment:** FEMA ensures India follows international foreign exchange and trade rules, which builds trust with other countries and global organisations. Internationalisation of the rupee is the process of increasing the global use of the Indian rupee in cross-border trade, investment, and as a reserve currency. Among the given options, the Foreign Exchange Management Act (FEMA) directly regulates India's foreign exchange market, external payments, and cross-border capital flows. Since internationalisation of the rupee requires free use of the INR in global trade, investment, and settlements, amendments to FEMA by liberalising rules and easing restrictions are most likely to facilitate this goal, while FCRA, PMLA, and Companies act are not directly connected with the internationalization of rupee. **So, Option (d) is correct.**

53. With reference to the Reserve Bank of India's Remittances Survey, consider the following statements:

1. The Gulf Cooperation Council countries account for over 50% of India's inward remittances.
2. Remittances from advanced economies have seen an increase due to the migration of highly skilled professionals.
3. India has been the top recipient of remittances in the world for over a decade.

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

EXPLANATION:

The Reserve Bank of India (RBI) recently released the sixth round of India's Remittances Survey (2023-24). A remittance refers to money sent from one party to another, usually across borders, though it can also be domestic.

- **Outward remittance:** Transfer of money from India to another country.
- **Inward remittance:** Transfer of money into India from abroad.

According to the survey, the US, UK, Singapore, Canada, and Australia together accounted for more than half of India's inward remittances. This marks a gradual shift in dominance from the Gulf Cooperation Council (GCC) countries—UAE, Saudi Arabia, Kuwait, Qatar, Oman, and Bahrain—towards advanced economies.

The GCC countries contributed 38% of remittances, while the share of the US remained the largest at 27.7% (up from 23.4% in 2021-22), followed by the UAE at 19.2% (18% earlier) and the UK at 10.8% (6.8% earlier).

Thus, advanced economies have overtaken GCC countries as the primary sources of India's inward remittances, with the latter no longer accounting for over half of the inflows. **So, Statement 1 is not correct.**

Remittances from Advanced Economies have risen steadily in recent years.

- The US remains the largest contributor, accounting for 27.7% of total remittances in 2023-24, compared to 22.9% in 2016-17 and 23.4% in 2020-21.
- Between 2016-17 and 2023-24, the share of remittances from the UK rose from 3% to 10.8%, from Canada 3% to 3.8%, and from Singapore 5.5% to 6.6%.
- Although the number of Indian migrants in the US is smaller than in the GCC, they send higher per capita remittances. This is due to higher wages (including minimum wages), stronger professional opportunities, and the higher purchasing power of the US dollar.
- A similar pattern is observed in other advanced economies such as Canada, the UK, Germany, and Australia, where Indian professionals earn significantly more than their counterparts in the Gulf.

The growing presence of highly skilled Indian professionals, especially in STEM fields (Science, Technology, Engineering, and Mathematics), finance, and healthcare, has been a key driver of this shift, contributing to the rise in remittance inflows from advanced economies. **So, Statement 2 is correct.**

The remittances sent back home by Indians working abroad registered a 14 per cent rise in 2024-25, reaching a record 135.46 billion dollars, according to data compiled by the Reserve Bank of India (RBI).

- In 2024 alone, Indians working overseas sent home 129.4 billion dollars.
- The RBI noted that these inflows, classified under "private transfers", accounted for more than 10 per cent of India's total foreign exchange inflows.
- India continued to top the list of remittance recipient countries in 2024, staying well ahead of Mexico (68 billion dollars), China (48 billion dollars), the Philippines (40 billion dollars), and Pakistan (33 billion dollars), according to World Bank estimates.
- Inward foreign remittances have always been of critical importance to India's economy. They account for over 3% of GDP and are one of the most important sources of foreign exchange reserves.
- Notably, remittances finance nearly half of India's merchandise trade deficit and serve as a crucial buffer against external economic shocks. **So, Statement 3 is correct.**

54. Consider the following:
   1. Higher import costs
   2. A higher interest rate in the USA than in India
   3. Lower trade deficit
   4. Higher foreign portfolio investment inflows

   How many among the above could lead to depreciation of the Indian rupee?
   (a) Only one
   (b) Only two
   (c) Only three
   (d) All four

<u>EXPLANATION:</u>

Currency depreciation occurs when a currency loses value compared to others, often due to economic factors and interest rate differences. When import costs rise, India needs more foreign currency (mainly USD) to pay for these goods. This increases demand for dollars, putting downward pressure on the rupee and causing it to depreciate. High import bills for items like petroleum, electronics, and gems directly contribute to this weakening of the INR. Recently, the Indian rupee hit near-record lows against the US dollar, trading around 88.15–88.18. While depreciation benefits exporters by making Indian goods cheaper abroad, it raises costs for import-heavy sectors such as petroleum, electronics, and gems & jewellery. Thus, Higher import costs lead to depreciation of the Indian rupee. **So, Statement 1 is correct.**
When interest rates in the USA are higher than in India, global investors are attracted to the higher returns offered by US assets. This leads to capital outflows from India, as investors move their funds to the US, increasing the demand for US dollars. As a result, the Indian rupee weakens, or depreciates, against the dollar. To counter this depreciation and manage imported inflation, the RBI may raise domestic interest rates, which helps reduce outflows and stabilise the currency. Thus, a higher interest rate in the USA than in India could lead to depreciation of the Indian rupee. **So, Statement 2 is correct.**
A trade deficit is incurred when a country's import exceeds its exports. This means the country needs more dollars to settle its bills, which strengthens the Dollar and weakens or depreciates the rupee. With respect to India, a lower trade deficit means that India's imports and exports are more balanced, so the country requires fewer US dollars to pay for imports. With reduced demand for foreign currency, there is less pressure on the rupee, making it less likely to depreciate. In fact, a lower trade deficit can even support a slight appreciation of the INR. Therefore, only a higher (not lower) trade deficit leads to the depreciation of the rupee. **So, Statement 3 is not correct.**
Foreign portfolio investment (FPI) is the investment by foreign investors in Indian securities, including shares, government bonds, corporate bonds, convertible securities, units of business trusts, etc. Higher FPI inflows bring foreign currency into India as investors purchase Indian stocks and bonds. This increases the demand for the Indian rupee, which strengthens or appreciates the currency rather than weakening it. Conversely, FPI outflows, when investors sell their Indian assets and convert rupees back into foreign currency, create demand for dollars and can lead to rupee depreciation. Therefore, Higher the FPI inflow, the appreciation of the Indian rupee. **So, Statement 4 is not correct.**

ADDITIONAL INFORMATION:

DEPRECIATION OF INDIAN RUPEE	
Recently in the News	Recently, the Indian rupee declined 8 paise to close at an all-time low of 88.18 (provisional) against the U.S. dollar, as Indo-U.S. trade deal uncertainty and weak domestic equity markets pressured the local unit.
Factors affecting the depreciation of the Indian rupee	➢ **Trade Deficit:** India's persistent trade deficit, where imports outweigh exports, plays a significant role in the Rupee's depreciation. As Indian businesses need more dollars to pay for imports than they receive from exports, the demand for US currency increases. This imbalance puts pressure on the Rupee, causing it to lose value. ➢ **Current Account Deficit (CAD):** Another crucial factor is the current account deficit (CAD), which reflects a country's overall financial health in relation to the rest of the world. A widening CAD indicates that India is spending more on foreign trade than it earns, leading to a net outflow of domestic currency. ➢ **Inflation:** When India's inflation rate is higher than that of the United States, it erodes the Rupee's purchasing power relative to the Dollar. This means that you need more Rupees over time to buy the same goods or services that a Dollar can purchase. ➢ **Interest Rate Differentials:** The difference in interest rates between India and the United States significantly impacts currency values. When US interest rates rise, more foreign investment is attracted as investors seek higher returns. This increased demand for Dollars puts pressure on the Rupee. ➢ **Crude Oil Prices:** India's heavy reliance on oil imports makes it particularly vulnerable to fluctuations in global oil prices. When crude oil prices rise, it has a double impact on the Rupee: • India needs more Dollars to pay for the same amount of oil, increasing Dollar demand. • Higher oil prices can widen India's trade deficit, weakening the Rupee. ➢ **During periods of worldwide economic uncertainty,** Demand for Indian exports may decrease, reducing the inflow of Dollars into the Indian economy. Investors often seek "safe haven" currencies like the US Dollar, moving money out of emerging markets like India. ➢ **Foreign Institutional Investors (FIIs):** The behaviour of foreign institutional investors plays a crucial role in short-term exchange rate fluctuations. This is mainly because these large investment entities can move significant amounts of capital in and out of India quickly. Prolonged FII outflows can lead to sustained weakness in the rupee, affecting everything from import costs to India's attractiveness as an investment destination.

55. With reference to the Household Consumption Expenditure Survey, consider the following statements:
  1. It is released by the National Statistics Office.
  2. It provides insights into both the food and non-food consumption of the Indian population.
  3. As per the survey, the average calorie intake among the rural and urban populations tends to increase with an increase in monthly per capita consumption expenditure.

  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

EXPLANATION:

The Household Consumption Expenditure Survey (HCES) collects information on households' consumption and expenditure on goods and services. It helps understand consumption patterns, standard of living, and well-being of households. ➢ Additionally, HCES data provides the budget shares of different commodity groups, which are used to prepare the weighting diagrams for official Consumer Price Indices (CPIs). ➢ The National Statistical Office has been conducting surveys on household consumption expenditure at regular intervals since the inception of the National Sample Survey (NSS) in the year 1951. **So, Statement 1 is correct.**
The Household Consumption Expenditure Survey (HCES) provides data on the share of different food and non-food items in total household expenditure in India. It highlights differences in consumption patterns between rural and urban households, with rural households spending more on food and urban households spending more on non-food items. **So, Statement 2 is correct.**

Rural India (2023-24)	**Urban India (2023-24):**
Food accounted for about 47% of average rural household consumption. Within food, the largest contributors were: • Beverages, refreshments, and processed food – 9.84% • Milk and milk products – 8.44% • Vegetables – 6.03% • Cereals and cereal substitutes – 4.99% Among non-food items, the highest shares were: • Conveyance – 7.59% • Medical expenses – 6.83% • Clothing, bedding & footwear – 6.63% • Durable goods – 6.48%	Food contributed about 40% of monthly per capita consumption expenditure (MPCE). Within food, the largest contributors were: • Beverages, refreshments, and processed food – 11.09% • Milk and milk products – 7.19% • Vegetables – 4.12% Non-food items made up around 60% of MPCE, with the largest shares in: • Conveyance – 8.46% • Miscellaneous goods & entertainment - 6.92% • Durable goods – 6.87% • Rent – 6.58%

➢ According to the Household Consumption Expenditure Survey: 2022-23 & 2023-24, in rural India, the average per capita per day calorie intake was 2,233 Kcal in 2022-23 and slightly declined to 2,212 Kcal in 2023-24. ➢ In urban India, the corresponding figures were 2,250 Kcal and 2,240 Kcal. ➢ From 2022-23 to 2023-24, average calorie intake increased for the bottom five income groups in rural areas and the bottom six income groups in urban areas. ➢ There is a wide variation in calorie intake across major states for both years, for both per capita and per consumer unit measurements. Generally, as Monthly Per Capita Consumption Expenditure (MPCE) increases, average calorie intake also rises in both rural and urban India. **So, Statement 3 is correct.**

ADDITIONAL INFORMATION:

MONTHLY PER CAPITA CONSUMPTION EXPENDITURE	
About	Monthly Per-capita Consumer Expenditure (MPCE) is an important indicator of the economic level of households. It is also a key component in the calculation of the poverty ratio. ➢ The Engel's ratio, which measures the proportion of expenditure on food to that on non-food items, is widely used as an indicator of the standard of living of people. ➢ The various rounds of the National Sample Survey (NSS) provide detailed insights into the consumer expenditure patterns of families across different income levels,

	separately for rural and urban areas. This data is also used to estimate the population living Below Poverty Line (BPL).
Recent MCEP Data	➢ The average estimated Monthly Per Capita Consumption Expenditure (MPCE) in 2023-24 was ₹4,122 in rural India and ₹6,996 in urban India. ➢ The bottom 5% of the rural population had an average MPCE of ₹1,677, while in urban areas it was ₹2,376. ➢ The top 5% of the population recorded an average MPCE of ₹10,137 in rural areas and ₹20,310 in urban areas. ➢ Among the states, the highest MPCE was in Sikkim (Rural – ₹9,377; Urban – ₹13,927), while the lowest was in Chhattisgarh (Rural – ₹2,739; Urban – ₹4,927). ➢ Among the Union Territories (UTs), the highest MPCE was in Chandigarh (Rural – ₹8,857; Urban – ₹13,425). The lowest was in Dadra and Nagar Haveli & Daman and Diu (₹4,311 in rural areas) and Jammu & Kashmir (₹6,327 in urban areas). ➢ The urban-rural gap in MPCE was the highest in Meghalaya (104%), followed by Jharkhand (83%) and Chhattisgarh (80%).

56. In India, the Digital Payments Index is published by:

(a) Ministry Of Finance

(b) NITI Aayog

(c) Reserve Bank of India

(d) Ministry of Statistics & Programme Implementation

EXPLANATION:

The Digital Payments Index (DPI) is a composite index developed by the Reserve Bank of India (RBI) to measure the extent and growth of digital payments across India.

Introduced in January 2021, the DPI uses March 2018 as the base period, with an index value of 100. The index is updated semi-annually to reflect the deepening and penetration of digital payment systems. **So, Option (c) is correct.**

➢ As per the latest release, Reserve Bank of India (RBI) data shows a 10.7% rise in digital transactions as of March 2025.

➢ The RBI Digital Payments Index (DPI) value now stands at 493.22, reflecting improvements in payment infrastructure and payment performance.

➢ The increase in the RBI-DPI was driven by significant growth in parameters such as Payment Infrastructure, Supply-side factors, and Payment Performance across the country over the period.

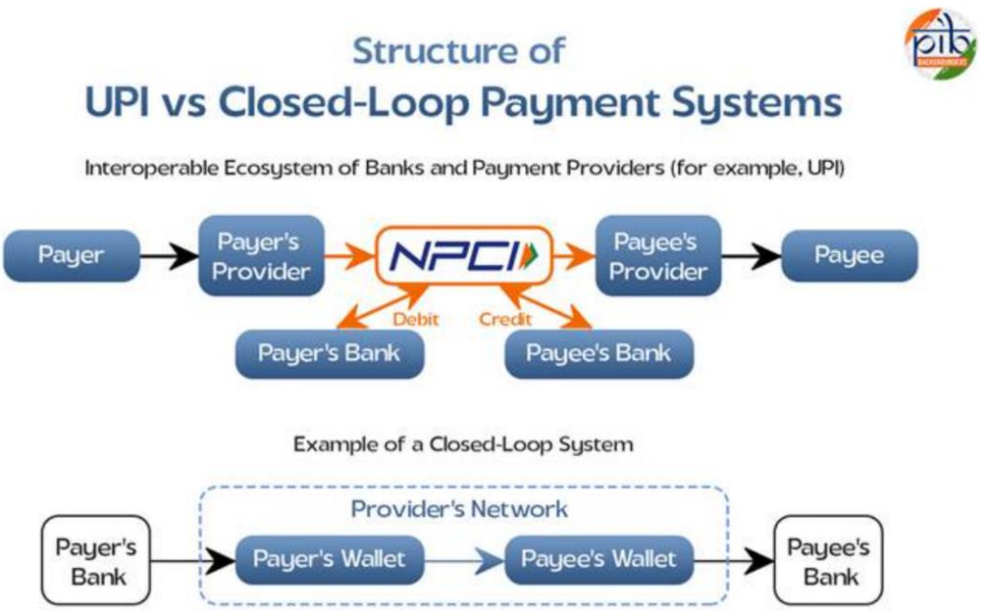
The RBI-DPI comprises five broad parameters that measure the deepening and penetration of digital payments in India over time:

- Payment Enablers – weightage 25%
- Payment Infrastructure, Demand-side factors – weightage 10%
- Payment Infrastructure, Supply-side factors – weightage 15%
- Payment Performance – weightage 45%
- Consumer Centricity – weightage 5%

ADDITIONAL INFORMATION:

<table>
<tr><th colspan="2">INDIA'S UPI REVOLUTION</th></tr>
<tr><td>About</td><td>

- India has emerged as the global leader in fast payments, according to a recent note by the International Monetary Fund titled Growing Retail Digital Payments: The Value of Interoperability.
- Unified Payments Interface (UPI) was launched in 2016 by the National Payments Corporation of India.
- Before UPI, digital payments in India were limited by closed-loop systems.
- A closed-loop system is one where transactions can only happen within the same platform.



</td></tr>
<tr><td>Real Time Payments</td><td>

- India's Unified Payments Interface (UPI) is now the world's number one real-time payment system, surpassing Visa in daily transactions.
- UPI handles over 640 million transactions per day, compared to Visa's 639 million, and accounts for nearly 50% of global real-time transactions.
- UPI is also expanding internationally and is live in seven countries: UAE, Singapore, Bhutan, Nepal, Sri Lanka, France, and Mauritius. Its launch in France marks UPI's first step into Europe.
- India is promoting UPI as a standard within the BRICS group, now expanded with six new member nations.
- If adopted, this could boost remittances, enhance financial inclusion, and strengthen India's position as a global leader in digital payments technology.

</td></tr>
</table>

57. With reference to Small Finance Banks (SFBs), consider the following statements:
   1. They are regulated by the Reserve Bank of India.
   2. They are not required to maintain the Statutory Liquidity Ratio like other commercial banks.
   3. They have to lend 100% of their Adjusted Net Bank Credit to priority sectors.

   How many of the above statements is/are correct?
   (a) Only one
   (b) Only two
   (c) All three
   (d) None

EXPLANATION:

Small Finance Banks (SFBs) in India are a special type of bank created by the RBI with guidance from the Government of India to promote financial inclusion. They provide basic banking services to unserved and underserved groups, including small and marginal farmers, small businesses, micro and small industries, and the unorganized sector. SFBs operate under the regulation of the RBI, within the scope of the Banking Ombudsman Scheme, 2006, and are registered as public limited companies under the Companies Act, 2013. They are governed by the Banking Regulation Act, 1949, the RBI Act, 1934, and other relevant statutes and directives issued from time to time. **So, Statement 1 is correct.**
Small Finance Banks (SFBs) are required to follow all prudential norms and regulations of the RBI applicable to commercial banks. This includes the mandatory maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR). No exemptions or leniency are allowed for complying with these statutory requirements. **So, Statement 2 is not correct.**
The small finance banks will be required to extend 75 per cent of their Adjusted Net Bank Credit (ANBC) to the sectors eligible for classification as priority sector lending (PSL) by the Reserve Bank. At least 50 per cent of its loan portfolio should constitute loans and advances of up to Rs. 25 lakh. **So, Statement 3 is not correct.**

ADDITIONAL INFORMATION:

SMALL FINANCE BANKS (SFBS)	
Recently in news	Recently, the RBI decided to grant 'in-principle' approval to AU Small Finance Bank for transitioning from a small finance bank (SFB) to a universal bank.
About	➢ Small Finance Banks (SFBs) in India are a special type of bank created by the RBI with guidance from the Government of India to promote financial inclusion. ➢ They provide basic banking services, such as lending and deposits, to unserved and underserved groups, including small and marginal farmers, small businesses, micro and small industries, and the unorganized sector. ➢ There will not be any restrictions on the area of operations of small finance banks. ➢ Following the 2014-15 Union Budget, the RBI issued guidelines for SFBs in November 2014. ➢ Out of 72 applicants, only 10 entities received the license, with AU Financiers being the only asset-based NBFC to obtain it.
Operational SFBs in India	Some of the operational Small Finance Banks in India are as follows: ➢ Ujjivan Small Finance Bank. ➢ Janalakshmi Small Finance Bank. ➢ Equitas Small Finance Bank. ➢ Capital Small Finance Bank. ➢ ESAF Small Finance Bank. ➢ Utkarsh Small Finance Bank. ➢ Suryoday Small Finance Bank. ➢ Fincare Small Finance Bank.

Non-Banking Financial Company (NBFC)	➢ A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 or Companies Act, 2013, whose principal business involves lending and advances, acquisition of shares/stocks/bonds/debentures/securities issued by the government or local authorities, leasing, hire-purchase, or similar financial activities. ➢ It does not include institutions whose main business is agriculture, industrial activities, trading in goods (other than securities), providing services, or dealing with immovable property. ➢ A residuary non-banking company (RNBC) is an NBFC whose principal business is receiving deposits under any scheme or arrangement, either in lump sum or installments, including contributions in any other manner. ➢ While NBFCs perform lending and investment activities similar to banks, they are distinct from banks and are governed by separate statutory and regulatory frameworks. Key differences include: • NBFCs cannot accept demand deposits. • NBFCs are not part of the payment and settlement system and cannot issue cheques drawn on themselves. • Deposit insurance by the Deposit Insurance and Credit Guarantee Corporation (DICGC) is not available to depositors of deposit-taking NBFCs.

58. Consider the following statements:
1. Both repo rate and variable repo rate mechanisms help to increase the money supply in the economy.
2. Both repo rate and variable repo rate are part of the Reserve Bank of India's liquidity adjustment facility.

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

EXPLANATION:

The repo rate is a key monetary policy instrument used by the Reserve Bank of India (RBI) to regulate money supply and influence overall economic activity. It is the rate at which commercial banks borrow short-term funds from the RBI by selling government securities under an agreement to repurchase them later. The difference between the sale and repurchase price is the interest paid, known as the repo rate. By adjusting the repo rate, the RBI can control liquidity and inflation in the economy: ➢ An increase in the repo rate makes borrowing costlier for banks, reducing the money supply and inflationary pressure. ➢ A decrease in the repo rate makes funds cheaper, encouraging lending and investment. The Variable Repo Rate (VRR) is another liquidity management tool that functions through market-based auctions rather than a fixed rate. In these auctions, banks bid for funds, and the rate is determined by demand and supply conditions in the market. These operations are generally conducted for longer durations (2–14 days or more), offering banks greater flexibility. Thus, both repo rate (fixed) and VRR (auction-based) serve as mechanisms for injecting liquidity into the financial system and influencing the money supply in the economy. **So, Statement 1 is correct.**
The Liquidity Adjustment Facility (LAF) refers to the Reserve Bank's operations through which it injects/absorbs liquidity into/from the banking system. The RBI introduced the LAF as a result of the Narasimham Committee on Banking Sector Reforms (1998).

- It consists of overnight as well as term repo/reverse repos (Fixed as well as Variable rates), SDF and MSF.
- LAFs are used to aid banks in resolving any short-term cash shortages during periods of economic instability or from any other form of stress caused by forces beyond their control.

Therefore, both repo rate and variable repo rate are part of the Reserve Bank of India's liquidity adjustment facility. **So, Statement 2 is correct.**

ADDITIONAL INFORMATION:

TOOLS USED FOR IMPLEMENTING MONETARY POLICY	
About	The Reserve Bank of India (RBI) uses several direct and indirect tools to manage liquidity and interest rates in the economy. These tools include: ➢ **Repo Rate:** The interest rate at which RBI lends money to commercial banks under the Liquidity Adjustment Facility (LAF), against government and approved securities. ➢ **Standing Deposit Facility (SDF) Rate:** The rate at which RBI accepts uncollateralised overnight deposits from banks. Introduced in April 2022, it acts as a financial stability tool and sets the lower bound of the LAF corridor, 25 basis points below the repo rate. ➢ **Marginal Standing Facility (MSF) Rate:** The penal rate at which banks can borrow overnight from RBI using their Statutory Liquidity Ratio (SLR) up to a limit of 2%, serving as a safety valve for liquidity shocks. It is 25 basis points above the repo rate and forms the upper bound of the LAF corridor. ➢ **Liquidity Adjustment Facility (LAF):** RBI's operations to inject or absorb liquidity in the banking system, consisting of overnight and term repo/reverse repos (fixed and variable rates), SDF, and MSF. ➢ **LAF Corridor:** The framework where the MSF rate is the ceiling, the SDF rate is the floor, and the repo rate is in the middle. ➢ **Main Liquidity Management Tool:** A 14-day term repo/reverse repo auction at a variable rate conducted to manage short-term liquidity aligned with the Cash Reserve Ratio (CRR) cycle. ➢ **Fine-Tuning Operations:** Additional repo/reverse repo auctions (overnight or longer tenor) to handle unanticipated liquidity changes during the reserve maintenance period. ➢ **Reverse Repo Rate:** The interest rate at which the RBI absorbs liquidity from banks using government securities as collateral. After the SDF introduction, fixed-rate reverse repos are used at the RBI's discretion. ➢ **Bank Rate:** The rate at which the RBI buys or rediscounts bills of exchange and commercial papers. It acts as a penal rate for banks failing to meet CRR/SLR requirements and aligns automatically with the MSF and repo rates. ➢ **Cash Reserve Ratio (CRR):** The minimum daily balance that banks must maintain with RBI as a percentage of their net demand and time liabilities (NDTL), notified fortnightly. ➢ **Statutory Liquidity Ratio (SLR):** Banks must maintain a specified percentage of their Net Demand and Time Liabilities (NDTL) in India in approved assets like government securities, cash, or gold, as notified fortnightly. ➢ **Open Market Operations (OMOs):** RBI's purchase or sale of government securities to inject or absorb long-term liquidity in the banking system.

59. Consider the following:
   1. Port Trusts
   2. EXIM Bank of India.
   3. Limited Liability Partnerships

   How many of the above is/are eligible to raise External Commercial Borrowings?
   (a) Only one
   (b) Only two
   (c) All three
   (d) None

EXPLANATION:

External Commercial Borrowings (ECBs) refer to loans and borrowings made by Indian entities from non-resident lenders (foreign sources) in foreign currency or Indian rupees. These borrowings must comply with parameters such as minimum maturity, permitted end-uses, non-permitted end-uses, and maximum all-in-cost ceiling. ECBs can be raised under two routes: ➢ **Automatic Route –** The Authorized Dealer (AD) Category-I bank examines the case. ➢ **Approval Route –** The borrower submits a request through the AD to the RBI for approval. While regulatory provisions are largely similar, the two routes differ in borrowing limits, borrower eligibility, and permissible end-uses. Eligible Borrowers now include all entities eligible for Foreign Direct Investment (FDI). Additionally, the following entities can raise ECBs: ➢ Port Trusts – autonomous government bodies managing major ports in India ➢ Units in Special Economic Zones (SEZs) ➢ SIDBI and EXIM Bank of India ➢ Registered microfinance entities – including not-for-profit companies, societies, trusts, cooperatives, and NGOs. **So, Statements 1 and 2 are correct.**
A Limited Liability Partnership (LLP) is a body corporate formed under the Limited Liability Partnership Act, 2008 and is a separate legal entity from its partners. This means the LLP itself can own assets, enter into contracts, and is fully responsible for its debts and obligations. In contrast, the liability of individual partners is limited to their agreed contribution, so their personal assets remain protected. ➢ Partners are not responsible for the misconduct, negligence, or debts of other partners, except in cases of fraud. ➢ The LLP structure combines the limited liability feature of a company with the flexible management of a partnership, making it suitable for professionals, SMEs, and startups. ➢ According to RBI, Limited Liability Partnerships (LLPs) cannot raise External Commercial Borrowings (ECBs), and not eligible to receive Foreign Direct Investment (FDI). ➢ LLP is eligible to receive Foreign Investment under FEMA NDI (Foreign Exchange Management Act (Non-debt Instruments)). **So, Statement 3 is not correct.**

ADDITIONAL INFORMATION:

EXTERNAL COMMERCIAL BORROWINGS	
Recently in the News	NABARD plans to raise its first external commercial borrowing (ECB) in fiscal year 2026, with approval already granted by the RBI. The funds will be used to support climate change projects. To facilitate this, NABARD will set up an office in GIFT City. The bank is waiting for the right market conditions to borrow and is avoiding domestic issuances due to high yields.
Importance of an ECB	➢ Interest rates are lower, compared to domestic funds ➢ ECBs provide an opportunity to borrow a large volume of funds ➢ The funds are available for a relatively long term

	➢ Corporates can raise ECBs from internationally recognised sources, such as banks, export credit agencies, international capital markets etc. ➢ ECBs are in the form of foreign currencies. Hence, they enable the corporates to have foreign currencies, to meet the import of machineries etc.
Different types of ECBs	Different types of ECBs are as follows: ➢ Loans including bank loans ➢ Securitised instruments (such as floating rate notes, fixed-rate bonds, and non-convertible, partially convertible or optionally convertible preference shares/debentures) ➢ Trade Credits beyond 3 years ➢ Foreign Currency Convertible Bonds (FCCBs) ➢ Financial Lease ➢ Foreign Currency Exchangeable Bonds (FCEB)

60. Grameen Credit Score, announced in the Union Budget 2025-26, will be applicable to:

(a) Self-Help Groups

(b) Marginalised communities

(c) Farmers

(d) All of the above

EXPLANATION:

The Union Budget 2025-26 announced the creation of a Grameen Credit Score, a specialized framework to be developed by public-sector banks to assess the credit needs of Self-Help Group (SHG) members and the rural population.

- Current credit scoring systems used by Credit Information Companies (CICs) are generic and do not specifically reflect the characteristics and financial behavior of rural borrowers.
- The Grameen Credit Score aims to provide tailored credit assessment for SHGs, farmers, and marginalized communities, improving access to formal credit in rural areas.
- By facilitating better credit allocation, this initiative is expected to support economic growth and development in rural India. The government is consulting stakeholders to finalize the modalities and structure of the Grameen Credit Score. **So, Option (d) is correct.**

ADDITIONAL INFORMATION:

GRAMEEN CREDIT SCORE	
Recently in the News	The Union government is expected to roll out the Grameen Credit Score (GCS) framework within the next three months, as of 2nd June, 2025.
Credit score	➢ A credit score is a numerical representation of a borrower's creditworthiness. ➢ Lending institutions use it to evaluate a borrower's ability to repay loans and fulfill obligations under credit facilities. ➢ Credit scores are derived from credit information, including the amount and type of loans availed, outstanding balances, and non-fund-based facilities such as guarantees.
Credit Information Companies (Regulation) Act, 2005	➢ The Credit Information Companies (Regulation) Act, 2005 provides for the regulation of credit information companies (CICs) and facilitates the efficient distribution of credit. ➢ Currently, four CICs are registered with the RBI under this Act: TransUnion CIBIL, Equifax, Experian, and CRIF High Mark. ➢ As per RBI regulations, CICs collect, process, and collate information on the trade, credit, and financial standing of borrowers to generate credit scores used in credit appraisal.

	➢ The RBI oversees the functioning of CICs, ensuring the accuracy, security, and privacy of credit information in its collection, storage, processing, and sharing.
Grameen Credit Score and Traditional credit scores	➢ The Grameen Credit Score is designed to improve credit assessment in rural areas by considering challenges specific to these regions and using broader financial information. ➢ Traditional credit scores rely on payment history, credit utilization, and credit history length, but many rural borrowers have limited or no formal credit history, leaving them underserved. ➢ The Grameen Credit Score addresses this by including factors such as cyclical income, education, employment history, rent and utility payments, and spending habits. ➢ It generates scores tailored for rural areas and Self-Help Groups (SHGs), enabling faster and more accurate evaluation of credit needs. ➢ Public-sector banks, in consultation with the RBI, will develop this scoring framework, improving access to formal credit for rural borrowers and SHGs.
Potential Benefits	➢ The Grameen Credit Score is designed to complement the Government's ongoing efforts to develop rural and backward areas by improving access to affordable formal credit. ➢ This customized credit evaluation will promote financial inclusion, encourage investment in agriculture, support the growth of rural enterprises, and empower rural communities.

61. With reference to the National Bank for Financing Infrastructure and Development (NaBFID), consider the following statements:
    1. It is regulated by the Ministry of Finance.
    2. It aims to enhance the development of bond and derivatives markets in India for infrastructure financing.

    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

EXPLANATION:

The National Bank for Financing Infrastructure and Development Act, 2021 was introduced by the Ministry of Finance, marking a major shift in India's approach to infrastructure financing and signalling the return of Development Financial Institutions (DFIs) after several decades. ➢ Under this Act, NaBFID has been established as an infrastructure-focused DFI. ➢ It is regulated and supervised by the RBI as an All-India Financial Institution (AIFI) under the RBI Act, 1934. **So, Statement 1 is not correct.**
NaBFID aims to support long-term, non-recourse infrastructure financing in India. ➢ Its objectives include the development of bond and derivatives markets necessary for infrastructure financing and carrying out the business of financing infrastructure. ➢ By providing financing, expertise, technology, and analytics, NaBFID will play a pivotal role in helping India achieve its ambitious infrastructure development goals. **So, Statement 2 is correct.**

ADDITIONAL INFORMATION:

NATIONAL BANK FOR FINANCING INFRASTRUCTURE AND DEVELOPMENT	
Recently in News	National Bank for Financing Infrastructure and Development hosts Annual Infrastructure Conclave 2025, launched Partial Credit Enhancement product.
Partial Credit Enhancement (PCE)	PCE is aimed at strengthening the infrastructure bond market and improving access to long-term capital for infrastructure projects. ➢ **Key Benefits of PCE:** ➢ **Credit Rating Support:** PCE directly improves a bond's credit rating. Enhanced ratings from two credit rating agencies, as per RBI guidelines, lower the perceived default risk. ➢ **Reduced Cost of Borrowing:** A higher credit rating can lead to lower interest costs for the issuer. This reduction in borrowing costs can result in significant savings over the life of a long-term infrastructure project, improving its financial viability and sustainability. ➢ **Diversification of Funding Sources and Wider Investor Base:** Traditionally, infrastructure financing in India has been heavily reliant on banks, creating high asset-liability mismatches, as banks fund long-term projects with short-term deposits. PCE shifts some of this burden to the corporate bond market, attracting a broader and more diverse set of investors who have a natural appetite for long-term assets.

62. Consider the following statements:
    1. Dollarisation requires a country to adopt the dollar as the only medium of exchange in all trade settlements.
    2. The Chinese renminbi, the Swiss franc, and the US dollar are among the reserve currencies recognised by the International Monetary Fund.

    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

EXPLANATION:

Dollarisation is the process by which a country recognizes the U.S. dollar (or another stronger foreign currency) as a medium of exchange, either alongside or instead of its domestic currency, as a form of currency substitution. It does not require the dollar to be the sole medium of exchange. Dollarisation typically occurs when residents lose confidence in the domestic currency, preferring to hold assets in a stable foreign currency, or when governments seek to attract foreign direct investment and ensure economic stability. It can be partial, with the foreign currency used alongside the domestic currency, or full, with the foreign currency completely replacing the domestic currency. **So, Statement 1 is not correct.**
The International Monetary Fund (IMF) recognises eight reserve currencies, namely the Australian dollar, the British pound sterling, the Canadian dollar, the Chinese renminbi, the euro, the Japanese yen, the Swiss franc, and the US dollar. The US dollar is the global reserve currency as it is the most held, accounting for 59 per cent of global foreign exchange reserves. **So, Statement 2 is correct.**

ADDITIONAL INFORMATION:

DOLLARISATION AND DE-DOLLARISATION	
Recently in news	Recently, Brazil's Ambassador to India has clarified that BRICS does not plan to create an alternative currency. Instead, the bloc is focusing on promoting the use of local currencies for trade among member countries on a voluntary basis. This approach aims to reduce dependence on the U.S. dollar and enhance financial autonomy within the group.
Dollarisation Background	Dollarisation is when a country adopts the U.S. dollar (or another stronger foreign currency) as a medium of exchange, either alongside or instead of its domestic currency. It is a form of currency substitution and can be partial or full. ➢ The U.S. dollar has been the dominant global reserve currency for over 80 years. Central banks, corporations, and travellers rely on it for international trade and financial transactions. ➢ Today, it is the most widely held reserve currency, involved in an estimated $6.6 trillion in daily transactions, forming the backbone of the global financial system. ➢ The origins of dollarisation trace back to the 1944 Bretton Woods Conference, which reshaped the global monetary order with participation from 44 Allied countries.
Reason For Global Dominance of the US Dollar	Central banks hold the dollar to settle international claims, intervene in foreign exchange markets, or maintain emergency funds. ➢ It is dominant in transactions between non-U.S. exporters and importers. ➢ Commodities like oil and gold, as well as benchmark futures like Brent, are priced in dollars. ➢ Gulf oil producers peg their currencies to the dollar to reduce invoicing risks. ➢ The dollar's supremacy was highlighted in 2018 when U.S. sanctions on Iran threatened access to dollars for countries doing business with Iran.
De-dollarisation	De-dollarisation, in simple terms, is the process of reducing dependence on the dollar. Discussions about 'de-dollarisation' have gained momentum in recent decades. This trend is driven by US sanctions and a growing shift toward multipolarity. ➢ Countries such as China and Russia are increasingly using the Chinese renminbi (RMB) for trade. ➢ The BRICS bloc is also exploring the possibility of creating a new common currency to reduce its dependence on the US dollar.

63. With reference to the concept of Product Nation, consider the following statements:
1. Product Nations export high-value goods.
2. Product Nations tend to be net producers of certain goods.
3. Product Nations generally carry out value addition of goods within their country.

Which of the above statements are correct?

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

EXPLANATION:

Recently, the union minister had expressed confidence that India could become a 'Product Nation', producing innovative goods in deep-tech sectors. Despite these goals and significant investments, achieving the status of a Product Nation remains a long-term challenge. ➢ A Product Nation is a country that produces and exports a substantial volume of high-value goods, such as electronics, automobiles, advanced machinery, and intellectual property-driven products. ➢ In recent years, global economic priorities have shifted from services to product-based economies, and India aims to align with this trend to remain competitive. ➢ Focusing on manufacturing would boost exports of high-value goods, drive innovation and technological development, create millions of skilled and unskilled jobs, and enhance self-reliance, thereby reducing dependency on imports. **So, Statement 1 is correct.**
Product Nations tend to become a net producer rather than a net importer. These countries export significantly more than they import in certain goods. In India's context, goods that tend to be net producers include refined petroleum products such as petrol, diesel, and jet fuel; gems and jewelry like cut and polished diamonds and gold ornaments; pharmaceuticals, etc. These sectors showcase India's capability to add substantial value domestically and export products globally, reflecting the country's journey towards becoming a full-fledged Product Nation focused on innovation, manufacturing, and export competitiveness. **So, Statement 2 is correct.**
Product Nation generally transforms economic growth and ensures that the benefits of value addition remain within domestic industries. Value addition, including activities such as designing, manufacturing, and branding, usually occurs domestically in Product Nations, which differentiates them from nations that merely assemble or process goods. **So, Statement 3 is correct.**

ADDITIONAL INFORMATION:

THE CONCEPT OF PRODUCT NATION & CHALLENGES	
Recently in news	Union IT Minister said India's strong IP regime, stable foreign policy, Critical Minerals Mission, and techno-legal approach to AI safety are propelling it toward becoming a 'product nation'. Minister added that Semiconductor Mission 2.0 aims to build a full domestic semiconductor ecosystem expanding from design and fabs to equipment, materials, and talent development.
Challenges over India's path on Product Nation	India's path to becoming a Product Nation faces several challenges. ➢ Insufficient investment in research and development (R&D) hampers innovation; without robust R&D, initiatives like Make in India risk being reduced to mere assembly of imported components rather than fostering indigenous production. ➢ Additionally, India's design and innovation capabilities are often directed toward creating products for global companies rather than developing indigenous solutions. ➢ Recent developments indicate progress toward this goal. For instance, Tata Electronics has secured a majority stake in Pegatron's iPhone manufacturing plant in Tamil Nadu, enhancing domestic production capabilities. ➢ However, challenges remain, as seen in the investigation into Ola Electric over service standards and product quality, highlighting the need for stringent quality control. ➢ To become a Product Nation, India must prioritise R&D by allocating higher budgets and encouraging collaboration between academia, industry, and government to drive innovation and develop cutting-edge products.

64. With reference to Global Findex 2025, consider the following statements:

1. This index, published by the World Bank, gives information on the demand side of financial inclusion.
2. According to the index, India has achieved complete financial account ownership for its population.

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

EXPLANATION:

<table>
<tr><td>The Global Findex 2025, published by the World Bank, has been the world's only demand-side survey on financial inclusion since its launch in 2011. It serves as a leading source of data on how adults around the world access and use financial services.
➢ Over the years, the Global Findex has provided critical insights into financial inclusion, digital payments, savings, and borrowing behaviors across economies.
➢ The database also highlights key trends such as the rise of digital financial services and the persistent gender gap in account ownership. So, Statement 1 is correct.</td></tr>
<tr><td>According to the World Bank's Global Findex 2025 report, India has reached a significant milestone in financial inclusion, with nearly 9 in 10 adults now owning a financial account.
➢ Financial account ownership in the country rose to 89 percent in 2024, up from just 35 percent in 2011 which is considered one of the fastest and most ambitious expansions in the world.
➢ The report highlighted India's progress in expanding financial access through both traditional banking and mobile money services.
➢ It found that 88.7 percent of adults hold an account with a bank or similar financial institution, while 23.1 percent reported having a mobile money account.
However, despite this growth, India also has one of the highest shares of inactive accounts globally.
Thus, while financial account ownership has expanded rapidly, India has not yet achieved universal and active financial inclusion, as 11 percent of adults remain outside the formal financial system and many existing accounts are dormant. So, Statement 2 is not correct.</td></tr>
</table>

ADDITIONAL INFORMATION:

<table>
<tr><th colspan="2">GLOBAL FINDEX 2025</th></tr>
<tr><td>Recently in news</td><td>The Global Findex 2025 highlighted that account ownership in India has reached 89 per cent since 2011, and the country has made progress in increasing the share of adults with active accounts.</td></tr>
<tr><td>About</td><td>The World Bank Group's Global Findex 2025 report shows that 80% of adults worldwide now have a financial account, marking steady progress in financial inclusion. This growth is mainly driven by the spread of mobile technology and digital financial services.
➢ The 2025 report, the fifth in the series, also introduces a Digital Connectivity Tracker, which links mobile phone ownership and internet use with access to financial services.
➢ The use of accounts for savings has grown at the fastest pace in a decade.
➢ Mobile phones are playing a key role, not only in enabling transactions but also in helping people access financial services.
• For example, government payments and wages are increasingly being deposited directly into accounts, which reduces theft and ensures accurate transfers.</td></tr>
</table>

Regional Highlights	➢ **East Asia and Pacific:** The region leads the world in digital connectivity and use of financial services: 86% of adults have a smartphone, and 83% of adults have a financial account. ➢ **Europe and Central Asia:** The region has the highest internet usage and social media engagement rates among developing economies. Mobile-phone ownership rates top 94%. ➢ **Latin America and the Caribbean:** About 70% of adults have an account, and over half use their account digitally using a card or phone. ➢ **Middle East and North Africa:** Account ownership rose to 53% from 45% in 2021. In 2024, 17% of adults save formally, up from 11% in 2021. ➢ **South Asia:** Nearly 80% of adults own an account, although the high rate is driven by India, where 90% of both men and women have an account, and 65% own a mobile phone. ➢ **Sub-Saharan Africa:** Account ownership in Sub-Saharan Africa grew to 58% of adults, up from 49% in 2021. The use of mobile money accounts is at the highest levels in the world.

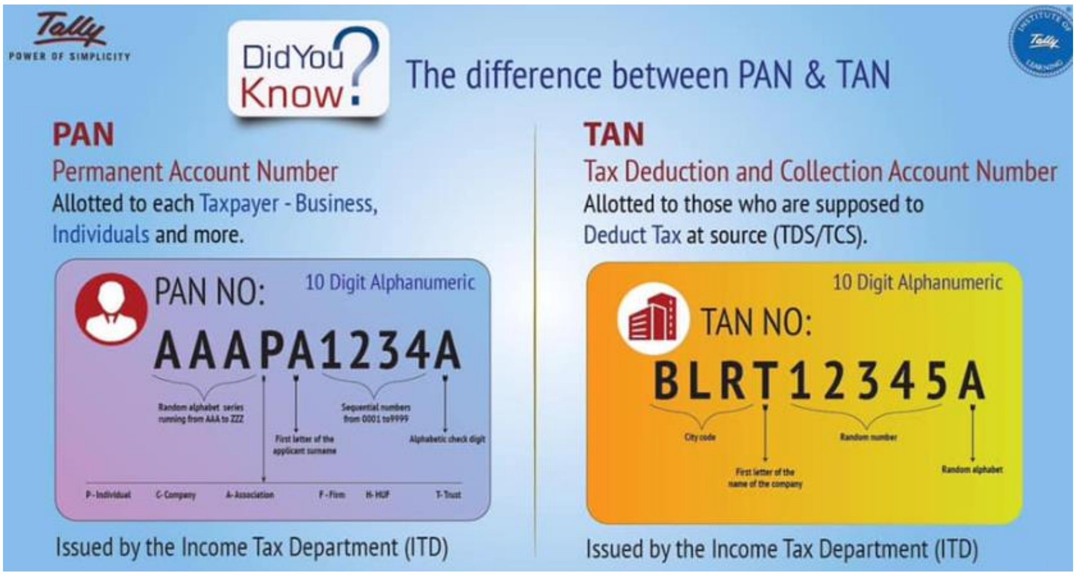
65. Consider the following statements regarding PAN and TAN in the context of Income tax in India:
    1. PAN is used for tracking financial transactions of individuals and entities, while TAN is mandatory for persons who are required to deduct or collect tax at source.
    2. PAN is a 10-character alphanumeric code, whereas TAN is a 10-digit numeric code issued by the Income Tax Department.

    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

EXPLANATION:

Permanent Account Number, full form for PAN and Tax Deduction and Collection Account Number full form for TAN are both issued by the Income Tax Department of India, but they serve entirely different purposes.

- PAN, or Permanent Account Number, is a unique 10-character alphanumeric code issued by the Income Tax Department to salaried individuals, entities and businesses to track their tax-related transactions. The unique identification code is a universal tool for financial and tax-related activities.
- Tax Deduction and Collection Account Number, the full form for TAN is also a 10-character alphanumeric code issued by the Income Tax Department. The difference is that TAN is issued to businesses and entities responsible for deducting TDS or collecting TCS. It ensures that Tax deducted or collected from payments is deposited with the government for smooth financial transactions. **So, Statement 1 is correct.**
- Both Permanent Account Number (PAN) and Tax Deduction and Collection Account Number (TAN) are 10-character alphanumeric codes issued by the Income Tax Department. **So, Statement 2 is not correct.**



ADDITIONAL INFORMATION:

PERMANENT ACCOUNT NUMBER(PAN), TAX DEDUCTION AND COLLECTION ACCOUNT NUMBER(TAN) AND TAX IDENTIFIATION NUMBER(TIN)	
Recently in news	The Cabinet Committee on Economic Affairs (CCEA), led by Prime Minister, has approved the PAN 2.0 project, a transformative initiative aimed at modernising the Income Tax Department's operations.
PAN	➢ A PAN is mandatory for individuals who file income tax returns, businesses and companies operating in India, NRIs and foreign investors earning taxable income in India and professionals and freelancers dealing with high-value financial transactions. ➢ PAN has a multitude of uses. An individual • Filing Income Tax Returns (ITR) on a financial year basis. • Opening a bank account or a Demat account. • Buying or selling a property above INR 50 lakh. • Investing in mutual funds, bonds and stocks. • Applying for a loan, debit or credit card. • Carrying out high-value financial transactions.
TAN	➢ TAN is mandatory for employers who deduct TDS from salaries, businesses collecting TCS from customers, banks deducting Tax on interest earned and companies paying professional fees, royalties or commissions. ➢ TAN has several uses for businesses and entities handling tax deductions and collections, ensuring smooth compliance with the government. The key uses of TAN include: • Filing TDS and TCS returns. • Issuing TDS certificates to employees/vendors. • Ensuring tax law compliance and avoiding penalties.
TIN	➢ TIN or Tax Identification Number is issued by the commercial tax department of the respective state governments. ➢ Commonly known as VAT (value added Tax), CST (Central Sales tax) number, or sales tax number, it is used to identify a businessperson/entity who is registered under VAT. ➢ For businesses, TIN is essential for compliance with various tax obligations like VAT or CST. Learn more about the advantages of forming a limited liability partnership.

	➢ Businesses registered under VAT, CST, or GST need a TIN. • Traders and manufacturers involved in the sale of goods across states require a TIN. Companies engaged in acquisition activities often need to ensure their TIN compliance. • Dealers engaged in purchasing or selling goods within and outside their state need a TIN. • Companies involved in import or export transactions require a TIN. • Businesses dealing with excisable goods and services use TIN for tax tracking. • Retailers or wholesalers involved in the supply of taxable goods require TIN. • E-commerce businesses that deal with the sale of goods also need TIN for tax compliance and reporting purposes.

66. Which of the following statements best describes Safeguard duty?

(a) It is a temporary measure implemented to protect domestic industries facing a sudden import surge.

(b) It is a tax imposed on goods when they are transported across international borders.

(c) It is imposed to counteract the impact of subsidies provided by exporting countries on their products.

(d) It is imposed to shield domestic industries from unfair competition from imported goods.

EXPLANATION:

Recently, India plans to impose a safeguard duty of up to 15% to address increased steel imports, particularly from China. A safeguard duty is a temporary tariff imposed to shield domestic industries from a sudden increase in imports, regardless of whether unfair trade practices are involved. These duties typically have a deadline and are imposed on imports from all nations, not just one. These are considered an emergency action and are deemed necessary only when certain imports present serious injury or damage to domestic industries. **So, Option (a) is correct.**
Customs Duty is a tariff or Tax imposed on goods when transported across international borders. The purpose of Customs Duty is to protect each country's economy, residents, jobs, environment, etc., by controlling the flow of goods, especially restricted and prohibited goods, into and out of the country. **So, Option (b) is not correct.**
Countervailing Duties (CVDs) are tariffs levied on imported goods to offset subsidies made to producers of these goods in the exporting country. CVDs are meant to level the playing field between domestic producers of a product and foreign producers of the same product who can afford to sell it at a lower price because of the subsidy they receive from their government. CVDs help offset any negative domestic impacts that producers of the same good might experience due to foreign competition, which, in this case, would receive a subsidy to export the same good. **So, Option (c) is not correct.**
Anti-dumping duty is a tariff imposed on imports sold below fair market value to protect domestic industries from unfair competition. The duty is determined based on the price difference between the imported goods and their normal value in the exporting country. Anti-dumping duty is applied when imported goods are found to be sold at unfairly low prices that harm domestic markets. Industries that face unfairly low-priced imports, such as steel, textiles, and agricultural products, are most commonly affected. **So, Option (d) is not correct.**

67. Which of the following are correct regarding the Income Tax Act 2025?
   1. It introduced a new concept of a "Tax Year".
   2. It provides that taxpayers can claim the refunds in the case of belated returns also.
   3. It defined Cryptocurrency as taxable capital assets.

   Select the correct answer using the codes given below:
   (a) 1 and 2 only
   (b) 1 and 3 only
   (c) 2 and 3 only
   (d) 1, 2 and 3

EXPLANATION:

The New Income Tax Act, 2025, is a landmark development aimed at building a streamlined and simplified tax framework that enhances transparency, equity, and economic efficiency.

By simplifying tax slabs, rationalizing exemptions, and integrating digital compliance mechanisms, the Act seeks to reduce administrative burdens while fostering a culture of voluntary compliance.

The Act also simplifies tax terminology by replacing the previously used terms "Assessment Year" and "Previous Year" with a single, unified concept called the "Tax Year".

The Tax Year is defined as the twelve-month period of the financial year commencing on April 1. In the case of a business or a newly established profession, the Tax Year begins from the date it is set up and ends with the same financial year. Income tax will be levied based on the economic activity and income earned during the Tax Year.

So, Statement 1 is correct.

The Income Tax Act 2025 allows taxpayers to claim refunds even if their ITR is filed late.

- If the ITR is filed after the due date but before the belated return deadline (December 31), the taxpayer can claim the refund normally.
- If the ITR is not filed by December 31, the taxpayer cannot claim a refund directly. In this case, they must apply for condonation of delay under Section 119(2)(b) to the Principal Commissioner (Pr. CIT) or Commissioner (CIT), explaining the reason for the delay.

The Income Tax Bill 2025 does not change these rules; the refund process remains the same as under the existing Income Tax Act 1961. **So, Statement 2 is correct.**

For the first time in India, the Income Tax Act 2025 explicitly treats Virtual Digital Assets (VDAs)—including cryptocurrencies and NFTs—as property and capital assets.

- Any gains from selling, transferring, or exchanging VDAs are taxed under capital gains provisions, similar to real estate, stocks, bonds, bullion, jewellery, artworks, and other capital assets.
- ***For example,*** if someone buys Bitcoin for ₹10 lakh and sells it for ₹20 lakh, the ₹10 lakh profit will be subject to short-term or long-term capital gains tax, depending on the holding period.
  This classification applies standard tax rules, prevents the misuse of digital assets, and clearly makes cryptocurrencies taxable capital assets, similar to the treatment of crypto in the U.K. **So, Statement 3 is correct.**

ADDITIONAL INFORMATION:

INCOME TAX ACT 2025	
Recently in news	Income Tax Act, 2025, to be effective from April 1, 2026. The Act simplifies language, removes obsolete provisions and consolidates and restructures provisions.
Objectives	➢ **Simplification:** Replace archaic language and redundant provisions with clear, concise, and modern legal text. ➢ **Digital Integration:** Enable faceless assessments and digital compliance to reduce human interface and corruption. ➢ **Taxpayer-Centric Approach:** Improve ease of filing, reduce litigation, and enhance transparency.

	➢ **Global Alignment:** Reflect contemporary economic realities, including taxation of digital assets and global income.
Key Features	➢ **Power to Frame Schemes:** The Act authorizes the Central Government to design new schemes aimed at improving efficiency, transparency, and accountability in tax administration. ➢ **Simplified Compliance:** Multiple provisions have been brought together for more clarity. For example, the provisions related to Tax Deducted at Source (TDS), which were earlier distributed across multiple sections. ➢ This consolidation is intended to simplify the legal framework, making it easier for taxpayers, professionals, and authorities to locate and interpret TDS related rules without navigating through numerous scattered clauses. ➢ **Digital-First Enforcement:** Virtual Digital Space has been defined as an environment, area, or realm that is constructed and experienced through computer technology. ➢ It includes email servers, cloud servers, social media accounts, online investment and trading accounts, and websites for storing details of asset ownership. ➢ **Dispute Resolution:** The Income Tax Act, 2025 introduces a more robust and taxpayer-friendly framework for resolving disputes.

68. Reliable international money transfer systems are vital in the current global economy. In this context, consider the following:
1. Shetab
2. Society for Worldwide Interbank Financial Telecommunication
3. Mir

How many of the above is/are used by countries as payment systems/networks for cross-border transactions?
(a) Only one
(b) Only two
(c) All three
(d) None

EXPLANATION:

Since international sanctions were imposed on Iran, global payment systems could not operate in the country. To overcome this, Iran developed its own national electronic payment network, the Shetab payment system, which connected domestic banks and ATMs. ➢ The system was later linked to ATM networks in Bahrain, Qatar, the UAE, and Kuwait, and the Shetab Bank Card was extended for use in Armenia and Turkey, providing a regional solution for financial transactions despite sanctions. ➢ Recently, Russia's Mir payment network was connected with Iran's Shetab system, marking a significant step towards integrated regional economic cooperation, completing parts of the de-dollarisation process, and facilitating trade, economic, and tourism relations between Iran and Russia. Therefore, the Shetab payment system is used by countries as a payment system/network for cross-border transactions. **So, Statement 1 is correct.**
Society for Worldwide Interbank Financial Telecommunications (SWIFT) is a member-owned cooperative providing secure messaging for international transfers of money between participating banks. ➢ SWIFT assigns participating financial institutions a unique code to facilitate financial transactions. ➢ Started in 1973 by 239 banks from 15 countries, SWIFT began providing messaging services in 1977. ➢ Its SWIFTnet messaging system lets banks share information about financial transactions.

➢ Financial institutions use SWIFT to securely exchange information, including payment instructions. ➢ SWIFT has grown rapidly over the years to serve more than 11,000 institutions operating in over 200 countries. **So, Statement 2 is correct.**
The Mir card payment system was introduced in 2015 as Russia's alternative to analogue Western payment systems and clearing houses such as Visa and Mastercard. ➢ Most major clearing houses and payment platforms that were already mulling their exit since 2014, suspended operations in the Russian Market following sanctions being imposed on the country for its 2022 full-scale invasion of Ukraine. ➢ Mir's application is mostly confined to domestic (Russia), but has limited cross-border acceptance (e.g., Iran, some CIS countries, Turkey). **So, Statement 3 is correct.**

ADDITIONAL INFORMATION:

CROSS-BORDER PAYMENTS	
Recently in news	The Reserve Bank has already signed MoU with the central banks of the United Arab Emirates, Indonesia and Maldives to encourage cross-border transactions in local currencies, including Indian Rupee.
About	Cross-border transactions are payments between people or businesses in different countries. They often involve converting currencies and moving money through international banks. These transactions can be small, like online shopping or remittances, or large, like trade and investment. Banks and payment providers help send money globally for business, trade, or personal reasons.
Cross-Border Payment methods	➢ **Wire transfers:** Electronic transfer of funds between banks, often used for large transactions and can be sent in multiple currencies. ➢ **Credit card transactions:** Accepted globally, allow payments in different currencies, but may involve conversion fees. ➢ **Electronic funds transfers (EFTs):** Fast and secure electronic bank transfers, also called e-cheques or electronic payments. ➢ **International money orders:** Paper-based or electronic payments for smaller amounts, sent via banks or third-party providers. ➢ **Online payment platforms:** Enable international payments via mobile or computer, often with low fees and competitive exchange rates. ➢ **Cryptocurrencies:** Digital currencies like Bitcoin and Ethereum allow fast, secure cross-border payments, but are volatile.
Other Cross-border payment networks	➢ **Wise –** A London-based fintech serving 16 million customers, Wise is offering 50+ currencies at mid-market exchange rates using a local banking network. ➢ **SEPA (Single Euro Payments Area**) – Harmonises payments across 36 European countries, enabling instant credit transfers and direct debits in euros for over 520 million citizens, reducing intra-European payment costs. ➢ **Mastercard Cross-Border Services** – Integrates bank transfers, card networks, and real-time payments into a single platform for institutions, with transaction tracking capabilities, following its acquisition of Transfast in 2019. ➢ **Visa B2B Connect** – Launched in 2019, this platform operates in 170+ territories, providing secure, high-value corporate cross-border payments with end-to-end transaction visibility. ➢ **CIPS (Cross-Border Interbank Payment System)** – China's system connecting 1,300+ participants across 100+ countries, supporting internationalisation of the Yuan. ➢ **TARGET2** – The Eurozone RTGS platform connects 1,000+ financial institutions in 20 countries, achieving 99.98% uptime for euro payments since 2007.

	➢ **Fedwire** – The US Federal Reserve's real-time gross settlement system for USD transactions, with 9,000+ participants and 99.99% uptime, integral for domestic and international USD settlements. ➢ **CHIPS (Clearing House Interbank Payment System)** – US-based clearing house for large-value USD transactions since 1970, using netting to reduce funding requirements for 43 direct participants. ➢ **CLS (Continuous Linked Settlement)** – Handles 18 major currencies for 70 participants, using a payment-versus-payment mechanism to eliminate FX settlement risk.

69. Consider the following:

Statement - I: In the creditor-debtor relationship, the debtor benefits from the effect of inflation.

Statement-II: The debtor repays the borrowed money at a reduced value.

Which one of the following is correct with respect to the above statements?

(a) Both Statement-I and Statement-II are correct, and Statement-II is the correct explanation for Statement-I

(b) Both Statement-I and Statement-II are correct, and Statement-II is not the correct explanation for Statement-I

(c) Statement I is correct, but Statement II is incorrect

(d) Statement I is incorrect, but Statement II is correct

EXPLANATION:

Inflation occurs when there is a general increase in the price of goods and services and a fall in purchasing power. ➢ In the case of debtor and creditor, the debtor is the gainer and the creditor is the loser during inflation. ➢ ***For example,*** the debtor borrowed ₹100 at an interest rate of 5% per day, and the debtor is a mango vendor. He has to repay ₹105 the next day. The price of a mango on day one is ₹10 per mango. On day two, the price of mangoes rises to ₹15 due to inflation. The debtor can sell 10 mangoes for ₹150. He can repay his debt by selling only 7 mangoes, so he gains ₹45, or 3 mangoes. The creditor can buy only 7 mangoes with the ₹105 he got back. Suppose he purchased mangoes on day one instead of lending, he may have bought 10 mangoes. So he loses 3 mangoes. This relation holds true for both private and public debt. Therefore, the debtor repays the borrowed money at a reduced value due to the effect of inflation. **Both Statement I and Statement II are correct, and Statement II is the correct explanation for Statement I.**

ADDITIONAL INFORMATION:

HOW INFLATION HELPS LENDERS	
About	➢ Inflation can help lenders in several ways, especially when extending new financing. ➢ First, higher prices mean that more people want credit to buy big-ticket items, especially if their wages have not increased–this equates to new customers for the lenders. ➢ On top of this, the higher prices of those items earn the lender more interest. ***For example,*** if the price of a television increases from \$1,500 to \$1,600 due to inflation, the lender makes more money because 10% interest on \$1,600 is more than 10% interest on \$1,500. Additionally, the extra \$100 and all the associated interest may take longer to pay off, resulting in even more profit for the lender. ➢ However, it's essential to note that the potential additional profit may be offset by the same factor: inflation. ➢ In other words, lenders may be hurt by inflation because they are paid back in money that has less purchasing power than the money they initially loaned out.

70. With reference to the Eurasian Economic Union (EEU), consider the following statements:

1. It is recognised as an international legal personality.
2. Armenia, Belarus, Kazakhstan, Kyrgyz Republic and Russia are its members.
3. The EEU allows for the free movement of goods and labour, but not services, between its members.

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

EXPLANATION:

The Eurasian Economic Union is an international organization of regional economic integration. It has an international legal personality and was established by the Treaty on the Eurasian Economic Union, signed on May 29, 2014, in Astana. **So, Statement 1 is correct.**
➢ The Member-States of the Eurasian Economic Union are the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic and the Russian Federation. ➢ The Union is being created to comprehensively upgrade, raise the competitiveness of and cooperation between the national economies, and to promote stable development in order to raise the living standards of the nations of the Member-States. **So, Statement 2 is correct.** 
The Eurasian Economic Union provides for free movement of goods, services, capital and labour, pursues coordinated, harmonized and single policy in the sectors determined by the Treaty and international agreements within the Union. **So, Statement 3 is not correct.**

ADDITIONAL INFORMATION:

THE EURASIAN ECONOMIC UNION	
Recently in news	India and the Eurasian Economic Union (EAEU), comprising Armenia, Belarus, Kazakhstan, Kyrgyz Republic and the Russian Federation, signed the Terms of Reference (ToR) to launch negotiations on a Free Trade Agreement (FTA) in Moscow.
About	The Eurasian Economic Union (EEU or EEAU) is an initiative for economic integration among former Soviet states, aiming to create a common market similar to the European Union (EU). ➢ Its objectives include coordinating economic policies, removing non-tariff trade barriers, harmonizing regulations, and modernizing the economies of its five member states. ➢ The EEU has institutions resembling those of the EU, such as the Eurasian Economic Commission in Moscow and the Court of the Eurasian Economic Union in Minsk. However, integration among member states is limited.

71. With reference to the concept of geo-economic fragmentation (GEF), consider the following statements:

1. GEF could be accompanied by trade curbs.
2. GEF could lead to the practice of friendshoring.
3. GEF could alter the Foreign Direct Investment patterns of countries.

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

EXPLANATION:

Recent economic and geopolitical tensions have sparked discussions about an emerging shift in global trade marked by growing concerns over Global Economic Fragmentation (GEF). This trend is characterized by the decline of global economic coordination, weakened trade flows, and the formation of geo-economic blocs. Economic Survey 2024-25 states Geo-Economic Fragmentation (GEF) replacing globalisation worldwide with a backsliding of economic integration. ➢ As per figures released by the World Trade Organisation (WTO) as part of the WTO Director-General's annual overview of global trade developments, there is a sharp rise in the coverage of trade-restrictive measures by WTO members between mid-October 2023 and mid-October 2024, compared to the last Trade Monitoring Report in November 2023. ➢ As per estimates, the value of trade covered by the 169 new trade-restrictive measures introduced between October 2023 and October 2024 is USD 887.7 billion, which is half a trillion dollars more than the value of trade covered by restrictions introduced in the preceding year, which stood at USD 337.1 billion. Therefore, GEF results in trade curbs across the globe. **So, Statement 1 is correct.**
In Today's global economy, a re-enactment of the Cold War–style blocs is visible, with countries increasingly grouping themselves around strategic and political alignments. The idea of 'friend-shoring', that is, shifting supply chains only to a trusted partner nation, has become central in global policymaking, reflecting the rise of geo-economic fragmentation (GEF). Growing tensions over trade, technology standards, and security have been eroding growth prospects and mutual trust in the multilateral economic order. Therefore, GEF could lead to the practice of friendshoring. **So, Statement 2 is correct.**
The impact of GEF is seen in global FDI flows, which are increasingly concentrated among geopolitically aligned countries, particularly in strategic sectors. This relocation of FDI increases the vulnerability of several emerging markets and developing economies. The output losses associated with this FDI relocation emerging from friend-shoring and re-shoring are especially severe for emerging markets and developing economies. They face heightened restrictions from advanced economies, which are their major sources of FDI. **So, Statement 3 is correct.** IMF observes that trade fragmentation is much more costly because, unlike the start of the Cold War, when goods trade to GDP was 16 per cent, the ratio stands at 45 per cent today. Less trade implies less knowledge diffusion, which could also be reduced by the fragmentation of cross-border direct investment.

72. With reference to the USA’s Reciprocal Tariff Plan, consider the following statements:

1. It could lead to an increase in the price of exported goods from India to the USA.
2. The trade deficit of the USA could be decreased by enhancing its domestic manufacturing efficiency.
3. India, unlike the US, doesn’t have trade deficits with any country.

How many of the above statements is/are correct?

(a) Only one

(b) Only two

(c) All three

(d) None

EXPLANATION:

A reciprocal tariff is a tax imposed by one country on another country's goods in response to that country’s tariffs on its exports.

For example, if Country A charges a 15% tax on Country B's steel, Country B might do the same to Country A's cars.

- The idea behind these tariffs is fairness. The goal is either to protect the country's own industries or to pressure the other country into lowering its taxes or restrictions.
- These tariffs are a way to negotiate. If both sides keep fighting with tariffs, it can turn into a full trade war, like the one between the US and China recently. But if both sides are willing to back down, they could end up talking things out and reducing tariffs.

Recently, the US President signed an executive order imposing a 50% tariff on imports from India. This latest escalation is a "severe setback" for Indian exports, as nearly 55% of Indian exports to the US market will be directly affected. The 50% reciprocal tariff effectively imposes a cost burden, placing our exporters at a 30% to 35% competitive disadvantage compared to peers from countries with a lower reciprocal tariff.

Therefore, the USA's Reciprocal Tariff Plan of 50% against Indian goods made Indian export results in 30% to 35% increase in price, which adversely affects India's advantage with other exporting countries.

So, Statement 1 is correct.

A trade deficit occurs when a nation imports more than it exports. For instance, in 2024, the United States exported nearly $3.2 trillion in goods and services to the world, while it imported $4.1 trillion, leaving an overall trade deficit of more than $900 billion.

The largest US bilateral trade imbalance by far is with China.

- The United States ran a $295 billion goods deficit with China in 2024 (partially offset by a US services surplus with China of $32 billion).
- The next largest contributor to the goods deficit, at $235 billion, is the European Union, followed by Mexico at $172 billion, Vietnam at $123 billion, and Taiwan at $73.9 billion.

Therefore, it is clear from the above data that the US is lagging far behind in the secondary sector (Manufacturing), which results in importing most goods.

To tackle this situation, the U.S.A, by improving manufacturing efficiency, can produce goods more competitively at home, reducing its need to import and increasing exports. This helps lower the trade deficit by narrowing the gap between imports and exports.

Hence, the trade deficit of the USA could be decreased by enhancing its domestic manufacturing efficiency. **So, Statement 2 is correct.**

India has recorded a trade surplus between January and June 2024, with as many as 151 countries, such as the US and the Netherlands, while the country has a trade deficit with 75 nations, including China and Russia.

- India's overall trade deficit is USD 78.1 billion in FY24, which reduced from USD 121.6 billion in FY23.

- The top five countries with the highest trade deficits were China with USD 41.88 billion, Russia with USD 31.98 billion, Iraq with USD 15.07 billion, Indonesia with USD 9.89 billion, and the UAE with USD 9.47 billion (January - July 2024).

Therefore, India, like the US, does have trade deficits with many countries. **So, Statement 3 is not correct.**

ADDITIONAL INFORMATION:

LIST OF INDIAN PRODUCTS IMPACTED BY US TARIFF RATES

Product Category	Tariff Rate (August 7, 2025)	Tariff Rate (August 27, 2025)
Textiles & Apparel	25%	50%
Gems & Jewellery	25%	50%
Leather & Footwear	25% (20.8–29.51% for footwear)	50% (45.8–54.51% for footwear)
Marine Products	33.26% (25% + 2.49% anti-dumping + 5.77% countervailing)	58.26% (50% + 2.49% + 5.77%)
Chemicals (Organic)	25%	50%
Automobiles & Auto Parts	25%	50%
Iron, Steel, Aluminium	25% (5–12.5% for industrial goods)	50% (30–37.5% for industrial goods)
Agricultural Products	25% (e.g., onions at 25.54%)	50% (e.g., onions at 50.54%)
Machinery & Engineering Goods	25%	50%
Ceramic, Glass, Stone	25%	50%
Rubber Items	25%	50%
Paper & Wood Products	25%	50%
Furniture	25%	50%
Dairy Products	56.46% (buttermilk, fermented milk); 30.84% (milk powder)	81.46%; 55.84%
Pharmaceuticals	0%	0%
Electronics & Semiconductors	0%	0%
Energy Products	0%	0%
Critical Minerals	0%	0%

73. With reference to triangular cooperations, consider the following statements:
    1. They generally have a beneficiary partner, a pivotal partner and a facilitating partner.
    2. TriDeP is a triangular development partnership between India and the US for the Indo-Pacific region.

    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

EXPLANATION:

Triangular cooperation refers to collaborative development initiatives where traditional donor countries, emerging ("southern") countries, and developing countries work together to address development challenges. ➢ In these arrangements, the traditional donors provide financial resources, technical expertise, or policy guidance. ➢ Southern partner countries contribute experience, knowledge, and innovative approaches gained from their own development journey. ➢ Developing countries (beneficiary partners) seek support to tackle specific development challenges. The goal of triangular cooperation is to share best practices, build capacity, and implement effective development projects, leveraging the complementary strengths of all partners. A typical triangular cooperation partnership involves three roles: ➢ **Beneficiary partner –** the country seeking support. ➢ **Pivotal partner –** the experienced country sharing knowledge and expertise. ➢ **Facilitating partner** – a developed country or multilateral organisation that supports and enables the collaboration. This approach is southern-driven, meaning it emphasises peer learning and experience-sharing between developing countries, supported by developed nations or organisations. **So, Statement 1 is correct.**
The United States (U.S.) and India share a common vision for a free and open Indo-Pacific region. The India-U.S. Triangular Development Partnership (TriDeP) aims to enhance India's development cooperation footprint in the Indo-Pacific and achieve shared goals for the region's development. ➢ Through this initiative, India's role as a development leader and preferred partner in the Indo-Pacific will be further leveraged in collaboration with the U.S. ➢ TriDeP will focus on three priority areas where India demonstrates policy leadership, practical experience, and sustainable results. Across countries in the region, ➢ TriDeP will establish demand-driven partnerships, including through triangular cooperation, using the 4E approach: Engage, Explore, Expand, and Establish. **So, Statement 2 is correct.**

ADDITIONAL INFORMATION:

South-South cooperation	
Recently in news	The India-U.S. Triangular Development Partnership (TriDeP) continues to be active, particularly in promoting renewable energy and building capacity in areas like grid management in countries such as Tanzania.
About	➢ South-South cooperation refers to development collaboration between developing countries in the Global South. ➢ When such cooperation is implemented with the support of a Northern partner, it is called Triangular Cooperation. ➢ South-South and Triangular Cooperation (SSTC) serves as a tool for governments, international organizations, academia, social partners, civil society, and the private sector to collaborate and share knowledge, skills, expertise, and best practices. ➢ It is applied in areas such as decent work, lifelong learning, agricultural development, human rights, urbanization, health, climate change, social protection, and employment generation, enabling countries to learn from successful initiatives and implement them effectively.

<table>
<tr>
<td>India's Triangular Cooperation</td>
<td>India has announced or signed triangular agreements with Japan, France, Germany, the United States of America (USA), the United Kingdom (UK) and the United Nations Development Programme (UNDP).
<table>
<tr><th>Partner</th><th>Partnership</th><th>Projects</th><th>Regions/Countries</th></tr>
<tr><td>USA</td><td>Triangular Development Partnership (TriDep) in 2014</td><td>Renewable energy regulations; telehealth; agroforestry</td><td>Indonesia, Philippines, Fiji and Tanzania</td></tr>
<tr><td>Germany</td><td>Joint Declaration of Intent Partnership on Triangular Cooperation in 2022</td><td>Digital spatial mapping; agriculture; agroforestry; women entrepreneurship</td><td>Peru, Cameroon, Ghana, and Malawi.</td></tr>
<tr><td>United Nations</td><td>India-UN Development Fund in 2015</td><td>Climate adaptation and mitigation; women and youth; biodiversity; health; education; water</td><td>66 projects been implemented in the Pacific and Caribbean Islands, Central and South America, Africa and Moldova</td></tr>
<tr><td>France</td><td>Indo-Pacific Triangular Cooperation Fund in 2023</td><td>None</td><td></td></tr>
<tr><td>United Kingdom</td><td>India-UK Global Innovation Partnership in 2022-2036</td><td>None</td><td></td></tr>
<tr><td>Japan</td><td>Asia- Africa Growth Corridor</td><td>Not active</td><td></td></tr>
</table>
</td>
</tr>
</table>

74. With reference to the Indian economy, cost-push inflation can be caused by which of the following?
   1. Decrease in wage rate
   2. Rise in raw material prices
   3. Reduction in the rate of interest
   4. Lack of labour availability
   5. Increase in income

   Select the correct answer using the code given below:
   (a) 1 and 5 only
   (b) 2 and 4 only
   (c) 1, 2 and 4 only
   (d) 1, 2, 3, 4 and 5

EXPLANATION:

According to the Keynesian theory, cost-push Inflation (also called wage-push Inflation) arises from supply-side factors like rising wages or sudden increases in raw material prices. When production costs rise, producers pass them on to consumers in the form of higher prices of goods and services.

- **Decrease in wage rate**: Cost-push inflation often happens because of rising wages (not because of decreasing wages), since wages form a big part of production costs. The Decrease in wage rate makes production cheaper (not costlier).
  Example: If factory workers' wages decline, the cost of producing textiles or electronics decreases.
  So, Statement 1 is not correct.
- **Lack of labour**: Often, a shortage of labour causes inflationary pressure. If firms are struggling to employ sufficient labour, workers are in a position to demand higher wages. This can easily lead to wage inflation.

- If there is a shortage of labour, wages rise to attract workers, which increases production costs.
  Example: During harvest season, if there is a shortage of farm labour in Punjab or Bihar, wages increase, and the cost of producing food grains goes up, which results in food inflation.
  So, Statement 4 is correct.
- **Raw Material Price**: An increase in the price of domestic or imported inputs (such as oil or raw materials) pushes up production costs. As firms are faced with higher costs of producing each unit of output, they tend to create a lower level of output and raise the prices of their goods and services.
  So, Statement 2 is correct.

A reduction in interest rates and an increase in income are causes of demand-pull Inflation, not cost-push Inflation.

- **Reduction in interest rates:** Cheaper borrowing encourages businesses to invest and consumers to spend on homes, cars, and other goods. This increases overall demand, pushing prices up.
  So, Statement 3 is not correct.
- **Increase in income:** Higher earnings lead to more consumption. When demand exceeds supply at full employment, prices rise. Both factors raise demand without increasing production costs, so the resulting Inflation is demand-driven (demand-pull), not cost-driven (cost-push).
  So, Statement 5 is not correct.

The demand-pull Inflation occurs when aggregate demand exceeds aggregate supply at the full employment level of output, thereby attributing Inflation to the relationship between aggregate demand (Consumption, Investment, and Government Spending) and the whole employment level of output. An increase in aggregate demand will take place if there is an increase in the following:

- Consumption (could be due to an increase in income, a reduction in savings, or a reduction in tax rate),
- Investment (due to a reduction in the rate of interest or optimism in business sentiments) and
- Increase in government expenditure.

ADDITIONAL INFORMATION:

TYPES OF INFLATION	
Classification of Inflation	**Classification based on the Degree of Price Rise:** On the basis of the rapidity with which prices increase, Inflation may be divided into four types: • creeping Inflation, • walking Inflation, • running Inflation and • Jumping or galloping, or Hyper-inflation. **Classification based on the Processes:** When classified on the basis of different processes through which it is induced, • Deficit-induced Inflation is caused by the adoption of deficit financing or by government spending in excess of its revenue receipts. • Wage-induced inflation results from an increase in money wages. • Profit-induced Inflation occurs on account of an increase in the profits of the manufacturers.
Creeping Inflation	Creeping Inflation is the mildest form of Inflation. Some economists do not consider it dangerous and even see it as a tool for economic development. It can prevent economic stagnation. However, others warn that even mild Inflation may eventually escalate into hyperinflation.
Walking Inflation	Walking Inflation is characterised by a more noticeable rise in prices compared with creeping Inflation. It serves as a warning signal that running and galloping Inflation may follow, where prices rise at a faster rate.

Galloping Inflation	Galloping Inflation occurs when there is a steady and fairly high increase in the general price level. Inflation rates may reach two digits (20–40%) and, in extreme cases, three digits (200% or more). *For example,* countries like Brazil and Argentina experienced inflation rates above 100% in the 1970s.
Hyper-Inflation	Hyperinflation is a situation where the rate of Inflation is very high. Thus, the value of money gets eroded rapidly. ➢ Generally, it happens in an economy which faces wars and their aftermath, socio-political upheavals or other crises. ➢ In these situations, it is very difficult to impose tax on the residents, which leads to a fiscal deficit, and the Government has to finance it primarily through money creation rather than imposing taxes or borrowing. ➢ In a situation of hyper-inflation, certain functions of money, such as 'a store of value' and 'a medium of exchange', are no longer valid.

75. With reference to Bilateral Investment Treaties (BITs), consider the following statements:
   1. BITs protect foreign investors from policies that may adversely affect their investments.
   2. BITs are legally enforceable.
   3. BITs mandate signatory countries to maintain a predetermined level of foreign investment between them.
   4. India has signed BITs with Uzbekistan and Kyrgyzstan.

   How many of the above statements is/are correct?
   (a) Only one
   (b) Only two
   (c) Only three
   (d) All four

EXPLANATION:

Bilateral Investment Treaties (BITs) are reciprocal agreements between two countries to promote and protect foreign private investments in each other's territories. ➢ BITs establish minimum guarantees between the two countries regarding the treatment of foreign investments, such as national treatment (treating foreign investors at par with domestic companies), fair and equitable treatment (in accordance with international law), and protection from expropriation (limiting each country's ability to take over foreign investments in its territory). ➢ In essence, BITs provide safeguards like national treatment, fair and equitable treatment, and protection from expropriation. **So, Statement 1 is correct.**
Bilateral Investment Treaties (BITs) provide legal assurances to investors, fostering a stable environment for cross-border investments. Many countries around the world have domestic laws that provide protection to foreign investors. For example, Oman has the Foreign Capital Investment Law; however, BITs make the duty to provide this protection a legal obligation under public international law and offer investors the ability to resort to international arbitration to enforce their rights under the BIT without the need to have a contract between the state and the investor that provides for arbitration. Therefore, BITs give investors rights under public international law, including access to international arbitration to enforce claims. **So, Statement 2 is correct.**
Bilateral Investment Treaties (BITs) do not contain any written guarantee from foreign investors to invest. An assurance towards the protection of investments is postulated to encourage foreigners to invest in an alien territory. It is thus a means of promoting foreign investment in a country. BITs do not mandate signatory countries to maintain a predetermined level of foreign investment between them; they simply offer legal safeguards to encourage investment. **Statement 3 is not correct.**

Till 2015, India had signed BITs with 83 countries (of which 74 were in force). These BITs were negotiated based on the Indian Model BIT of 1993. India revised its Model BIT text in 2015. Since then, India has:

- Signed and enforced new BITs/Investment Agreements with the following countries: Uzbekistan (2024), United Arab Emirates (2024), Kyrgyzstan (2019), Belarus (2018) and is negotiating with various countries/blocks. **So, Statement 4 is correct.**
- Terminated its older BITs with 77 countries.

ADDITIONAL INFORMATION:

BILATERAL INVESTMENT TREATIES (BITs)	
Recently in news	India and Israel signed a Bilateral Investment Treaty (BIT) in New Delhi on September 8, 2025, to strengthen financial and economic ties, the Union Finance Ministry announced.
Features	The BIT aims to promote and protect the interests of investors of either country in the territory of the other country and has the following key features: ➢ Emphasis on sustainable development in the Preamble ➢ Enterprise-based definition of assets with an indicative inclusion list and a specific exclusion list of assets, which also clarifies the characteristics of investments, such as commitment of capital, the expectation of gain or profit, the assumption of risk and has significance for the development of the host state. ➢ Exclusion of matters relating to local government, government procurement, taxation, services supplied in the exercise of governmental authority, compulsory licenses, in order to retain sufficient policy space with the Government in such matters ➢ The BIT seeks to define the core elements of the Treatment of Investment, as found in customary international law. Besides, the BIT ensures a balanced framework through provisions on national treatment, expropriation and transfers. ➢ Most Favoured Nation (MFN) obligation has, in the past, allowed investors to selectively "import" favourable substantive provisions from other treaties concluded by the Host State. The MFN clause is accordingly removed in the BIT. ➢ The BIT contains two types of exceptions: general exceptions and security exceptions. The attempt is to carve out a policy space for the State. The general exceptions include, among others, the protection of the environment, ensuring public health and safety, and protecting public morals and public order. ➢ The BIT has calibrated the Investor-State Dispute Settlement mechanism with mandatory exhaustion of local remedies, thereby providing investors with an alternate dispute resolution mechanism.

76. With reference to Account Aggregator – India's Digital Public Infrastructure, consider the following :

1. An Account Aggregator is an entity that helps customers to share their financial data securely with other financial institutions for either a loan or an insurance product.
2. It can handle both financial information and financial transactions like UPI.
3. The license for account aggregators is issued by the Reserve Bank of India.

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

EXPLANATION:

The Account Aggregator (AA) framework was officially launched on September 2, 2021, establishing a secure, consent-based system for financial data sharing. In 2016, the Reserve Bank of India issued the Master Directions for the Account Aggregator (AA) ecosystem. The AA Framework is an entity that allows users to aggregate their financial information (like bank accounts, investments, loans, etc.) from multiple sources and share it with service providers (e.g., lenders, wealth managers) for services like loan applications or insurance products. AAs act as intermediaries, ensuring data privacy and user control through encrypted, permission-driven data sharing. **So, Statement 1 is correct.**
Account Aggregator and UPI serve different purposes in the financial ecosystem. ➢ While UPI focuses on enabling instant payments and fund transfers, Account Aggregator aims to facilitate the secure sharing of consumers' financial data. ➢ UPI primarily deals with transactional data, whereas Account Aggregator includes a broader range of financial information. Therefore, an Account aggregator can handle only financial information, not financial transactions like UPI. **So, Statement 2 is not correct.**
The Non-Banking Financial Corporation (NBFC)- Account Aggregator (AA) license is issued by the Reserve Bank of India (RBI). An Account Aggregator initially receives an in-principle NBFC-AA license on satisfying the registration prerequisites set by the RBI. Within a year, they need to apply for an "Operating license" to launch their commercial services. **So, Statement 3 is correct.**

ADDITIONAL INFORMATION:

ACCOUNT AGGREGATOR (AA)	
Recently in the News	Celebrating four years of the launch of the Account Aggregator Ecosystem - India's Digital Public Infrastructure (DPI).
About	➢ During the G20 India Presidency in 2023, AA was recognized as a foundational Digital Public Infrastructure (DPI) serving as the data exchange layer, complementing the identity (Aadhaar) and payments (UPI) layers. ➢ The role and impact of AA have been acknowledged in key G20 documents, including the 'Policy Recommendations for Advancing Financial Inclusion and Productivity Gains through Digital Public Infrastructure' (2023). ➢ As of date, 112 Financial Institutions have gone live both as Financial Information Providers (FIP) and Financial Information Users (FIU), while 56 have gone live solely as FIP and 410 as FIU. ➢ Over 2.2 billion financial accounts are now enabled for secure, consent-based data sharing through the AA framework, with 112.34 million users having already linked their accounts, underscoring the growing scale and trust in this transformative initiative. ➢ The AA ecosystem is poised to unlock new frontiers in formal credit access, especially for MSMEs and personal lending, contributing meaningfully to India's journey towards Viksit Bharat @2047.

77. Consider the following factors:
1. Global crude oil prices
2. India's Current Account Deficit
3. US Dollar Index movement
4. Domestic interest rate levels

How many factors given above influence the exchange rate of the Indian Rupee?

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

EXPLANATION:

An exchange rate is the value of a nation's currency when it is traded for another currency. The relative strength or weakness of a nation's currency has a strong impact on its trade with other nations, on its tourism industry, and on the prices its consumers pay for imports.

For India, which relies on imports for over 85% of its crude oil needs, such volatility is particularly consequential. As a major importer of crude oil, India is significantly impacted by changes in global oil prices. Higher oil prices increase India's import bill, leading to a higher demand for USD and a weaker rupee.

Thus, it shows that the Global crude oil price influences the Exchange Rate of the Indian Rupee. **So, Statement 1 is correct.**

<table>
<tr><td>The current account deficit is closely related to the terms or balance of trade. The current account measures imports and exports of goods and services but also includes payments to foreign holders of a country's investments, payments received from investments abroad, and transfers such as foreign aid and remittances.
For example, India's current account deficit (CAD) has been widening due to higher imports than exports. A significant portion of India's imports includes crude oil, which is priced in USD. When oil prices rise, India needs more dollars to pay for imports, increasing demand for the USD and weakening the INR.
It shows that India's Current Account Deficit influence the Exchange Rate of the Indian Rupee. So, Statement 2 is correct.</td></tr>
<tr><td>The US Dollar Index is a widely used measure of the US dollar's strength against a basket of six major currencies: the euro, Japanese yen, British pound, Canadian dollar, Swedish krona, and Swiss franc. The most common benchmark for most currencies is the US Dollar. A weakening or strengthening of the dollar has a proportionate effect on the dollar-rupee exchange rate. This is because most of India's foreign trade and foreign debt is denominated in dollars.
Hence, any strength in the dollar index gets proportionately transmitted to the dollar-rupee exchange rate. So, Statement 3 is correct.</td></tr>
<tr><td>Interest rates are a tool used by the Reserve Bank of India (RBI) to control economic activity. They influence exchange rates by attracting or deterring foreign investment.
The following are what happens during a surge in interest rates:
➢ When the RBI raises interest rates, it makes saving and investing in that country more attractive because the returns on investments are higher.
➢ Higher interest rates attract foreign investors looking to get better returns on their investments. These investors convert their currency into the domestic currency, say the Indian Rupee (INR).
➢ As more foreign investors buy the local currency, the demand for that currency increases, which leads to an appreciation in its vassslue.
➢ Conversely, when interest rates decrease, the domestic currency looks unattractive, which leads to a fall in demand and value.
Domestic interest rate levels influence the Exchange Rate of the Indian Rupee. So, Statement 4 is correct.</td></tr>
</table>

ADDITIONAL INFORMATION:

<table>
<tr><th colspan="2">FACTORS THAT INFLUENCE FOREIGN EXCHANGE RATES</th></tr>
<tr><td>About</td><td>It is essential to note that exchange rates are influenced by a variety of factors that affect the relative value of currencies. The strengths and weaknesses of a currency are determined largely by the market forces of demand and supply. Let us look at some major factors affecting the exchange rate:
➢ Inflation: For the uninitiated, inflation represents the rate at which prices of goods and services increase over time. It affects exchange rates significantly because it impacts the purchasing power of a currency.
➢ Deficits: A trade deficit represents a situation where a country is buying more goods and services from other countries than it is selling to them. Now, to pay for these imports, the country needs to use foreign currency.
➢ Debt: High levels of national debt also significantly impact a country's exchange rate.
➢ Import-export: The balance of trade shows how much a country sells abroad compared to what it buys. This relationship directly affects exchange rates.
➢ Economic Indicator: The economic health of a nation is a key factor influencing foreign exchange rates. Forex traders and investors closely monitor various</td></tr>
</table>

	economic indicators, such as Gross Domestic Product (GDP), employment figures, inflation rates, and trade balances, to assess a country's economic performance. ➢ **Political stability and Economic performance**: Political stability and a country's overall economic health are crucial factors affecting exchange rates. Nations with stable governments and strong economic fundamentals tend to have more favourable currency valuations. ➢ **Market sentiment**: Market sentiment, or "risk appetite, can significantly impact forex rates. Traders and investors often make decisions based on perceptions of geopolitical stability, global events, and economic trends. During periods of uncertainty, traders may seek safe-haven currencies like the US dollar, Japanese yen, or Swiss franc, leading to their appreciation.

78. With reference to the RBI's Economic Capital Framework (ECF), consider the following statements:
    1. The framework provides the basis for determining risk provisioning and surplus distribution by the RBI to the Government.
    2. It was adopted by the RBI based on the recommendations of the Bimal Jalan Committee.
    3. The framework is required to be periodically reviewed every five years.

    Which of the statements given above is/are correct?
    (a) 1 and 2 only
    (b) 1 and 3 only
    (c) 1 only
    (d) 1, 2 and 3

EXPLANATION:

During its 578th meeting on August 26, 2019, the RBI had adopted the Economic Capital Framework based on the recommendations of the Expert Committee to Review the Extant Economic Capital Framework of the Reserve Bank of India (Chairman: Dr Bimal Jalan). **So, Statement 2 is correct.**

- The Expert Committee, inter alia, recommended that the framework be periodically reviewed every five years. **So, Statement 3 is correct.**
  The economic capital framework provides a methodology for determining the appropriate level of risk provisions and profit distribution to be made under Section 47 of the RBI Act, 1934.
- As per this provision, the central bank is required to pay the balance of its profits to the central government after making provision for bad and doubtful debts, depreciation in assets, and contributions to staff.
- The Economic Capital Framework (ECF) is used to determine risk provisioning and surplus distribution by the central bank (RBI) to the government. **So, Statement 1 is correct.**
  Based on the ECF, the RBI transfers dividends to the government every year.

79. With reference to the Financial Services Institutions Bureau (FSIB), consider the following statements:
    1. It recommends appointments of directors and chairpersons in Public Sector Banks, Financial Institutions and Public Sector Insurers.
    2. It is chaired by the governor of the Reserve Bank of India.
    3. The final decision on FSIB's recommendations is taken by the Union Finance Minister.

    How many statements given above is/are correct?
    (a) Only one
    (b) Only two
    (c) All three
    (d) None

EXPLANATION:

Recently, the Financial Services Institutions Bureau (FSIB) recommended several appointments in public sector financial institutions and approved a one-year extension for its Chairperson's term. Financial Services Institutions Bureau has been constituted effective from July 01, 2022, by the Central Government for the purpose of recommending persons for appointment as whole-time directors and non-executive chairpersons on the Boards of financial services institutions and for advising on certain other matters relating to personnel management in these institutions. The functions of the Bureau are: ➢ To recommend persons for appointment as whole-time directors (WTDs) and non-executive chairpersons (NECs) on the Boards of Directors in Public Sector Banks, financial institutions and Public Sector Insurers (referred to as "PSBs", "FIs" and "PSIs" respectively); **So, Statement 1 is correct.** ➢ To advise the Government on matters relating to appointments, transfer or extension of term of office and termination of services of the said directors;
The Financial Services Institutions Bureau (FSIB), currently headed by Bhanu Pratap Sharma, former Secretary of the Department of Personnel and Training (DoPT), includes a Secretary and five officers in its Secretariat. The Government has recently extended the tenure of the FSIB Chairperson and other members by one year. The final decision on FSIB's recommendations is taken by the Appointments Committee of the Cabinet (ACC), chaired by the Prime Minister, and not by the Union Finance Minister. **So, Statement 3 is not correct.** The Chairperson of FSIB is nominated by the Central Government and can be a retired official from the banking or regulatory sector, a businessperson of repute, or a public administrator with at least 25 years of experience in banking and financial services. Therefore, the FSIB is not chaired by the Governor of the Reserve Bank of India. **So, Statement 2 is not correct.**

ADDITIONAL INFORMATION:

FINANCIAL SERVICES INSTITUTIONS BUREAU (FISB)	
Recently in news	The government has extended the tenure of the chairperson and other members of FSIB, the headhunter for directors of state-owned banks and financial institutions, by another one year.
Other Functions	To advise the Government on the desired management structure at the Board level for the various financial institutions. ➢ To advise the Government on a suitable performance appraisal system for WTDs and NECs, and the formulation and enforcement of a code of conduct and ethics for them. ➢ To build a database containing data related to the performance of the financial institutions. ➢ To advise the Government on evolving suitable training and development programmes for management personnel in financial service institutions. ➢ To help financial service institutions in terms of developing business strategies and capital raising plans etc.

80. With reference to Confidential IPO filings, consider the following statements:
1. It allows a company to submit its draft documents to the market regulator without immediate public disclosure.
2. This mechanism is prohibited under the current regulatory framework in India.
3. Generally, only well-established companies opt for confidential IPO filings rather than startups.

Which of the statements given above is/are correct?

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

EXPLANATION:

An Initial Public Offering (IPO) filing involves a company submitting its Draft Red Herring Prospectus (DRHP) to SEBI. This document contains details about the company, such as financials, risks, competition and growth strategies, and is publicly accessible, ensuring transparency for investors. ➢ Confidential IPO filing, introduced by SEBI in December 2022, changes this approach. Companies opting for confidential filing submit their DRHP without making it public. ➢ The details become visible only when the company files the red herring prospectus (RHP) and is ready to launch the IPO. **So, Statement 1 is correct.**
A confidential IPO filing mechanism is allowed under the current regulatory framework in India, not prohibited. The SEBI introduced it in December 2022 and enables companies to file their DRHPS with the regulator without immediate public disclosure. Various Indian startups have taken this route in recent times, and it has contributed towards a system that puts higher value on strategic planning and agility. **So, Statement 2 is not correct.**
All companies which plan to raise money from the capital market and are eligible to go public in India can choose the confidential filing method. Startups, new-age tech firms and companies with complex business models generally opt for this method of filing their draft red herring prospectus (DRHP). **So, Statement 3 is not correct.**

ADDITIONAL INFORMATION:

CONFIDENTIAL IPO FILINGS	
Recently in news	PhonePe, a Walmart-backed digital payment and financial services provider, is reportedly preparing for its IPO. The company has submitted its draft papers to the Securities and Exchange Board of India (SEBI) through the confidential pre-filing process.
About	The Confidential Filing mechanism is an option provided by Sebi to companies which plan to go public. In this process, a company files its DRHP, but the prospectus is not made public. The regulator makes the DRHP public only when a company is completely certain that it wishes to proceed with its public issue.
Draft Red Herring Prospectus	The DRHP is a document filed with the Securities and Exchange Board of India (SEBI) before a company launches an IPO. The DRHP is also known as the offer document and contains all the key information about the company. ➢ The DRHP provides potential investors with information such as the company's business model, risks, management, and recent financial performance. ➢ It also contains information about any recent fundraisers, the industry outlook, and opportunities for the company.

	➢ The DRHP is not the final document, but it is important for companies to raise awareness about the issue and to provide potential investors with the important details.
Why Do Companies Choose Confidential IPO Filing	➢ The DRHP contains proprietary information, including market strategies and competitive plans. Confidential filing ensures that such details remain private, preventing competitors from accessing them prematurely. ➢ Not all companies that file a DRHP proceed with a public offering. Confidential filing helps protect the company's reputation and strategic plans in case the IPO is later cancelled. ➢ Filing confidentially also allows companies to address SEBI's queries and concerns before the information becomes public. This helps streamline compliance and reduces the risk of last-minute regulatory issues. ➢ Additionally, a confidential IPO filing provides companies with extra time to meet regulatory requirements, such as ensuring minimum promoter contributions, before the IPO details are officially disclosed.
Drawbacks	Confidential IPO filings come with certain drawbacks for companies and investors. For companies, the process can be more time-consuming and expensive due to higher legal and advisory fees. Also, some confidentially filed DRHPs may never progress to a public IPO.

81. With reference to short selling in equity markets, consider the following statements:
1. Short selling involves selling a stock without owning it and buying it later to close the position.
2. In the cash segment, short positions can be carried forward overnight without squaring off.
3. Short selling is profitable if the stock price declines after selling.

Which of the statements given above are correct?

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

EXPLANATION:

Short selling, or shorting, is a trading strategy where a trader borrows and sells securities they don't own, aiming to buy them back later at a lower price to profit from the decline. Selling and shorting a stock are entirely different. Selling a stock you have already bought (it is available in your demat account) is not shorting, because you are just squaring off (i.e., closing an open position in intraday trading before market close) the existing long position. Whereas, if you sell a stock without owning it in your demat account, it is called Short selling. **So, Statement 1 is correct.**
Short selling can be done in two ways — in the spot market or the futures market. The strategy remains the same in both, but they differ in the time allowed for squaring off. ➢ The spot market is where assets are traded for immediate payment and delivery, unlike the futures market, where settlement occurs at a later date. ➢ In the spot market (cash segment), short selling is strictly intraday, meaning positions must be squared off before the market closes at 3:30 p.m. You cannot carry forward a short position to the next trading day. ➢ In the spot market, price-fall predictions must be precise since positions must be closed the same day. If the stock is illiquid and cannot be bought back before market close (due to lack of sellers), traders may face heavy penalties. ➢ In the futures market, however, short positions can be held overnight or rolled over to the next settlement period. But this requires maintaining a margin amount, which is usually high, making it expensive and risky for most retail traders. **So, Statement 2 is not correct.**

Short selling is a strategy where a trader borrows shares from a broker and sells them in the market, expecting the price to fall. If the price drops as anticipated, the trader buys the shares back at a lower price, returns them to the broker, and keeps the difference between the selling and buying prices as profit. **For example,** A person, Mr X, shorted a stock of ABYZ Company at ₹2,100, expecting the price to fall. As anticipated, if the stock price dropped to ₹1,900, Mr. X would buy back the stock on the same day to square off his short position and make a profit of ₹200. However, if the prediction went wrong and the price rose to ₹2,300, Mr. X would incur a loss of ₹200. Therefore, Short selling is profitable if the stock price declines after selling. **So, Statement 3 is correct.**

ADDITIONAL INFORMATION:

SHORT SELLING IN EQUITY MARKETS	
Recently in news	Recently, the CEO of India's largest online brokerage firm, Zerodha, raised concerns about limited short selling in Indian markets, stating that structural inefficiencies and offline processes hinder fair price discovery and market efficiency.
About	➢ Short selling is a trading strategy in which an investor borrows shares and sells them in the market, intending to repurchase them later at a lower price to realize a profit. ➢ This practice contributes to market efficiency by enhancing liquidity and facilitating accurate price discovery. ➢ However, short selling carries significant risk, including the potential for unlimited losses if the stock price increases. Therefore, it requires careful risk management and a thorough understanding of market dynamics.
Commodity Market	A commodity market is a financial marketplace where commodities—such as raw materials or primary goods—are bought and sold. These markets play a vital role in price discovery, risk management, and hedging against inflation. There are two main types of commodity markets: ➢ **Spot Market (Physical Market):** In this market, commodities are traded for immediate delivery. Transactions are settled on the spot, with delivery occurring immediately or within a short period. It is also called the Cash Market or Physical Market. ➢ **Derivatives Market (Futures & Options Market):** This market involves trading commodities through contracts for future delivery. Such contracts allow traders and investors to hedge against price fluctuations or speculate on price movements without owning the physical commodity.
Types of Derivatives Markets	➢ **Futures Market:** A Futures Contract is a standardized agreement where a buyer and seller agree to exchange a commodity at a predetermined price on a future date. ➢ **Options Market:** An Options Contract gives the trader the right (but not the obligation) to buy or sell a commodity at a fixed price before a specific date.
Call and Put Options	➢ A **Call option** gives the investor/trader the right (but not obligation) to buy an underlying asset at a strike (target) price. ➢ The quantity is purchased for a premium and in lots. Every option contract has an expiry date, on which it becomes invalid. Those who buy the call option contract are known as “Option Buyers.” ➢ A **Put Option** gives the holder the right to sell an underlying asset at a target price (called the strike price). The seller (also called the writer) of a put option is obligated to buy the asset at the strike price if the buyer exercises the Option.

Difference Between Holdings And Positions	➢ **Holdings** in stock market terminology signify the securities or investments you currently own in your portfolio. ➢ In other words, holdings are the collection of assets you currently hold in your investment portfolio. ➢ As such, holdings can include different types of securities, including stocks, bonds, mutual funds, ETFs, and other financial instruments. ➢ **Position** refers to ownership of a particular security, like a stock or derivative, at a given time. Positions denote your market exposure to a particular financial asset. Any trader takes a position by purchasing with a buy order. Positions can also be made if the trader sells short securities. Opening a position is followed by exiting or closing at some point in the future. Positions can be either long or short. • A long position is when you buy shares of a company and hold them, anticipating an increase in the stock's price. • A short position, on the other hand, refers to short selling, where you sell the borrowed stock to buy it back for a lower price due to a short-term price fall.

82. Consider the following statements regarding the Merchant Discount Rate (MDR):
1. MDR is a fee that merchants must pay to a payment processing company for digital transactions.
2. In India, the person-to-merchant transactions carried through any instrument are exempted from MDR.
3. In India, the MDR is a tax that is passed to the customer by the merchants, similar to GST.

Which of the statements given above is/are correct?

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

EXPLANATION:

The Merchant Discount Rate (MDR) is the fee charged to merchants by banks or payment processors for handling digital transactions, including credit/debit card payments and UPI transactions. The MDR typically comes in the form of a percentage of the transaction amount. It is also referred to as a Transaction Discount Rate (TDR). ➢ The bank can lower the rate as sales of merchants increase. Merchants generally pay a 1% to 3% fee for the processing of payments for each transaction. **So, Statement 1 is correct.** ➢ The Merchant Discount Rate (MDR) is a fee that merchants pay to banks for processing digital transactions. Sometimes, this cost is passed on to the customer by the merchant. However, MDR is not the same as GST. GST is a tax levied on goods and services, and it is applied on charges like MDR when payments are made using certain instruments, but MDR itself is simply a processing fee, not a tax. **So, Statement 3 is not correct.**
Person-to-Merchant (P2M) transactions are payments made by an individual or customer to a business or merchant for goods or services, typically via a digital payment platform like UPI. The Central Board of Direct Taxes (CBDT) has removed the Merchant Discount Rate (MDR) on person-to-merchant (P2M) UPI transactions. ➢ To promote digital transactions, MDR was made zero since January 2020 for RuPay debit cards and BHIM-UPI transactions through amendments in the Payments and Settlement Systems Act, 2007 and the Income Tax Act, 1961. ➢ MDR exemption in India applies only to specific instruments (UPI and RuPay debit cards), not all P2M instruments. **So, Statement 2 is not correct.**

83. Which of the following best describes “Reverse Flipping”?

(a) The process of transferring ownership of an Indian company to a foreign entity for tax benefits.

(b) The process of transferring ownership of a foreign company to an Indian entity for tax benefits.

(c) The process of shifting the domicile of Indian start-ups incorporated abroad back to India.

(d) The process through which Foreign Institutional Investors (FIIs) convert their investments in Indian equities into debt instruments.

EXPLANATION:

Reverse flipping, or Re-domiciliation, is when Indian-founded startups that were incorporated abroad move their legal headquarters back to India. In the past, the process was rare and complex; however, in 2025 it is becoming a mainstream strategy.

- Leading startups such as Meesho, Flipkart, Razorpay, and Zepto have already executed or announced plans to return.
- A key driver behind these decisions is the growing appetite for domestic initial public offerings (IPOs), supported by India's increasingly competitive capital markets. **So, Option (c) is correct.**

ADDITIONAL INFORMATION:

REVERSE FLIPPING IN INDIA	
Recently in news	➢ The practice of shifting a company's holding structure back to India has gained momentum in 2024 and 2025. ➢ Driven by better listing prospects and regulatory ease, several Indian startups and companies have started to redomicile to India from overseas.
Reverse Flipping in India	➢ Over the past two years, reverse flipping has gained strong momentum. One of the main reasons for this trend is India's evolving policy and regulatory environment. ➢ The government has introduced several reforms to strengthen the start-up ecosystem, such as removing the Angel Tax, easing Foreign Direct Investment (FDI) norms, and establishing the International Financial Services Centre (IFSC) in GIFT City. ➢ Recently, the Securities and Exchange Board of India (SEBI) announced measures to reduce compliance burdens, encourage more companies to list in India after reverse flipping, and attract more foreign investment into government bonds. ➢ SEBI also relaxed rules for start-up founders and promoters regarding Employee Stock Options (ESOPs). ➢ They can now retain ESOPs granted up to a year before filing their Draft Red Herring Prospectus (DRHP)- a preliminary document filed with a securities regulator (SEBI) for a public share issue, but cannot issue new ESOPs during this period.
Structural and Market developments	Several structural and Market developments are encouraging startups to re-domicile in India. ➢ **Mature capital markets:** • India's capital markets have deepened considerably, with Initial Public Offerings (IPO) activity surging in recent years. • Domestic listings are attracting strong participation from both Indian and global investors, often delivering better valuations than comparable overseas markets. ➢ **Regulatory reforms:** • Policy changes have streamlined the process of re-domiciliation. Clearer provisions for mergers, share swaps, and IPO readiness have reduced complexity, allowing companies to complete transitions far more efficiently than before. ➢ **Investor confidence:**

	• Domestic investor participation has expanded, with retail investors and large institutions providing robust capital flows. • This trend complements India's goal of self-reliance, which encourages companies to establish and grow their base in India. ➢ **Emergence of GIFT City:** • The Gujarat International Finance Tec-City (GIFT City) is positioning itself as a global financial hub. • With tax incentives, relaxed foreign exchange regulations, and access to international listing opportunities, it offers startups many of the advantages of an offshore jurisdiction while enabling them to retain their legal identity in India. ➢ **Foreign exchange and ownership flexibility:** • Amendments to the Foreign Exchange Management Act (FEMA) and Non-Debt Instruments (NDI) Rules have simplified compliance. • Share swaps can now be executed through the automatic route, provided sectoral caps and norms are adhered to, giving startups greater flexibility in restructuring ownership during re-domiciliation.

84. How many of the following provisions are available to Non-Banking Financial Companies in India?
    1. Receiving 100% Foreign Direct Investment
    2. Maintenance of Statutory Liquidity Ratio
    3. Issuing their own cheque books
    4. Providing Insurance under the Deposit Insurance and Credit Guarantee Corporation

    Select the correct answer using the codes given below:
    (a) All four
    (b) Only three
    (c) Only two
    (d) Only one

EXPLANATION:

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 or 2013, engaged in financial activities like loans, advances, investment in shares, stocks, bonds, hire-purchase, leasing, insurance, or chit funds, but not in agriculture, industry, or sale/construction of property. It is regulated by the Reserve Bank of India (RBI) under the RBI Act, 1934, and its foreign exchange activities come under FEMA, 2000. Continuing with the liberalization of the overseas investment's regime, the government allows 100% Foreign Direct Investment (FDI) in NBFCs engaged in other financial services under the automatic route, subject to RBI regulations and minimum capitalization norm. **So, Statement 1 is correct.**
Statutory Liquidity Ratio or SLR is a minimum percentage of deposits that a commercial bank has to maintain in the form of liquid cash, gold or other securities. It is basically the reserve requirement that banks are expected to keep before offering credit to customers. ➢ These are not reserved with the Reserve Bank of India (RBI), but with banks themselves. The SLR is fixed by the RBI. ➢ Non-Banking Financial Companies (NBFCs) in India are not required to maintain the Statutory Liquidity Ratio (SLR) as they are not commercial banks. **So, Statement 2 is not correct.** ➢ However, NBFCs are subject to other prudential norms such as the Capital Adequacy Ratio (CAR) and the Cash Reserve Ratio (CRR), which are designed to ensure their financial stability and protect the interests of their customers.
Banks and NBFCs are different entities subject to different statutory and regulatory requirements. However, NBFCs lend and make investments and hence these activities are akin to that of banks. The major differences between banks and NBFCs are given below:

➢ NBFCs cannot accept demand deposits ➢ NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on themselves. Thus, Non-Banking Financial Companies (NBFCs) in India are not permitted to issue their own cheque books. **So, Statement 3 is not correct.** ➢ The deposit insurance facility of the Deposit Insurance and Credit Guarantee Corporation (DICGC) is not available to depositors of deposit-taking NBFCs. **So, Statement 4 is not correct.**

85. With reference to the co-lending model of the Reserve Bank of India, consider the following statements:
    1. It allows banks and Non-Banking Financial Companies (NBFCs) to lend loans together to priority sectors.
    2. Banks and NBFCs are mandated to lend an equal share of the individual loans under this model.

    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

EXPLANATION:

The Co-Lending Model (CLM) is a framework where banks and NBFCs work together to provide loans, especially to the priority sectors of the economy, such as agriculture, micro, small, and medium enterprises, and other underserved areas. Banks contribute cheaper funds, while NBFCs extend reach to underserved borrowers. Both lenders share risks and rewards, aiming to increase credit flow and offer affordable loans to sectors that are often underbanked. **So, Statement 1 is correct.**
Regulated Entities (REs), including banks, NBFCs, and All-India Financial Institutions, can enter into lending arrangements with other REs for extending credit to borrowers, subject to compliance with existing prudential regulations. Co-lending arrangements (CLA) are formal agreements between an RE that originates the loans and another RE that co-lends to jointly fund a portfolio of loans in a pre-agreed proportion, sharing both revenue and risk. Banks and NBFCs are not required to lend equal shares under co-lending. However, the RBI mandates that each bank and NBFC in a CLA must retain a minimum 10% share of individual loans on their books. **So, Statement 2 is not correct.**

ADDITIONAL INFORMATION:

RESERVE BANK OF INDIA (CO-LENDING ARRANGEMENTS)	
Recently in news	➢ The Reserve Bank of India (RBI) has issued new rules for co-lending arrangements (CLA) agreements where two or more financial institutions jointly lend money to borrowers. ➢ These rules will apply from 1 January 2026, or earlier if a regulated entity chooses, according to the RBI's internal policy, and aims to make co-lending clear, fair and safe for both borrowers and lenders.
Co-Lending Arrangements (CLA) Key Points (RBI, 2025)	➢ **Minimum Retention & Default Guarantee:** All regulated entities (banks, NBFCs, housing finance companies, etc.) must retain at least 10% of each loan on their books. The originating lender can provide a default loss guarantee (DLG) up to 5%, following RBI’s digital lending rules, but it cannot be used for credit enhancement. ➢ **Operational Clarity & Borrower Protection:** Agreements must clearly define borrower eligibility, product types, fees, and each partner’s responsibilities. A single point of contact must be maintained for borrowers, and all transactions

	should go through a dedicated escrow account. Partners must reflect their loan share within 15 days, or the loan remains with the originating lender. ➢ **Disclosures & Implementation:** Entities must disclose co-lending details (loan size, sectors, rates, fees, partners) in financial statements and on their websites, include co-lending in credit policies, and have a business continuity plan if partnerships end. ➢ **Timeline & Objective:** The revised rules replace the 2020 circular and take effect from January 1, 2026, though early adoption is allowed. The aim is to align risks, detect stress early, and protect borrowers, especially in retail and MSME segments.

86. Consider the following statements:
   1. Total production of final goods and services within a country during a given period amounts to its Gross Domestic Product (GDP).
   2. Net factor income from abroad is a component of the Gross National Product of a country.

   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

<u>EXPLANATION:</u>

Gross Domestic Product (GDP) is an important measure that helps us understand how well a country's economy is doing. It shows the total value of everything produced—goods and services—within a country during a certain time frame, usually a year or a few months. GDP is essential for assessing a country's economic condition and allows for comparisons between different nations. It gives us a glimpse into the economy's overall size, whether it's growing or shrinking, and can also signal if there are inflation issues. **So, Statement 1 is correct.**
Gross national product (GNP) is an economic measure that's commonly calculated by taking the sum of personal consumption expenditures, private domestic investment, government expenditure, net exports, and all income earned by residents from overseas, then subtracting income earned by foreign residents within the domestic economy (Net Factor Income from abroad). Net exports represent the difference between what a country exports and imports of goods and services. Therefore, Net factor income from abroad (All income earned by residents from overseas minus income earned by foreign residents within the domestic economy) is a component of the Gross National Product of a country. **So, Statement 2 is correct.**

87. Consider the following statements:

Statement I: Treasury Bills (T-Bills) are issued at a discount to their face value and redeemed at face value upon maturity.

Statement II: T-Bills do not carry periodic interest payments.

Statement III: Only commercial banks are allowed to participate in the primary auction of T-Bills.

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

(a) Both Statement II and Statement III are correct and both of them explain Statement I.

(b) Both Statement I and Statement II are correct and Statement I explains Statement II.

(c) Only one of the Statements II and III is correct and that explains Statement I.

(d) Neither Statement II nor Statement III is correct.

EXPLANATION:

Treasury Bills (T-Bills) are short-term debt instruments issued by the Reserve Bank of India (RBI) on behalf of the Indian Government and are currently available in three tenors: 91 days, 182 days, and 364 days. They represent a commitment from the Government to repay a specified amount on a future date and are considered relatively low-risk investments. T-Bills are issued at a price lower than their face value and redeemed at face value upon maturity. They do not pay periodic interest because the investor's return is built into the difference between the discounted purchase price and the face value. This zero-coupon structure means that the "interest" is effectively received only at maturity, eliminating the need for regular interest payments **So, Both Statement I and Statement II are correct and Statement I explains Statement II.**
Treasury bills can be issued during the periodic auctions and are tradable in the secondary market. Institutions that can participate in the auction of treasury bills include commercial banks, primary dealers, mutual funds, corporates, institutions, provident and pension funds as well as insurance companies. **So, Statement-III is incorrect.**

ADDITIONAL INFORMATION:

TREASURY BILLS	
About	Treasury Bills are short term (up to one year) borrowing instruments of the Government of India which enable investors to park their short term surplus funds while reducing their market risk. ➢ They are auctioned by Reserve Bank of India at regular intervals and issued at a discount to face value. On maturity the face value is paid to the holder. ➢ The rate of discount and the corresponding issue prices are determined at each auction. When liquidity is tight in the economy, returns on Treasury Bills sometimes become even higher than returns on bank deposits of similar maturity. ➢ Any person in India including Individuals, Firms, Companies, Corporate bodies, Trusts and Institutions can purchase Treasury Bills. Treasury Bills are eligible securities for SLR purposes. ➢ Treasury Bills are available for a minimum amount of Rs. 25,000 and in multiples of Rs. 25,000 thereafter. They are available in both Primary and Secondary Market. ➢ Treasury Bills are issued in the form of SGL – entries in the books of Reserve Bank of India to hold the securities on behalf of the holder. The SGL holdings can be transferred by issuing a SGL transfer form ➢ Treasury Bills are also being issued under the Market Stabilization Scheme (MSS)
Features	**Short Tenure:** • T bills are short-term debt instruments with tenures ranging from 14 days to 364 days.

	• It allows investors quick access to the funds providing a higher liquidity. • It can be a perfect investment option for investors seeking flexible and secure investment options with shorter tenure. **Low-risk Instrument:** • T-bills are mainly popular among investors as it is considered a risk-free investment safer than even fixed deposits. • They carry a sovereign guarantee and provide better returns than FDs with the same tenure offered by PSU Banks. This makes T-bills an appropriate choice for conservative investors.

88. With reference to the Alternative Minimum Tax (AMT) and the Minimum Alternate Tax (MAT), consider the following statements:
    1. AMT is applicable to corporate taxpayers, while MAT is tax payable by non-corporate taxpayers.
    2. AMT is calculated based on a company's book profit, while MAT is measured based on the adjusted total income of taxpayers.
    3. Both AMT and MAT ensure minimum tax payment by entities in India.

    How many of the above statements is/are correct?

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

EXPLANATION:

Recently, the revised Income-Tax (No. 2) Bill, 2025 introduced separate provisions for Minimum Alternate Tax (MAT) and Alternate Minimum Tax (AMT), providing greater clarity regarding their applicability. The Bill draws a clear distinction between MAT and AMT by placing them in separate sub-sections.

Minimum Alternate Tax (MAT): A tax applicable to companies to ensure they pay a minimum tax on their book profits, even if exemptions or deductions reduce their normal tax liability.

Alternate Minimum Tax (AMT): A tax applicable to non-corporate entities to ensure they pay a minimum tax on their Adjusted Total Income (ATI) when claiming certain deductions.

- Minimum Alternate Tax (MAT), under Section 115JB of the Income Tax Act, 1961, applies exclusively to companies, while AMT applies only to non-corporate entities claiming specified deductions.
- MAT ensures that companies with high book profits but minimal taxable income (due to exemptions, deductions, or incentives) pay a minimum amount of tax to the government. It is calculated on the basis of adjusted book profit, derived from the company's profit and loss account prepared as per the Companies Act, with specific adjustments prescribed under the Act.
- Alternate Minimum Tax (AMT), introduced under Section 115JC of the Income Tax Act, 1961, applies to non-corporate entities, including individuals, Hindu Undivided Family (HUFs), and LLPs, who claim certain tax deductions.
- AMT ensures that these entities pay a minimum tax even when their normal tax liability is low. It is calculated at 18.5% of Adjusted Total Income (ATI), which is derived by adding back specific deductions or exemptions to the regular taxable income.
- LLPs that earn income solely from capital gains are exempt from AMT, easing compliance for investment-focused partnerships. **So, Statements 1 and 2 are not correct.**

Both MAT and AMT provide for a minimum tax that the stipulated entities are required to pay, but the primary difference lies in their computation method. This creates a distinction between the amount of tax payable by corporate and non-corporate entities.

- MAT is calculated on "adjusted book profit" based on the "book profit" as determined in the profit-and-loss account prepared in accordance with Schedule VI of the Companies Act, 1956, with certain specific adjustments made in accordance with the provisions of Explanation to Section 115JB of the IT Act.
- However, AMT is computed by considering the "adjusted total income", which is the total income derived under the provisions of the IT Act as increased by specific deductions, as per the provisions of Section 115JC of the IT Act.

Thus, a non-corporate entity would be liable to AMT at 18.5 per cent of the adjusted total income, whereas a company would be subject to MAT at the same rate calculated on the basis of book profits. **So, Statement 3 is correct.**

89. Which of the following mentioned below are true about Foreign Portfolio Investment?
    1. It involves active investors.
    2. It is an indirect investment method.
    3. It doesn't include technology transfer.
    4. It involves investing in securities outside the country.

    Select the correct answer using the codes given below:
    (a) 1 and 3 only
    (b) 2 and 4 only
    (c) 2, 3 and 4 only
    (d) 1, 2, 3 and 4

EXPLANATION:

Foreign Portfolio Investment refers to investments made by foreign individuals, institutions, or funds into financial assets in another country like stocks, bonds, or other securities. Securities and Exchange Board of India is the regulatory body that regulates FPI in India. The National Securities Depository Limited (NSDL) maintains a list of all the registered FPIs in India.

- FPI involves passive investors, and Foreign Direct Investment (FDI) is all about active investors. FPI investor does not have any say in the management of the company. **So, Statement 1 is not correct.**
- Foreign Direct Investment is a Direct investment and business ownership in a foreign country. Whereas, Foreign Portfolio Investment is an Indirect investment in a foreign country's financial assets, such as stocks and bonds. FPI investors do not exercise a high degree of control over the company's day-to-day operations. But FDI investors command a high degree of control over the management and business operations. **So, Statement 2 is correct.**
- A Foreign Direct Investment leads to the sharing of resources, transfer of technology know-how, and funds and involves a joint venture or setting up of a subsidiary. In Foreign Portfolio Investment, no such transfer of knowledge and technology takes place. **So, Statement 3 is correct.**
- FDI is made by institutions or venture capital companies, whereas FPI simply involves investing in securities or assets outside the country. **So, Statement 4 is correct.**

ADDITIONAL INFORMATION:

FOREIGN PORTFOLIO INVESTMENT		
Recently in the News	Foreign Portfolio Investors have pulled out ₹7,945 crore from Indian equities so far in September 2025, weighed down by global uncertainties such as tariffs and persistent geopolitical tensions.	
Difference	***Foreign Direct Investment***	***Foreign Portfolio Investment***

	➢ It is only in equity/shares. ➢ It happens through the primary market (restrictions on trade on stock exchanges) ➢ Generally, new shares are issued and the new capital (money) comes to the company, through which the company invests in a new factory, machines, etc. ➢ The foreign investor appoints the Board of Directors and gets involved in the decision-making (active management) of the company. ➢ Foreign investors try to make the company profitable through their decision-making and target the profit of the company. ➢ It is sector-specific. For example, a steel company in the US will invest only in a steel company in India and try to make that company profitable through their management and get a share of the profit ➢ It is a long-term investment to turn the company profitable; the foreign investor needs to invest for a long time. Generally, there is a lock-in period (one year), and during this period, the foreign investor cannot sell his investment, and hence it is quite stable.	➢ It is in both equity and debt. ➢ Generally, it happens through the secondary market, but it can happen through the primary market as well ➢ Generally, only the owners change hands, and new capital does not come to the company ➢ Foreign investors generally do not get involved in the management of the company. ➢ Foreign investors target the share price of the company and derive their gain from the rise or fall of the share price ➢ It is in the general capital market. For example, a foreign investor is not particular about any sector and is willing to invest in any sector/company which gives a chance of share price appreciation. ➢ It is a generally short-term investment. ➢ There is no lock-in period, and the foreign investor can return at any time by selling his investment. This makes the currency volatile

90. Consider the following statements:

Statement I: The Payments Regulatory Board, constituted under the provisions of the Payment and Settlement Systems Act, 2007, is headed by the Reserve Bank of India (RBI) Governor.

Statement II: The RBI Governor is the sole authority to regulate payment systems in the country.

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

(a) Both Statement-I and Statement-II are correct and Statement-II is the correct Explanation for Statement-I.

(b) Both Statement-I and Statement-II are correct and Statement-II is not the correct Explanation for Statement-I

(c) **Statement-I is correct but Statement-II is incorrect**

(d) Statement-I is incorrect but Statement-II is correct

EXPLANATION:

The Reserve Bank of India (RBI) constituted the Payments Regulatory Board (PRB) and appointed six members to this board, led by the RBI Governor as Chairperson.

The Board ordinarily meets at least twice a year and is responsible for the regulation and supervision of all payment systems, including electronic and non-electronic, domestic and cross-border systems.

So, Statement-I is correct.

The Payments Regulatory Board (PRB) replaces the earlier Board for Regulation and Supervision of Payment and Settlement System (BPSS), which was a five-member panel also headed by the RBI Governor but did not include any government nominees.

Composition of the PRB (six members):

- RBI Governor (Chairperson) (ex officio)
- Deputy Governor in charge of Payment and Settlement Systems (ex officio)
- One RBI official nominated by the Central Board (ex officio)
- Three members nominated by the Central Government

Voting: Each member has one vote. Decisions are made by majority vote. In case of a tie, the Chairperson (RBI Governor) or Deputy Governor (if Chairperson absent) holds the casting vote.

The RBI Governor is not the sole authority; all six members of the Payments Regulatory Board share the responsibility for regulating and supervising all payment systems in the country. **So, Statement-II is incorrect.**

91. Consider the following statements:
    1. GDP deflator helps to assess the change in Gross Domestic Product (GDP) due to the change in price levels rather than the change in output levels.
    2. Nominal GDP calculation includes inflation, while that of Real GDP excludes inflation.
    3. Nominal GDP could be higher than the Real GDP in an expanding economy.
    4. Both the GDP deflator and the consumer price index are calculated based on the same basket of goods.

    How many of the above statements is/are correct?

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

EXPLANATION:

The GDP deflator, also called implicit price deflator, is a measure of Inflation. It is the ratio of the value of goods and services an economy produces in a particular year at current prices to that of prices that prevailed during the base year.

This ratio helps show the extent to which the increase in gross domestic product has happened on account of higher prices rather than increase in output.

Thus, GDP deflator helps to assess the change in gross domestic product (GDP) due to the change in price levels rather than the change in output levels. **So, Statement 1 is correct.**

Nominal gross domestic product (GDP) is everything that a country produces during a certain period at current prices. This means it's not adjusted for Inflation or deflation.

Real gross domestic product (GDP) is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year.

- The formula to find the GDP price deflator:

  GDP price deflator = (nominal GDP ÷ real GDP) × 100

- GDP price deflator measures the difference between real GDP and nominal GDP. Nominal GDP differs from real GDP as the former doesn't include Inflation, while the latter does. **So, Statement 2 is not correct.**
- As a result, nominal GDP will most often be higher than real GDP in an expanding economy. **So, Statement 3 is correct.**

The GDP deflator and the Consumer Price Index (CPI) differ because they are based on different baskets of goods and services.

- A consumer price index (CPI) measures changes over time in the general level of prices of goods and services that households acquire for the purpose of consumption. However, since CPI is

based only a basket of select goods and is calculated on prices included in it, it does not capture Inflation across the economy as a whole. ➢ Whereas, the GDP deflator is a more comprehensive inflation measure than the CPI, which measures the price changes in a fixed basket of goods. Changes in consumption patterns or introduction of goods and services are automatically reflected in the GDP deflator. This allows the GDP deflator to absorb changes to an economy's consumption or investment patterns. **So, Statement 4 is not correct.**

ADDITIONAL INFORMATION:

GDP DEFLATOR AND CONSUMER PRICE INDEX	
GDP Deflator	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. Ministry of Statistics and Programme Implementation (MOSPI) comes out with GDP deflator in National Accounts Statistics as price indices. GDP deflator is available only on a quarterly basis along with GDP estimates. The base of the GDP deflator is revised when base of GDP series is changed.
Consumer price index	➢ The Consumer Price Index (CPI) measures changes in the prices of goods and services consumed by retail buyers, reflecting the demand side of the economy. It also serves as an indicator of the purchasing power of the currency. ➢ CPI is calculated using a fixed basket of goods and services, which the government may adjust periodically. ➢ It is a key macroeconomic indicator of inflation and an important tool for central and state governments, as well as the Reserve Bank of India, to regulate the money supply and maintain price stability. ➢ By tracking changes in household consumption prices, CPI indicates the level of inflation in the economy. A rising CPI signals inflation, which can reduce purchasing power and lower the standard of living. ➢ The Consumer Price Index provides insights into: • Cost of living • Consumers' purchasing power • Relative cost of various goods and services • Value of the Indian rupee

92. Consider the following taxes:
1. Corporation tax
2. Customs duty
3. Excise duty
4. Wealth tax

Which of these is/are indirect taxes?
(a) 1 only
(b) 2 and 4 only
(c) 1 and 3 only
(d) 2 and 3 only

EXPLANATION:

Taxes are compulsory payments to the respective Government in order to enable them to provide public goods, services and sometimes merit goods.

There are two types of taxes:

A tax is said to be direct when both the impact and incidence fall on the same tax unit. In the case of indirect tax, the impact and incidence fall on different tax units.

Example of Direct Taxes	**Example of Indirect Taxes**
➢ Income tax: the tax on the incomes of individuals ➢ Corporation tax: the tax on corporate profits ➢ Wealth tax: the tax on the wealth of individuals ➢ Gift tax: the tax on gifts given	➢ Value-added tax ➢ Excise duty: the tax on goods manufactured in factories ➢ Customs duty: the tax on imports and exports ➢ Service tax: the tax on the services provided

Among the given taxes, Customs duty (2) and Excise duty (3) are indirect taxes.

So, Option (d) is correct.

ADDITIONAL INFORMATION:

DIRECT TAXES AND INDIRECT TAXES	
Recently in news	Recently, the Centre has reduced the basic customs duty on crude edible oil, including crude sunflower, soybean, and palm oils, from 20 per cent to 10 per cent. This has resulted in the import duty differential between crude and refined edible oils from 8.75 per cent to 19.25 per cent.
About	Tax is a mandatory payment made by an economic entity to the Government, without any guarantee of receiving a specific or direct return from the Government in exchange. The broad areas of taxes are: Tax on income and expenditure (Tax on Personal Income, Corporate income, GST etc.), tax on commodities and tax on property and property transaction.
Difference	

BASIS	**DIRECT TAXES**	**INDIRECT TAXES**
Impact	Direct taxes are levied on individuals and firms	Indirect taxes are levied on goods and services
Shift of burden	The burden of a direct tax cannot be shifted, i.e. impact and incidence are on the same person	The burden of an indirect can be shifted, i.e. impact and incidence are on different persons e.g. a seller can increase the price of the good after tax is imposed so that the buyer will bear the burden of the tax.
Nature	They are generally progressive in nature	They are generally proportionate in nature
Coverage	They have limited reach as they do not reach all the sections of society	They have a wide coverage as they affect all the sections of society

93. Consider the following statements:

Assertion: An Increase in the higher runoff factor will also increase the Liquidity Coverage Ratio of the banks.

Reason: The run-off factor refers to the percentage of deposits that depositors could withdraw in a stress scenario.

Which of the following statements is correct?

(a) Both A and R are true and R is the correct explanation of A.

(b) Both A and R are true but R is not the correct explanation of A.

(c) A is true but R is false.

(d) A is false but R is true.

EXPLANATION:

Recently, the Reserve Bank of India (RBI) eased the liquidity coverage ratio (LCR) norms under which the banks will now be required to assign an additional 2.5 per cent run-off factor for digital deposits. As part of post-Global Financial Crisis (GFC) reforms, the Basel Committee on Banking Supervision (BCBS) had introduced the Liquidity Coverage Ratio (LCR), which requires banks to maintain High Quality Liquid Assets (HQLAs) to meet 30 days' net outgo under stressed conditions. It helps the bank stay afloat during a financial crisis, at least until the Government or the central bank can come to its rescue.

LCR = High Quality Liquid Assets (HQLA) / Net Cash Outflows over 30 days

High-Quality Liquid Assets (HQLA): Cash or assets that can quickly be converted to cash.

Net Cash Outflows**:** Expected cash withdrawals or payments in a stress scenario minus expected inflows.

- The run-off factor refers to the percentage of deposits that could be withdrawn by depositors in a stress scenario. A higher run-off factor means that more deposits are expected to leave the bank in a stress period, which increases Net Cash outflows.

  For Example:

  - If the run-off factor is 5%, it means the bank expects that customers will withdraw 5% of its total deposits during a period of financial stress.
  - If the run-off factor increases to 10%, it means the bank now expects that 10% of its deposits will be withdrawn under the same stress conditions.
  - In other words, a higher run-off factor indicates a greater expected withdrawal of funds from the bank, meaning more cash outflows and higher liquidity risk

Therefore, a higher run-off factor does not increase LCR; rather, it decreases the LCR, as it increases Net cash outflows. **So, A is false, but R is true.**

94. Which of the following are the impacts of the repo rate cut on the economy by the Reserve Bank of India?

1. Leads to higher inflation
2. EMI of home and vehicle loans will shoot up
3. Interest earned on savings will be reduced

Select the correct answer using the codes given below:

(a) 1 only

(b) 1 and 2 only

(c) 1 and 3 only

(d) 1, 2 and 3

EXPLANATION:

The Repo Rate is the interest rate at which the Reserve Bank of India (RBI) lends money to commercial banks when they need short-term funds. In other words, when banks are low on cash, they go to RBI for a loan and the Repo Rate is the cost they pay to borrow that money. Repo stands for Repurchase Agreement. Banks sell government securities to RBI with a promise to buy them back later, usually the next day at a slightly higher price. The following are the impacts of the repo rate cut on the economy: ➢ **Higher Inflation** - when the RBI lowers the repo rate, it can increase the money supply and stimulate demand in the economy. Lower interest rates can encourage borrowing and spending by consumers and businesses, potentially leading to higher demand for goods and services. If the economy is already operating near full capacity, this increase in demand can put upward pressure on prices, contributing to higher Inflation. **So, Statement 1 is correct.** ➢ **Lower Borrowing Costs for Businesses & Households** - When the repo rate is reduced, banks can borrow funds from the RBI at a lower cost. As a result, they reduce their lending rates, making loans cheaper for borrowers. Consequently, the EMIs on home, vehicle, and other loans decrease, easing the repayment burden on borrowers. **So, Statement 2 is not correct.** ➢ **Lower Deposit Returns** - When the repo rate is reduced, banks also lower their deposit rates to align with cheaper borrowing costs. As a result, the interest earned on savings accounts and fixed deposits decreases. Hence, depositors receive lower returns on their savings. **So, Statement 3 is correct.** ➢ **Increased Credit Flow** - A bank may see a loan with higher demand and cheaper credit, which can increase spending and investment. ➢ **Currency Volatility** - Lower interest rates can impact foreign investment flows, potentially putting pressure on the Indian rupee.

ADDITIONAL INFORMATION:

REPO RATE AND REVERSE REPO RATE	
Recently in news	In its recent Monetary Policy Committee (MPC) meeting, the RBI decided to keep the repo rate unchanged at 5.50%.
Reverse repo rate	Reverse repo is the inverse contract to the repo rate. The reverse repo rate is the rate at which the RBI borrows funds from the country's commercial banks. It is the rate where the commercial banks in India park excess funds with the Reserve Bank of India, typically for a short period of time.

Difference between Repo rate and Reverse Repo rate	
Repo rate	**Reverse repo rate**
The lender is the RBI, and the borrower is the commercial bank.	The lender is the commercial banks, and the borrower is the Reserve Bank of India.
The objective of the repo rate is to manage short deficiency of the funds.	It is to reduce the overall supply flow of money in the economy.
The rate of interest for repo rates is higher than that of reverse repo rates.	The rate of interest is lesser than the repo rate.
The interest charge that is applicable to the repo rate is through a repurchase agreement.	The applicable interest charge is through a reverse repurchase agreement.
The mechanism of operation in the case of repo rate for commercial banks gets funds from RBI utilising government bonds as collateral.	In reverse repo rate, the commercial banks deposit their excess funds with the Reserve Bank of India and get interested from the deposit.

Higher the rate, the cost of the funds in repo rate increases for commercial banks; hence the loans become more expensive.	When the rate is high, the money supply in the economy gets lower as commercial banks park more excess funds with the Reserve Bank of India.
Lowering the rate makes the cost of the funds lower for commercial banks and leads to lower interest rates on loans.	When the rate is low, the money supply in the economy gets higher as banks lend more and lessen the deposits with RBI.

95. Consider the following statements regarding the Gold Monetisation Scheme:
    1. It was announced in 2015 to reduce the import dependency on gold.
    2. The Government has discontinued the scheme completely.

    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

EXPLANATION:

The Gold Monetisation Scheme (GMS) was announced in 2015 with the objective to reduce country's reliance on the import of gold in the long run and mobilise gold held by households and institutions in the country to facilitate its use for productive purposes. ➢ The Gold Monetization Scheme comprises of the previous 'Gold Deposit Scheme' and the 'Gold Metal Loan' scheme, revamped and linked together in GMS. ➢ The GMS is comprised of 3 components • Short Term Bank Deposit (1-3 years); • Medium Term Government Deposit (5-7 years), and • Long-Term Government Deposit (12-15 years). **So, Statement 1 is correct.**
Recently, the Government has decided to discontinue the Gold Monetisation Scheme (GMS) starting from Mar 2025 in view of the evolving market conditions. Based on the examination of the performance of the Gold Monetisation Scheme (GMS) and evolving market conditions, it has been decided to discontinue the Medium-Term and Long-Term Government Deposit (MLTGD) components of the GMS. However, the banks may continue their short-term gold deposit schemes (1-3 years). Thus, it shows that the Government hasn't discontinued the scheme completely. **So, Statement 2 is not correct.**

ADDITIONAL INFORMATION:

GOLD MONETISATION SCHEME	
About	➢ The Gold Monetisation Scheme (GMS) functions like a savings account for gold, helping individuals save on locker charges used for storing gold. ➢ Under this scheme, individuals or institutions can deposit their gold in a bank and earn interest on it. However, gold jewelry embedded with other metals or stones is not accepted for deposit. ➢ The interest earned under the GMS can be paid either in gold or in its cash equivalent. Similarly, at maturity, the principal amount can be repaid in gold or in cash equivalent to the gold's value on that date. ➢ The form of returned gold may differ from what was deposited — for instance, jewellery may be returned as coins or bullion.
Features of GMS	➢ The minimum deposit under the GMS at any one time is 10 grams of raw gold. ➢ There is no maximum deposit limit.

	➢ The lock-in period depends on the type of deposit. For short-term deposit the minimum lock-in period determined by banks, for medium-term it is 3 years and for long-term it is 5 years. ➢ Gold is accepted in the form of raw gold, i.e., jewellery, coins, and gold bars, excluding stones and other metals. ➢ Nomination facility is available under this scheme.
Eligibility	According to the Reserve Bank of India the following are eligible to deposit gold in the GMS: ➢ Individuals ➢ Hindu Undivided Family (HUFs) ➢ Proprietorship ➢ Partnership firms ➢ Companies ➢ Trusts, including exchange-traded funds and mutual funds registered under SEBI (Mutual Funds) Regulations ➢ Charitable institutions ➢ Central Government, state governments or any other entity owned by central or state Government The RBI has also stated that two or more eligible owners can make joint deposits under the gold monetisation scheme. In the case of joint depositors, the bank will credit the interest to the joint deposit accounts opened together by the investors.

96. How can currency appreciation stimulate a decrease in net exports?
    1. By increasing export costs
    2. By increasing import prices

    Select the answer using the code given below:
    (a) 1 only
    (b) 2 only
    (c) Both 1 and 2
    (d) Neither 1 nor 2

EXPLANATION:

Net exports represent the value of a country's total exports minus its total imports, serving as an indicator of its trade balance which impacts domestic production, employment, and economic health.
Currency appreciation has a significant impact on trade dynamics. When a currency appreciates, it increases the purchasing power of importers, making foreign goods and services cheaper. This can be beneficial for consumers and businesses that rely on imported products. Currency appreciation makes imports cheaper, not costlier. **So, Statement 2 is not correct.**
However, for exporters, appreciation poses a challenge. Their goods become more expensive for foreign buyers, potentially reducing demand and leading to a decrease in export volumes. This shift can adversely affect the trade balance, potentially leading to trade deficits as the country imports more than it exports.
This, in turn, prevents the exports from getting the necessary push as the number of commodities exported from the said country show a persistent decline.
Thus, by making exports more expensive, currency appreciation results in reduced net exports. **So, Statement 1 is correct.**

ADDITIONAL INFORMATION:

CURRENCY APPRECIATION AND DEPRECIATION	
Net exports	Net exports shows whether a country is selling more goods and services to the world than it is buying.

	➢ A positive net export value indicates a trade surplus, while a negative value indicates a trade deficit. ➢ A country that enjoys net exports brings in more money from goods and services sold overseas than it spends on importing goods and services.
Currency Factor	➢ If a nation's currency is weak in relation to other currencies, the goods available for export become more competitive in international markets as their prices are relatively less expensive to the retail customer. That encourages positive net exports. ➢ If a country's currency is strong, its exports are more expensive. Consumers will pass them up for cheaper local products, which can lead to negative net exports.
Currency depreciation	➢ Currency depreciation presents a mixed bag for trade. While it makes imports more expensive, diminishing the purchasing power and potentially increasing the cost of living, it benefits exporters. ➢ A depreciated currency makes a country's exports cheaper for foreign buyers, potentially increasing demand and boosting export volumes. ➢ This effect can positively impact the trade balance, as the country might export more than it imports.
Impact of Currency Appreciation & Currency Depreciation on Exports and Imports	**Impact of Currency appreciation:** ➢ When a currency appreciates, foreign goods become cheaper compared to domestic goods. In other words, a stronger currency increases its purchasing power in foreign markets, allowing it to buy more foreign currency. ➢ This benefits local consumers as imports become cheaper and more accessible, giving them a wider choice of products. However, net exports decline because domestic goods become more expensive for foreign buyers, which negatively affects domestic producers. ➢ As a result, reduced income for domestic producers can lower domestic production and investment, which may lead to a decrease in overall aggregate demand in the economy. **Impact of Currency depreciation:** • When a currency depreciates, domestic goods become cheaper for foreign buyers, while foreign goods become more expensive for domestic consumers. • The domestic currency's purchasing power falls in foreign markets, making imports costlier and exports more competitive. • This increase in export demand boosts the income of domestic producers, encouraging them to expand production and maximize profits. As a result, economic activity rises, leading to an increase in aggregate demand.

97. China recently imposed a ban on the export of several rare-earth elements (REEs). In this context, consider the following:

1. REEs are crucial inputs in the manufacture of permanent magnets used in the electric vehicle industry.
2. A majority of India's permanent magnet imports in FY25 came from China.

How many of the above statements is/are correct?

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

EXPLANATION:

Rare earth elements (REEs) are a group of 17 substances found in the Earth's crust. Despite their name, they are relatively abundant; their rarity lies in the difficulty of isolating them chemically for industrial use.
Recently, China banned the export of dysprosium, gadolinium, lutetium, samarium, scandium, terbium, and yttrium, seven of the 17 REEs.
REEs possess unique electrical and chemical properties, such as those used in permanent magnets. They are divided into seven light REEs and ten heavy REEs, with heavy REEs being crucial for national security applications like lasers and aerospace.
Permanent magnets made from REEs are widely used in electric vehicle (EV) motors, wind turbines, aerospace, and defence industries. **So, Statement 1 is correct.**

India's imports of permanent magnets, many containing rare earth elements (REEs), nearly doubled to 53,700 tonnes in 2024-25 (FY25) from around 28,700 tonnes the year before, according to official trade data.
China is the dominant supplier of permanent magnets in India, accounting for upwards of 90 per cent share. Imports from China increased by 95 per cent year-on-year to 50,000 tonnes in FY25. Permanent magnets, especially those made with REEs, are widely used in electric vehicle (EV) motors, wind turbines, aerospace, and defence. **So, Statement 2 is correct**.

98. Consider the following:
1. Commercial papers
2. Treasury bills
3. Certificates of deposit
4. Preference shares

Which of the above are considered money market instruments in India?

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

EXPLANATION:

The money market is a market for short-term funds, which deals in financial assets whose period of maturity is up to one year. It should be noted that the money market does not deal in cash or Money as such but simply provides a market for credit instruments such as bills of exchange, promissory notes, commercial paper, treasury bills, etc. These financial instruments are a close substitute for Money. These instruments help the business units, other organisations, and the Government to borrow the funds to meet their short-term requirement.
Commercial paper (CP) is a money market instrument for financing working capital requirements of companies. The CP is an unsecured instrument issued in the form of a promissory note. This instrument was introduced in 1990 to enable the corporate borrowers to raise short-term funds. It can be issued for a period ranging from 15 days to one year. Commercial papers are transferable by endorsement and delivery. **So, Statement 1 is correct.**

Treasury bill, a money market instrument, is a promissory note issued by the RBI to meet the short-term requirement of funds (money market instrument). Treasury bills are highly liquid instruments, which means that at any time, the holder of treasury bills can transfer or get it discounted from the RBI. These bills are normally issued at a price less than their face value and redeemed at face value. So the difference between the issue price and the face value of the treasury bill represents the interest on the investment. These bills are secured instruments and are issued for a period of not exceeding 364 days.

Banks, Financial institutions and corporations normally play a major role in the Treasury Bill market. **So, Statement 2 is correct.**
Certificate of Deposit (CD), a money market instrument, is a short-term instrument issued by Commercial Banks and Special Financial Institutions (SFIs), which are freely transferable from one party to another. The maturity period of CDs ranges from 91 days to one year (money market instrument). These can be issued to individuals, co-operatives and companies. **So, Statement 3 is correct.**
Preference shares, often called preferred stock, are company shares with dividends paid to shareholders before common stock dividends. It comes under capital market instruments, which consist of equity shares, debentures, bonds, preference shares, etc., whereas the main instruments traded in the money market are short-term debt instruments such as T-bills, trade bills reports, commercial paper and certificates of deposit. Capital market refers to facilities and institutional arrangements through which long-term funds, both debt and equity, are raised and invested. The capital market consists of development banks, commercial banks and stock exchanges. **So, Statement 4 is not correct.**

ADDITIONAL INFORMATION:

FINANCIAL MARKETS	
Money market	Money market basically refers to a section of the financial market where financial instruments with high liquidity and short-term maturities are traded. ➢ The money market has become a component of the financial market for buying and selling securities of short-term maturities, of one year or less, such as treasury bills and commercial papers. ➢ Over-the-counter trading is done in the money market, and it is a wholesale process. It is used by the participants as a way of borrowing and lending for the short term. ➢ The money market consists of negotiable instruments such as treasury bills, commercial papers, and certificates of deposit. It is used by many participants, including companies, to raise funds by selling commercial papers in the market. ➢ The money market is considered a safe place to invest due to the high liquidity of securities.
Capital market	The capital market is a market where buyers and sellers engage in the trade of financial securities like bonds, stocks, etc. The buying/selling is undertaken by participants such as individuals and institutions. ➢ The capital market consists of primary markets and secondary markets. Primary markets deal with the trade of new issues of stocks and other securities, whereas the secondary market deals with the exchange of existing or previously issued securities. ➢ Another important division in the capital market is made on the basis of the nature of securities traded, i.e., the stock market and bond market.

99. India's Fiscal Deficit is projected at ₹125,000 crore in FY26, and interest liabilities are ₹106,500 crore. It is receiving ₹10,000 crores through non-debt-creating capital receipts. What is the total expenditure and the Primary deficit?
(a) Primary Deficit = ₹18,500 crore and Total Expenditure = ₹231,000 crore.
(b) Primary Deficit = ₹28,500 crore and Total Expenditure = ₹139,000 crore.
(c) Primary deficit would be equal to the Total Expenditure.
(d) Primary Deficit = ₹18,500 crore, and for Total Expenditure, the information is incomplete.

EXPLANATION:

The given values in the statements are:

- Fiscal Deficit = ₹125,000 crore, The fiscal deficit shows the overall gap in government finances, covering all expenses, including both revenue and capital, as well as interest payments.
- Interest payments (liabilities) = ₹106,500 crore, Interest payments are the expenses the Government pays to manage its existing debt.
- non-debt-creating Capital Receipts = ₹10,000 crores, Non-Debt Capital Receipts include Recoveries of Loans and Miscellaneous Capital Receipts by way of Disinvestment of Govt. 's equity holdings in Public enterprises, etc.

To Find Primary Deficit:

➢ The primary deficit refers to the difference between government revenue (excluding borrowing costs) and government spending. It provides insight into a government's fiscal health by focusing on its ability to fund ongoing expenditures without relying on borrowing. The primary deficit can be expressed mathematically as:

Primary Deficit = Fiscal Deficit - Interest Payments

Primary Deficit = 125,000 - 106,500 = ₹18,500 crore (1)

Therefore, the Primary deficit is ₹18,500 crore

To Find Total Expenditure:

➢ Total expenditure refers to the total amount of money spent by an individual, household, business, or government on goods, services, or activities over a specific period.

Total Expenditure (TE)=Fiscal Deficit (FD)+Revenue Receipts (RR)+Non-Debt Capital Receipts (NDCR)

Since NDCR is ₹10,000 crore,

Total Expenditure (TE) = 1,25,000+(RR+10,000)

100. In the context of Indian Economy, consider the following pairs

	Term		Most appropriate description
1	Melt Down	-	Fall in stock prices
2	Recession	-	Fall in growth rate
3	Slow down	-	Fall in GDP

How many of the pairs given above is/are correctly matched?

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

EXPLANATION:

In financial terms, a meltdown refers to a period of sudden and steep decline in asset values, such as stock prices, or a complete collapse of a company, organization, or market, leading to significant investor losses and economic damage.

Melt-down in the stock market refers to a sudden and significant decline in the overall value of a stock market, leading to a sharp drop in stock prices. It is often accompanied by widespread panic selling, investors' loss of confidence, and economic repercussions.

During a Meltdown, investors may experience substantial losses, and the market sentiment can shift from optimism to fear. **So, Pair 1 is correct.**

A recession is a significant and widespread downturn in economic activity that typically lasts for longer than a few months. It is often identified when an economy experiences two consecutive quarters of negative growth in Gross Domestic Product (GDP).

During a recession, key economic indicators such as production, employment, income, and consumer spending typically fall, reflecting reduced demand and overall slowdown in economic performance. Therefore, a recession doesn't simply mean a fall in growth rate. **So, Pair 2 is not correct.**
A slowdown is a decline in the growth rate of Gross Domestic Product (GDP), meaning the economy is still growing but at a slower pace than before. It does not indicate a fall in GDP, only a reduction in the speed of growth. For instance, countries like India and China have at times experienced an economic slowdown, where production, investment, and income continue to rise but not as rapidly as in previous years. **So, Pair 3 is not correct.**

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