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## ANSWERS & EXPLANATIONS

### GENERAL STUDIES (P) TEST – 4146 (2024)

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#### Q 1.C

- **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. Hence, statement 1 is correct.**
- **Understanding Near Money**
  - Near money is a term that analysts use to understand and quantify the liquidity and nearness of liquidity for financial assets.
  - Understanding near money and the nearness of near money is essential in corporate financial statement analysis and money supply management.
  - Near money can also be important in all types of wealth management as its analysis provides a barometer for cash liquidity, cash equivalents conversion, and risk.
  - Central banks and economists utilize the concept of near money in determining the different levels of the money supply, with the nearness of near money serving as a factor for classifying assets as either M1, M2, or M3.
  - **The nearness of near money will vary depending on the actual time frames for cash conversion. Hence, statement 2 is correct.**
  - 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 (CDs), foreign currencies, money market accounts, marketable securities, and Treasury bills (T-bills). Hence, statement 3 is correct.**

#### Q 2.C

- GDP measures the monetary value of final goods and services—that is, those that are bought by the final user—produced in a country in a given period of time (say a quarter or a year). It counts all of the output generated within the borders of a country.
- **What is not included in GDP?**
  - A product will only be counted in GDP one time in its life. So, current transactions involving assets and property produced in previous periods are not counted in the current GDP. For instance, if a laptop produced in the year 2000 is resold in 2006, the GDP of 2006 will not include the resale value of the laptop because this is a mere transfer of ownership entailing no creation of new value.
  - Other things not included in the GDP are government **social security and welfare payments (Transfer payments)**, **current exchanges in stock and bonds**, and changes in the values of financial assets.
  - Not all productive activity is included in GDP. For example, **unpaid work (such as that performed in the home or by volunteers) and black-market activities are not included because they are difficult to measure and value accurately.**
- Construction of a room in an existing building is included in the estimation of GDP as it is a part of gross Investment. **Hence option (c) is the correct answer.**

#### Q 3.A

- **Cost-push inflation is characterized by an increase in the general price level** due to rising production costs, often stemming from factors such as increased wages, higher raw material prices, or external supply shocks.
- **Monetary policy primarily operates on the demand side of the economy**, influencing factors like interest rates and money supply to manage overall spending. **However, it may have limited effectiveness in addressing supply-side factors that drive cost-push inflation. Hence Statement-I is correct.**

- When production costs rise, businesses may pass on these increased costs to consumers in the form of higher prices for goods and services. **Monetary policy measures, such as adjusting interest rates, might not directly alleviate the supply-side pressures causing cost-push inflation. Hence both Statement I and Statement II are correct and Statement II is the correct explanation for Statement I.**
- For instance, increasing interest rates may help control demand-pull inflation by reducing overall spending, but it might not directly address rising production costs.

#### Q 4.C

(In ₹ crores)

	Actuals 2021-2022	Budget Estimates 2022-2023	Revised Estimates 2022-2023	Budget Estimates 2023-2024
<b>REVENUE RECEIPTS</b>				
<b>Tax Revenue</b>				
<b>Gross Tax Revenue</b>	<b>2709315.08</b>	<b>2757820.13</b>	<b>3043067.49</b>	<b>3360858.44</b>
Corporation Tax	712037.33	720000.00	835000.00	922675.00
Taxes on Income	696243.22	700000.00	815000.00	900575.00
Wealth Tax	12.81	...	...	...
Customs	199728.30	213000.00	210000.00	233100.00
Union Excise Duties	394643.79	335000.00	320000.00	339000.00
Service Tax	1011.82	2000.00	1000.00	500.00
Goods and Services Tax (GST)#	698113.88	780000.00	854000.00	956600.00

- Hence option (c) is the correct answer.

#### Q 5.C

- National Sample Survey Office (NSSO) launched the Periodic Labour Force Survey (PLFS) in April 2017.
- The objective of PLFS is primarily twofold:
  - to estimate the key employment and unemployment indicators (viz. Worker Population Ratio, Labour Force Participation Rate, Unemployment Rate) in the short time interval of three months for the urban areas only in the 'Current Weekly Status' (CWS).
  - to estimate employment and unemployment indicators in both 'Usual Status' (ps+ss) and CWS in both rural and urban areas annually.
- Activity Status- Usual Status:** The activity status of a person is determined on the basis of the activities pursued by the person during the specified reference period. When the activity status is determined on the basis of the reference period of the last 365 days preceding the date of the survey, it is known as the usual activity status of the person.
- Activity Status- Current Weekly Status (CWS):** The activity status determined on the basis of a reference period of the last 7 days preceding the date of the survey is known as the current weekly status (CWS) of the person.
- Labour Force Participation Rate (LFPR):** LFPR is defined as the percentage of persons in the labour force (i.e. working or seeking or available for work) in the population.
  - Labour Force Participation Rate (LFPR) in usual status (ps+ss) for persons of age 15 years and above all India.

Survey period	Rural			Urban			Rural+Urban		
	male	female	person	male	female	person	male	female	person
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
2022-23	80.2	41.5	60.8	74.5	25.4	50.4	78.5	37.0	57.9
2021-22	78.2	36.6	57.5	74.7	23.8	49.7	77.2	32.8	55.2
2020-21	78.1	36.5	57.4	74.6	23.2	49.1	77.0	32.5	54.9
2019-20	77.9	33.0	55.5	74.6	23.3	49.3	76.8	30.0	53.5
2018-19	76.4	26.4	51.5	73.7	20.4	47.5	75.5	24.5	50.2
2017-18	76.4	24.6	50.7	74.5	20.4	47.6	75.8	23.3	49.8

- Hence statement 1 is correct.

- **Worker Population Ratio (WPR):** WPR is defined as the percentage of employed persons in the population.
  - Worker Population Ratio (WPR) in usual status (ps+ss) for persons of age 15 years and above all-India

Indicator	Rural			Urban			Rural+Urban		
	male	female	person	male	female	person	male	female	person
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
2022-23	78.0	40.7	59.4	71.0	23.5	47.7	76.0	35.9	56.0
2021-22	75.3	35.8	55.6	70.4	21.9	46.6	73.8	31.7	52.9
2020-21	75.1	35.8	55.5	70.0	21.2	45.8	73.5	31.4	52.6
2019-20	74.4	32.2	53.3	69.9	21.3	45.8	73.0	28.7	50.9
2018-19	72.2	25.5	48.9	68.6	18.4	43.9	71.0	23.3	47.3
2017-18	72.0	23.7	48.1	69.3	18.2	43.9	71.2	22.0	46.8

- Hence statement 2 is correct.
- **Unemployment Rate (UR):** UR is defined as the percentage of persons unemployed among the persons in the labour force.

Indicator	Rural			Urban			Rural+Urban		
	male	female	person	male	female	person	male	female	person
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
2022-23	2.7	1.8	2.4	4.7	7.5	5.4	3.3	2.9	3.2
2021-22	3.8	2.1	3.2	5.8	7.9	6.3	4.4	3.3	4.1
2020-21	3.8	2.1	3.3	6.1	8.6	6.7	4.5	3.5	4.2
2019-20	4.5	2.6	3.9	6.4	8.9	6.9	5.0	4.2	4.8
2018-19	5.5	3.5	5.0	7.0	9.8	7.6	6.0	5.1	5.8
2017-18	5.7	3.8	5.3	6.9	10.8	7.7	6.1	5.6	6.0

- Hence statement 3 is correct.

#### Q 6.D

- GDP (PPP) means gross domestic product based on purchasing power parity. GDP comparisons using PPP are arguably more useful than those using nominal GDP when assessing the domestic market of a state because PPP takes into account the relative cost of local goods, services and inflation rates of the country, rather than using international market exchange rates.
- India has already been the third-largest economy by purchasing power since 2008. In 2022, the top five countries by PPP were China, the US, India, Japan and Russia. **Hence statement 1 is not correct.**
- Measuring GDP by purchasing power parity (PPP) adjusts for differences in the cost of living across countries. **Since goods and services tend to be relatively cheaper in India, Indians enjoy higher purchasing power.** So the PPP method pushes India's GDP upwards, allowing it to leapfrog other nations on this metric. **Hence statement 2 is not correct.**

#### Q 7.C

- The MSS (Market Stabilization Scheme) was devised since continuous resort to sterilization by the RBI depleted its limited stock of Government Securities and impaired the scope for similar interventions in the future. Under this scheme, the GoI borrows from the RBI (such borrowing being additional to its normal

borrowing requirements) and issues Treasury-Bills/Dated Securities that are utilized for absorbing excess liquidity from the market. Therefore, the MSS constitutes an arrangement aiding in liquidity absorption, in keeping with the overall monetary policy stance of the RBI, alongside tools like the Liquidity Adjustment Facility (LAF) and Open Market Operations (OMO).

- The securities issued under MSS, termed as Market Stabilization Scheme (MSS) Securities/Bonds, are issued by way of auctions conducted by the RBI and are done according to a specified ceiling mutually agreed upon by the GoI and the RBI.
- **They possess all the attributes of existing Treasury-Bills/Dated Securities.**
- **They are included as a part of the country's 'internal Central Government debt'. Hence, statement 1 is correct.**
- **The amount raised under the MSS does not get credited to the Government Account** but is maintained in a separate cash account with the RBI and are used only for redemption/buyback of Treasury-Bills/Dated Securities issued under the scheme. **Hence, statement 2 is correct.**
- However, following the global financial crisis of 2008, that necessitated fiscal stimulus measures, an amendment to the original MoU between the RBI and the GoI in February 2009 allowed the Government to convert a portion of the MSS funds into normal government borrowing for financing its stimulus expenditure requirements.

#### Q 8.A

- Circular flow of income refers to continuous circular movement of goods and services between major sectors; e.g., Households, Firms (or Business) Sector, Government Sector, and External Sector (also called 'Rest of the World'). It is circular in nature because it moves in a circle coming back to the starting point. Whenever national output is produced, it generates equivalent amount of claims of that output in the form of national income. Circular flow of income refers to flow of money income, or flow of goods and services, across various sectors of an economy.
- Types of Circular Flows: There are two types of circular flows: (i) Real Flow or Product Flow, and (ii) Income flow or Money flow.
  - **Real Flow or Product Flow:** Real flows refer to flows of goods and services. These are called real flows because they consist of actual goods and service. It is also called as output flow. **Hence option 1 is correct.**
  - **Income Flow or Money Flow:** In modern economies, goods and services and factor services are valued in terms of money. Households receive rent for land, wages for labour, interest for capital and profit for entrepreneurship- from firms and make payment for goods and services supplied by firms. This flow of money between firms and households is called money flow. **Hence options 2 and 3 are not correct.**

#### Q 9.C

- **Recent context:** The Centre has reconstituted the National Startup Advisory Council (NSAC).
- **Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry had constituted the 'National Startup Advisory Council' in 2020 to advise the Government on measures needed to build a strong ecosystem for nurturing innovation and startups in the country to drive sustainable economic growth and generate large scale employment opportunities. Hence statements 1 and 3 are correct.**
- The Centre nominates non-official members on the council representing various stakeholders such as founders of successful startups, veterans who have grown and scaled companies in India, persons capable of representing the interests of investors in startups, and representatives of associations.
- The council was headed by the Union Minister of Commerce & Industry. **Hence statement 2 is correct.**

#### Q 10.B

- **Recently, Union Minister for Communications and IT clarified that the OTT platform will not be regulated under the Telecommunications Act 2023.** Telecommunications Act, 2023 amends and consolidates laws relating to development, expansion and operation of telecommunication services and networks.
- The minister also clarified that the **Act does not empower either government or service providers to break the encryption of messages exchanged via OTT platforms. Hence statement 2 is correct.**
- **OTT platforms are regulated by Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules 2021** under the Ministry of Information and Broadcasting. **Hence statement 1 is not correct.**

### Q 11.C

- The Union Women and Child Development Ministry plans to set up 17,000 creches within Anganwadi centres across India under the 'Palna' scheme. The Palna component has been included under Mission Shakti to provide for quality and affordable day-care facilities for the children of working women to encourage women's participation in the workforce.
- Objectives of the Palna Scheme:
  - To provide day-care facilities for children (6 months to 6 years) of working mothers. Hence statement 1 is correct.
  - Monitoring compliance of the Maternity Benefit Act, 2017 (requires every establishment having fifty or more employees to have the facility of crèche within a prescribed distance) for setting up creche facilities. Hence statement 3 is correct.
  - To promote Nutritional, health, and cognitive development of children.
- It does not have an objective to promote institutional deliveries. Hence statement 2 is not correct.

### Q 12.C

- The capital conservation buffer (CCB) is designed to ensure that banks build up capital buffers during normal times i.e. outside periods of stress which can be drawn down as losses are incurred during a stressed period.
- The requirement is based on simple capital conservation rules designed to avoid breaches of minimum capital requirements. Therefore, in addition to the minimum total of 8% mandated as Capital Adequacy Ratio, banks will be required to hold a capital conservation buffer of 2.5% of Risk Weighted Assets (RWAs) in the form of Common Equity to withstand future periods of stress.
- Hence option (c) is the correct answer.

### Q 13.A

- Major subsidies by the government

(In ₹ Crores)

Subsidy Scheme Name	2021-2022 Actuals	2022-2023 Budget Estimates	2022-2023 Revised Estimates	2023-2024 Budget Estimates
<b>Food</b>	<b>288968.54</b>	<b>206831.09</b>	<b>287194.05</b>	<b>197350.00</b>
1. Food Subsidy	288968.54	206831.09	287194.05	197350.00
<b>Fertiliser</b>	<b>153758.10</b>	<b>105222.32</b>	<b>225220.16</b>	<b>175099.92</b>
1. Nutrient based Subsidy	52769.97	42000.00	71122.23	44000.00
2. Urea Subsidy	100988.13	63222.32	154097.93	131099.92
<b>Petroleum</b>	<b>3422.60</b>	<b>5812.50</b>	<b>9170.50</b>	<b>2257.09</b>
1. LPG Subsidy	3421.07	5812.50	9170.50	2257.09
2. Direct Benefit Transfer-Kerosene	1.53	...	...	...

- Hence option (a) is the correct answer.

### Q 14.A

- Dynamic scoring involves assessing the impact of fiscal policy proposals on multiple economic variables over time. This approach goes beyond static scoring, which typically focuses on the immediate and direct effects of policy changes on government revenues and expenditures.
- In dynamic scoring, analysts consider the broader and longer-term effects of fiscal policies on various aspects of the economy, such as economic growth, employment, investment, and overall welfare. It recognizes that policy changes can have ripple effects that evolve over time.
- This approach takes into account the dynamic interactions and feedback loops within the economy. For example, a tax cut might stimulate consumer spending, which, in turn, could boost business investment and economic growth. Dynamic scoring aims to capture these complex interactions.
- It provides a more comprehensive understanding of the potential consequences of fiscal policy changes, allowing policymakers to assess the overall impact on the economy, rather than just short-term budgetary implications.
- Hence option (a) is the correct answer.



#### Q 15.B

- **The Quarterly Employment Survey (QES), conducted by the Labour Bureau, covers establishments with ten or more workers in nine major sectors viz. manufacturing, construction, trade, transport, education, health, accommodation & restaurants, IT/BPOs, and financial services.**
  - **Hence statement 1 is not correct and statement 2 is correct.**
- These nine sectors account for around 83 percent of the total employment in establishments with ten or more workers as per the 6th Economic Census (2013-14) conducted by MoSPI.
- So far, results of four rounds of the QES have been released, covering four quarters of FY22.28 The estimated total employment in the nine selected sectors according to the fourth round of QES (January to March 2022) stood at 3.2 crore, which is nearly ten lakh higher than the estimated employment from the first round of QES (April-June 2021).
- The increase in estimates of workers from Q1FY22 to Q4FY22 was driven by rising employment in sectors such as IT/BPO (by 17.6 lakh), health (7.8 lakh), and education (1.7 lakh), due to rising digitization and resurgence of the services sector economy.
- Regarding terms of employment, regular employees constituted the majority of workers across sectors, with a share of 86.4 percent in the total workforce in Q4FY22. Contractual employees formed a relatively small proportion of the workforce in these nine sectors, except Manufacturing (12.4 percent) and Construction (19.0 percent).

#### Q 16.C

- In India, currencies are issued by the RBI with the backing of reserves comprised of gold and foreign exchange (foreign currencies). For the issue of currencies, the RBI follows the Minimum Reserve System at present. The Minimum Reserve System (MRS) is followed from 1956 onwards.
- **Under the Minimum Reserve System, the RBI has to keep a minimum reserve of Rs 200 crore comprising of gold coin and gold bullion and foreign currencies. Out of the total Rs 200 crores, Rs115 crore should be in the form of gold coins or gold bullion.** The purpose of shifting to MRS was to expand the money supply to meet the needs of increasing transactions in the economy.
- The minimum reserve is a token of confidence and doesn't have any practical connection with the amount of new currencies issued by the RBI. Under the Minimum Reserve System, RBI can issue an unlimited amounts of currency by keeping the reserve. But RBI follows some principle or rule for issuing new currencies based upon economic growth and transaction needs of the people.
- **Hence option (c) is the correct answer.**

#### Q 17.D

- **Recent context:** The Logistics Ease Across Different States (LEADS) perception survey, released by the Union Ministry of Commerce and Industry, flags some challenges in logistics and states performance on a regional basis. **Hence option (d) is the correct answer.**
- LEADS focused on assessing the performance of the logistics eco-system across States and Union Territories (UTs). LEADS was conceived on the lines of the Logistics Performance Index (LPI) of the World Bank in 2018. While the LPI relies entirely on perception-based surveys, LEADS incorporates both perception as well as objectivity thereby enhancing the robustness and comprehensiveness of this exercise.

#### Q 18.B

- **Venture capital** is financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. Venture capital generally comes from well-off investors, investment banks, and any other financial institutions. However, it does not always take just a monetary form; it can be provided in the form of technical or managerial expertise. **Hence option (b) is the correct answer.**
  - A venture capitalist looks for a strong product or service that holds a strong competitive advantage, a talented management team, and a wide potential market. Once venture capitalists are convinced and have invested, it is then their role to help build successful companies, which is where they add real value. Among other areas, a venture capitalist will help when it comes to establishing a company's strategic focus and recruiting senior management.
- **Angel Investors** - For small businesses, or up-and-coming businesses in emerging industries, capital is generally provided by high net worth individuals (HNWIs) – also often known as 'angel investors'. Angel investors are typically a diverse group of individuals who have amassed their wealth through a variety of sources. However, they tend to be entrepreneurs themselves, or executives recently retired from the business empires they've built.

- Angels investors are primarily there to offer financial support. While they might provide advice if you ask for it, or introduce you to important contacts, they are not obliged to do so. Their level of involvement depends on the wishes of the company and the angel's inclinations
- **Personal investors** - Business owners often rely on family, friends, or close acquaintances to invest in their companies, particularly in the beginning. However, there is a limit to how many of these individuals can invest in startups because of legal limitations.
- **Peer-to-peer lenders** are individuals or groups that offer funding to small business owners. To work with these investors, entrepreneurs must apply with companies that specialize in peer-to-peer lending, such as Prosper or Lending Club. Once their application is approved, lenders can then determine the businesses they wish to support.

#### Q 19.D

- **Recent context:** Recently, the Ministry of Home Affairs (MHA) held a meeting to discuss the provisions of the secure e-mail set-up. The 10,000 emails span across 17 union ministries and departments.
- In response to rising cyber-attacks, the Centre has established a secure e-mail system for 10,000 users across critical ministries and departments using Zero Trust Authentication (ZTA).
- **ZTA is a cyber-security approach intended to address rapidly evolving security risks faced by IT systems.** It uses multi-factor authentication, continuous monitoring etc. It works on never trust, always verify principle. **Hence option (d) is the correct answer.**

#### Q 20.A

- **The Human Development Index (HDI)** is part of **Human Development Report** published annually since 1990 by the **United Nations Development Programme (UNDP)**. It is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and having a decent standard of living.
- The HDI is the **geometric mean of normalized indices** for each of the three dimensions.
- Indicators within the Dimension:
  - **Long and Healthy Life - Life Expectancy at Birth**
  - **Knowledge - Expected Years of Schooling and Mean Years of Schooling**
  - **Decent Standard of Living - Gross National Income per capita (in PPP \$)**
- **Hence, option (a) is the correct answer.**

#### Q 21.A

- **National Asset Reconstruction Company Limited (NARCL):**
  - The setting up of the NARCL was announced in the Union Budget 2021-22. The objective was to construct a 'bad bank' which would house bad loans of Rs. 500 crore (US\$ 62.63 million) and above. **Hence, statement 1 is not correct.**
  - There are already 28 existing asset reconstruction companies (ARCs) on the market. However, due to the sizable and fragmented nature of the bad loan book held by different lenders, significant amounts of NPAs continue to appear on bank balance sheets. Thus, more choices and alternatives like the NARCL are required.
  - NARCL will have a dual structure – it will consist of an asset management company (AMC) and an asset reconstruction company (ARC) to recover and manage stressed assets.
  - **It is a collaboration between private and public sector banks (PSBs), but PSBs will maintain 51% ownership in NARCL. Hence, statement 2 is not correct.**
  - **It is registered with the Reserve Bank of India as an Asset Reconstruction Company under Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.**
  - NARCL will be capitalised through equity from banks and non-banking financial companies (NBFCs). If necessary, it will also issue new debt. The guarantee provided by the Government of India will lower the need for up-front capital. **Hence, statement 3 is correct.**
  - The NARCL will be assisted by the India Debt Resolution Company Ltd (IDRCL).
  - In August 2022, the NARCL offered to buy the distressed loan accounts of five companies, including Future Retail.

**Q 22.B**

- The World Health Organization (WHO) in December 2023 added one of the world's most under-recognized health challenges, **noma**, to its official list of neglected tropical diseases (NTD).
- Also known as cancrum oris or gangrenous stomatitis, **it is a severe gangrenous disease of the mouth and face** with a mortality rate of approximately 90 percent. It is also associated with extreme poverty, malnutrition and poor access to sanitation and oral hygiene. **Hence statement 1 is not correct and statement 2 is correct.**
- Noma mainly affects children aged 2-6 years old and is found most commonly among those living in poor communities. There is an extreme lack of awareness regarding the disease.
- The NTD is frequently seen in developing countries, especially in sub-Saharan Africa, where it occurs almost exclusively among poor children usually aged 3-10 years

**Q 23.A**

- Union Government's Fiscal Parameters (Per cent of GDP)

	FY18	FY19	FY20	FY21	FY22 PA	FY23 BE
Revenue Receipts	8.4	8.2	8.4	8.3	9.2	8.5
Gross Tax Revenue	11.2	11.0	10.0	10.2	11.4	10.7
Net tax revenue	7.3	7.0	6.8	7.2	7.7	7.5
Non-tax revenue	1.1	1.2	1.6	1.0	1.5	1.0
Non-debt capital receipts	0.7	0.6	0.3	0.3	0.2	0.3
Non-debt receipts	9.1	8.8	8.7	8.5	9.3	8.9
Total Expenditure	12.5	12.3	13.4	17.7	16.0	15.3
Revenue Expenditure	11.0	10.6	11.7	15.6	13.5	12.4
Capital Expenditure	1.5	1.6	1.7	2.2	2.5	2.9
Fiscal Deficit	3.5	3.4	4.7	9.2	6.7	6.4
Revenue Deficit	2.6	2.4	3.3	7.3	4.4	3.8
Primary Deficit	0.4	0.4	1.6	5.7	3.3	2.8

- **Hence option (a) is the correct answer.**

**Q 24.C**

- The distinction between a stock and a flow is very significant and the basis of distinction is measurability at a point of time or period of time. It should be noted that both stocks and flows are variables. A variable is a measurable quantity which varies (changes). The distinction between stock and flows is very significant for national income estimates.
- **Stock Variables :**
  - A stock is a quantity which is measurable at a particular point of time. Capital is a stock variable. Clearly, a stock has no time dimension (length of time) as against a flow which has a time dimension. **Stocks are defined at a particular point in time.**
  - Examples of stocks are wealth, External debts, loans, inventories (not change in inventories), opening stock, money supply (amount of money), population, etc. **Money supply is measured at a particular time. Hence statement I is correct.**
- **Flow Variables:**
  - A flow is a quantity which is measured with reference to a period of time. Thus, flows are defined with reference to a specific period (length of time), e.g., hours, days, weeks, months or years. It has a time dimension. **Flows are defined over a period of time. Hence statement II is not correct.**
  - National income (GDP of a country) is a flow. Other examples of flows are expenditure, savings, depreciation, interest, exports, imports, change in inventories (not mere inventories), change in money supply, lending, borrowing, rent, profit, etc. because the magnitude (size) of all these are measured over a period of time.



#### Q 25.B

- **Foreign Exchange Management (Deposit) Regulations, 2000 permits Non-Resident Indians (NRIs) to have deposit accounts with authorized dealers and with banks authorized by the Reserve Bank of India (RBI).** These accounts include: Foreign Currency Non-Resident (Bank) account (FCNR(B) account), Non-Resident External account (NRE account), Non-Resident Ordinary Rupee account (NRO account).
- **FCNR(B) accounts can be opened by NRIs and Overseas Corporate Bodies (OCBs) with an authorized dealer.** The accounts can be opened in the form of term deposits. Deposits of funds are allowed in Pound Sterling, US Dollar, Japanese Yen and Euro. Rate of interest applicable to these accounts are in accordance with the directives issued by RBI from time to time. **Hence statement 1 is correct.**
- **NRE accounts can be opened by NRIs and OCBs with authorized dealers and with banks authorized by RBI.** These can be in the form of savings, current, recurring or fixed deposit accounts. Deposits are allowed in any permitted currency. Rate of interest applicable to these accounts are in accordance with the directives issued by RBI from time to time.
- NRO accounts can be opened by any person resident outside India with an authorized dealer or an authorized bank for collecting their funds from local bonafide transactions in Indian Rupees. When a resident becomes an NRI, his existing Rupee accounts are designated as NRO. These accounts can be in the form of current, savings, recurring or fixed deposit accounts.
- There were two more NRI deposit accounts in operation, viz. Non-Resident (Non-Repatriable) Rupee Deposit Account and Non-Resident (Special) Rupee Account. An amendment to Foreign Exchange Management (Deposit) Regulations, in 2002, discontinued the acceptance of deposits in these two accounts from 1st April 2002 onwards.
- **Statement 2 is correct and statement 3 is not correct: Repatriation of funds in FCNR(B) and NRE accounts is permitted. Hence, deposits in these accounts are included in India's external debt outstanding.** While the principal of NRO deposits is non-repatriable, current income and interest earning is repatriable. Account-holders of NRO accounts are permitted to annually remit an amount up to US\$ 1 million out of the balances held in their accounts. Therefore, deposits in NRO accounts too are included in India's external debt.
- **Repatriation** - Repatriation, in finance, refers to converting any foreign currency into one's own local currency. Repatriation sometimes becomes necessary due to business transactions, foreign investments or simply due to international travel. For example, Indians returning from a visit to Japan typically repatriate their currency, converting any remaining yen into Indian Rupees. The number of rupees they get when they exchange their remaining yen will depend on the exchange rate between the two currencies at the time of the repatriation.
- Whereas, Repatriation in the context of investments and corporate earnings usually refers to the conversion of any offshore capital back to the currency of the country in which a corporation or investor is based. Repatriation in a larger context refers to anything or anyone that returns to its country of origin. This can include individual people, including foreign nationals, refugees or deportees.
- **Overseas Corporate Body (OCB)** means a company, partnership firm, society and other corporate body owned directly or indirectly to the extent of at least sixty per cent by Non-Resident Indians and includes overseas trust in which not less than sixty percent beneficial interest is held by Non-resident Indians directly or indirectly but irrevocably, which was in existence as on September 16, 2003 and was eligible to undertake transactions pursuant to the general permission granted under Foreign Exchange Management Regulations.

#### Q 26.B

- **Extra budgetary resources (EBRs) are those financial liabilities that are raised by Public Sector Undertakings for which repayment of the entire principal and interest is done from the Government budget. Hence statement 1 is correct.**
- Such borrowings are made by state-owned firms to fund government schemes but are not part of the official budget calculations.
- **Extra budget borrowing is excluded from the fiscal deficit calculations, but at the same time, is added to the total debt of the government. Hence statement 2 is correct.**
- This means that though the borrowing is not a part of the consolidated fund of India, the interest payments for such borrowings are made out of the consolidated fund.
- The borrowings are made through the Government of India fully serviced bonds and NSSF Loans).
- Several budgets announced schemes are financed out of extra budget borrowings. These borrowings are done by the public sector entities that are administering the schemes.

- In the past, schemes like the Pradhan Mantri Krishi Sinchayee Yojana (PMKSY), Deen Dayal Upadhyay Gram Jyoti Yojana (DDUGJY), Swachh Bharat Mission (SBM), Pradhan Mantri Awas Yojana (PMAY), etc were financed out of extra budget borrowings.
- **State governments are permitted to undertake Extra Budgetary Borrowings. Hence statement 3 is not correct.**
  - For example, in terms of the highest off-budget liability, Telangana is the highest borrower, with around Rs 97,940.45 crore at the end of 2021, equal to 9.99% of the gross state domestic product (GSDP).

#### Q 27.A

- The marginal propensity to consume (MPC) is the **fraction of total additional income that people use for consumption of goods and services, as opposed to saving it. Hence option (a) is the correct answer.**
- Marginal propensity to consume is a component of Keynesian macroeconomic theory and is calculated as the change in consumption divided by the change in income ( $\Delta C / \Delta Y$ ). If consumption increases by 80 paise for each additional rupee of income, then MPC is equal to  $0.8 / 1 = 0.8$ .

#### Q 28.B

- **Recent context: 20 years of the United Nations Convention against Corruption (UNCAC)**
- **The United Nations Convention against Corruption is the only legally binding universal anti-corruption instrument.** The Convention's far-reaching approach and the mandatory character of many of its provisions make it a unique tool for developing a comprehensive response to a global problem. **Hence statement 1 is correct.**
- The Convention covers different forms of corruption, such as bribery, trading in influence, abuse of functions, and various acts of corruption in the private sector. **The vast majority of United Nations Member States are parties to the Convention including India. Hence statement 3 is not correct.**
- **The United Nations Office on Drugs and Crime (UNODC) serves as the custodian of the Convention and as the Secretariat of its Conference of States Parties. Hence statement 2 is correct.**

#### Q 29.D

- On December 21, 2023, **Angola announced its withdrawal from the Organization of the Petroleum Exporting Countries (OPEC)** after 16 years of membership. The decision was made after a disagreement over oil production quotas. Angola rejected a reduced output limit imposed by the cartel leaders to reflect the country's dwindling capacity. **Hence option (d) is the correct answer.**
- OPEC is an intergovernmental Organization established at the Baghdad Conference in 1960, by Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela. The key objective of OPEC is to Coordinate and unify petroleum policies among Member Countries, to secure fair and stable prices for petroleum producers.
- **Currently, the Organization comprises of Member Countries – namely Algeria, Congo, Ecuador, Equatorial Guinea, Gabon, IR Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.**

#### Q 30.C

- "Built-in inflation" refers to inflationary pressures that arise from within the economic system due to certain internal factors, particularly automatic mechanisms related to wages and prices.
  - It is often associated with the ongoing, self-reinforcing nature of inflation without necessarily being triggered by external shocks or changes in government policies.
- **Inflation caused by external factors:** External factors, such as changes in global commodity prices, can contribute to inflation, but this is not what is meant by "built-in inflation." Built-in inflation is more about internal, systemic factors.
- **Inflation caused by changes in government policies:** Government policies can influence inflation, but built-in inflation specifically refers to internal, automatic processes rather than deliberate policy changes.
- **Inflation resulting from automatic increases in wages and prices: This is the correct explanation.** Built-in inflation occurs when there are mechanisms in place that automatically lead to increases in wages and prices, contributing to a continuous upward pressure on overall price levels. For example, if wages increase automatically due to cost-of-living adjustments or contractual agreements, it can lead to higher production costs and, subsequently, higher prices for goods and services.
  - **Hence option (c) is the correct answer.**

- **Inflation driven by speculative activities in financial markets:** This refers to inflation caused by speculative behavior in financial markets, and it is not the same as built-in inflation. Speculative activities can lead to short-term fluctuations in asset prices, but built-in inflation is more structural and related to the internal dynamics of the economy.

#### Q 31.D

- **E-Kuber** is the Core Banking Solution of **Reserve Bank of India**, providing the provision of a **single current account for each bank across the country**, with decentralised access to this account from anywhere-anytime using portal based services in a safe manner. It is used to conduct exercises like **auctioning of government securities**.
- **Priority Sector Lending Certificates (PSLCs)** are **tradable certificates issued against priority sector loans of banks** so as to enable banks to achieve their specified target and sub-targets for priority sector lending through purchase of these instruments.
- All **Scheduled Commercial Banks (including Regional Rural Banks), Urban Co-operative Banks, Small Finance Banks and Local Area Banks** are **eligible to participate** in the trading of PSLC on E-Kuber platform.
- **Hence, option (d) is the correct answer.**

#### Q 32.B

- **Recent context:** The National Highways Authority of India (NHAI) has recently awarded highway projects through the Toll-Operate-Transfer (TOT) Model.
- **About the TOT Model:**
  - The model was developed to encourage private participation in the Highway sector. **Hence statement 1 is correct.**
  - Under TOT, **operational national highways are given on long-term leases (15-30 years) to private entities on a long-term concession basis against upfront payment. Hence statement 2 is not correct.**
  - **During the concession period, the TOT operator collects user fees on the stretches under the prescribed rates by NHAI.** Meanwhile, operation and maintenance of the stretches are to be managed by the operator. **Hence statement 3 is correct.**

#### Q 33.C

- **Total Expense Ratio (TER)** is a measure of the total costs associated with managing and operating a mutual fund.
- It consist primarily of management fees and additional expenses, such as trading fees, legal fees, auditor fees, and other operational expenses.
- It allows the investors to compare the costs of the scheme with its peers and also in relation to the returns available from that scheme.
- Securities and Exchange Board of India (SEBI) **prescribes the maximum TER** that can be charged by mutual fund companies to the investors.
- **Hence, option (c) is the correct answer.**

#### Q 34.B

- **Recent context:** The Reserve Bank of India (RBI) has announced an extension of the Payments Infrastructure Development Fund (PIDF) scheme until December 31, 2025.
- The PIDF scheme was designed to offer financial aid to banks and non-bank financial companies (NBFCs) for the deployment of point-of-sale terminals and other payment acceptance infrastructure, has seen significant enhancements and inclusivity measures.
- **It aims to encourage the deployment of payment acceptance infrastructure such as physical Point of Sale (PoS) terminals, Quick Response (QR) codes, in tier-3 to tier-6 centres, Northeastern states and UTs of J & K and Ladakh. Hence statement 1 is correct.**
- **PIDF is governed through an Advisory Council and managed and administered by RBI. Hence statement 2 is not correct.**
- Under this extended scheme, beneficiaries of the PM Vishwakarma Scheme nationwide have been incorporated as merchants eligible for deployment under PIDF. **Hence statement 3 is correct.**

### Q 35.B

- A bond's yield is the return an investor expects to receive each year over bond's term to maturity.
- Bond's price is what investors are willing to pay for an existing bond sold in the primary or secondary market.
- Coupon rate is the periodic interest rate paid to the purchasers by the issuers on the bond's face value.
- Bond Yields in essence show the financial return, the owner of the bond is going to get from the bond at any given time. The simplest version of yield is calculated as  $\text{Yield} = [\text{coupon amount} \times 100] / \text{price}$ . When Bond prices increase, Bond yields decrease and vice versa. Therefore, it can be said that Bond Prices have an inverse relationship with Bond Yields.
- 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. Hence option 2 is not correct.
- Therefore, Price of Bond share a negative relation with Bond Yield and interest rate. Hence options 1 and 3 are correct.

### Q 36.A

- A cess imposed by the central government is a tax on tax, levied by the government for a specific purpose. Generally, cess is expected to be levied till the time the government gets enough money for that purpose.
  - A cess is different from the usual taxes like excise duty and personal income tax as it is imposed as an additional tax besides the existing tax (tax on tax).
  - But some cess like the Swachh Bharat Cess (SBC) is imposed as a percentage tax on total value. Here the SBC is 0.5% of the value of the services.
- Tax revenue from cess is first credited to the Consolidated Fund of India (CFI) and the Central Government may, after due appropriation made by Parliament, utilize the money for the specified purposes.
- Another major feature of cess like surcharges is that the Centre need not share it with states.
- A surcharge is a charge on any tax, charged on the tax already paid. As the name suggests, the surcharge is an additional charge or tax. The main surcharges are on personal income tax (on high-income slabs and on super rich) and corporate income tax.
- A common feature of both surcharge and cess is that the center need not share it with states. Following are the differences between the usual taxes, surcharges, and cess.
  - The usual taxes go to the consolidated fund of India and can be spent for any purpose.
  - The surcharge also goes to the consolidated fund of India and can be spent for any purpose.
  - Cess goes to the Consolidated Fund of India but can be spent only for specific purposes.
- The main difference between surcharge and cess is that despite they are not shareable with state governments, surcharge can be kept with the CFI and spent like any other tax, the cess should be kept as a separate fund after allocating to CFI and can be spent only for a specific purpose. Thus both are deposited in the Consolidated Fund of India. Hence statement 1 is correct but statement 3 is not correct.
- States can levy cess in rare cases if and only if it is approved by the GST Council. For example, Kerala imposed a flood cess on GST in 2019. Hence statement 2 is not correct.

### Q 37.A

- The Physical Quality of Life Index (PQLI) is calculated by taking the average of three facts and figures: basic literacy rate, newborn fatality rate, and their life span at one year, all of which are evenly valued on a 0 to 100 scale. It was discovered in the middle of the 1970s by Morris David Morris.
- Better Life Index released by the Organization for Economic Cooperation and Development (OECD). This Index allows comparison of well-being across countries, based on 11 topics the OECD has identified as essential, in the areas of material living conditions and quality of life.
- The Gross National Happiness Index (GNH) is a holistic approach to measure the happiness and wellbeing of the Bhutanese population. The GNH Index is also known as the GNH Happiness Survey. It includes the nine domains, which are further supported by the 33 indicators.



- The Royal Government of Bhutan's Centre for Bhutan & GNH Studies revised and released an updated GNH Index in May 2023. The GNH Index seeks to measure the nation's wellbeing directly by starting with each person's achievements in each indicator.
- The **Gender Inequality Index (GII)** is an index for the measurement of gender disparity that was introduced in the 2010 Human Development Report 20th anniversary edition by the **United Nations Development Programme (UNDP)**. GII is a composite metric of gender inequality using three dimensions: reproductive health, empowerment and the labour market.
- **Hence, option(a) is the correct answer.**

#### Q 38.A

- **Job polarization in the labor market refers to a specific pattern of employment changes characterized by the simultaneous growth of high-skilled and low-skilled jobs, coupled with a decline in middle-skilled jobs.**
- **This phenomenon describes a shift in the occupational distribution of employment, where job opportunities are increasingly concentrated at the two ends of the skill spectrum—high-skilled and low-skilled—while the middle-skilled positions experience relative contraction.**
- **Key features and explanations of job polarization:**
  - **High-Skilled Jobs:** There is an increase in demand for jobs that require advanced skills, education, and expertise. These high-skilled occupations often involve tasks that are difficult to automate and require specialized knowledge.
  - **Low-Skilled Jobs:** There is also a growth in low-skilled jobs that involve tasks less susceptible to automation and may not require extensive formal education or training.
  - **Middle-Skilled Jobs:** Conversely, middle-skilled jobs, often routine and repetitive tasks, experience a decline in demand. This decline is often attributed to automation and technological advancements that can replace certain routine tasks.
  - **Technological Change:** Advances in technology, particularly automation and artificial intelligence, play a significant role in job polarization. Routine tasks that can be automated, such as certain manufacturing or clerical jobs, may see a demand reduction.
  - **Educational Divide:** The shift toward high-skilled jobs emphasizes the importance of education and skills development in today's labor market. Individuals with advanced skills and education are better positioned to access the growing high-skilled job opportunities.
  - **Income Inequality:** Job polarization can contribute to income inequality, as high-skilled jobs often offer higher wages, while low-skilled jobs may provide lower wages. The decline in middle-skilled jobs can affect individuals who traditionally held these positions.
- **Understanding job polarization is crucial for policymakers, educators, and workers as they navigate changes in the labor market. It underscores the need for adaptability, continuous skill development, and educational initiatives that align with the evolving demands of the workforce.**
- **Hence option (a) is the correct answer.**

#### Q 39.A

- **Gross capital formation consists of the acquisition of fixed assets and the accumulation of stocks. Fixed assets are physical productive assets, examples of which are buildings, civil works, machinery, vehicles etc. The stock accumulation is in the form of changes in stock of raw materials, fuels, finished goods and semi-finished goods awaiting completion. Thus gross capital formation is that part of country's total expenditure which is not consumed but added to the nation's fixed tangible assets and stocks. Hence statement 1 is correct.**
- **Saving represents the excess of current income over current expenditure of various sectors of the economy. It is the balancing item on the income and outlay accounts of the producing enterprises, households, government administration and other final consumers. For the closed economy savings equals capital formation during the year whereas for the open economy savings equals capital formation plus net capital inflow from abroad during the year. Hence statement 2 is not correct.**

#### Q 40.D

- **Windfall taxes are designed to tax the profits a company derives from an external, sometimes unprecedented event—for instance, the energy price rise as a result of the Russia-Ukraine conflict. Hence statement 1 is not correct.**
- **These are profits that cannot be attributed to something the firm actively did, like an investment strategy or an expansion of business. The United States Congressional Research Service (CRS) defines a windfall as an “unearned, unanticipated gain in income through no additional effort or expense”.**



- Governments typically levy a one-off tax retrospectively over and above the normal rates of tax on such profits, called windfall tax. One area where such taxes have routinely been discussed is oil markets, where price fluctuation leads to volatile or erratic profits for the industry.
- **The Central government on July 1, 2023, introduced a windfall profit tax of ₹23,250 per tonne on domestic crude oil production, which was subsequently revised fortnightly four times so far. The latest revision was on August 31, when it was hiked to ₹13,300 per tonne from ₹13,000. Hence statement 2 is not correct.**

#### Q 41.B

- **Recent context:** National Financial Reporting Authority (NFRA) Found Deficiencies in Audit Quality of Big Four Audit Firms
- The National Financial Reporting Authority (NFRA) was constituted on 01st October, 2018 by the Government of India under Sub Section (1) of section 132 of the Companies Act, 2013. **Hence statement 1 is not correct.**
- As per Sub Section (2) of Section 132 of the Companies Act, 2013, the duties of the NFRA are to:
  - **Recommend accounting and auditing policies and standards to be adopted by companies for approval by the Central Government; Hence statement 3 is correct.**
  - **Monitor and enforce compliance with accounting standards and auditing standards; Hence statement 2 is correct.**
  - Oversee the quality of service of the professions associated with ensuring compliance with such standards and suggest measures for improvement in the quality of service;
  - Perform such other functions and duties as may be necessary or incidental to the aforesaid functions and duties.

#### Q 42.A

- **Recent context:** The US Secretary of State announced a joint maritime security initiative called Operation Prosperity Guardian in December 2023 to aid the safe movement of ships in the Red Sea.
- **Operation Prosperity Guardian is a US-led military operation by a multinational coalition** formed in December 2023 to respond to Houthi-led attacks on shipping in the Red Sea. **Hence statement 1 is correct and statement 2 is not correct.**
- It brings together countries including the United Kingdom, Bahrain, Canada, France, Seychelles, Spain, etc. It was launched in the backdrop of the escalation in attacks on commercial ships such as the recent hijack of ships by Houthis.

#### Q 43.A

- The **Banking Stability Index (BSI)**, which measures the expected number of banks which could become distressed given that at least one bank becomes distressed. It measures the **interdependence of the banks in the system. Hence, statement 1 is correct.**
- The distress between specific banks is measured by **Toxicity and Vulnerability Indices**. The Toxicity Index (TI) is the average probability that a bank under distress may cause distress to another bank in the system. Toxicity of banks, which was rising since beginning of 2010, has shown some decline since October 2012.
- Vulnerability Index (VI), which quantifies the average probability of a bank being in distress given distress in the other banks in the system.
- **RBI releases** these indices as part of the financial stability report. **Hence, statement 2 is not correct.**

#### Q 44.B

- Inverted duty structure is a situation where import duty on finished goods is low compared to the import duty on raw materials that are used in the production of such finished goods. **Hence statement 1 is not correct**
- Imports of the final products become cheaper, which adversely affects the competitiveness and sustainability of the domestic manufacturing industry. **Hence statement 2 is correct.**

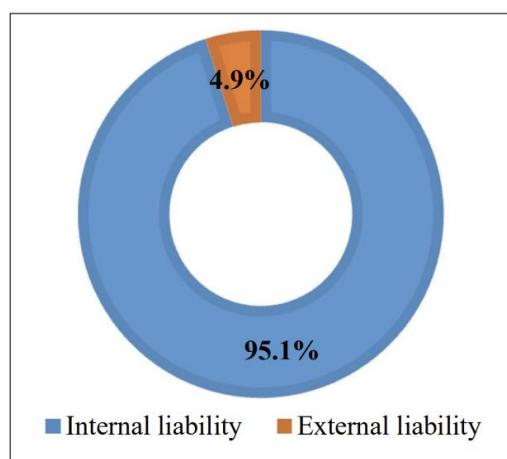
#### Q 45.B

- Public debt is the total amount borrowed by the government of a country when the government's revenue from taxes and other sources falls short of its spending requirements. In India, public debt includes the total liabilities of the Union government that have to be paid from the Consolidated Fund of India.

- It is further classified into internal & external debt. Internal debt is categorized into marketable and non-marketable securities.
  - Marketable government securities include G-secs and T-Bills issued through auction.
  - Non-marketable securities include intermediate treasury bills issued to state governments and special securities issued to national Small Savings Fund among others.
- Debt Position of Union Government (in ₹ lakh crore)**

Components	FY16	FY17	FY18	FY19	FY20	FY21	FY22 PA
	1	2	3	4	5	6	7
<b>A. Public Debt (A1+A2)</b>	57.11	61.50	68.45	75.49	85.65	105.23	121.21
<b>A1. Internal Debt (a+b)</b>	53.05	57.42	64.01	70.75	80.20	99.08	114.62
<b>a. Marketable Securities</b>	47.28	50.49	55.10	59.69	65.60	78.59	88.17
<b>b. Non-marketable Securities</b>	5.77	6.93	8.91	11.06	14.60	20.49	26.45
<b>A2. External Debt</b>	4.07	4.08	4.45	4.74	5.44	6.15	6.59

- From the table we can see that marketable securities is the largest component of Public debt. Hence statement 2 is correct.
- Proportion of external liability in public debt (FY22)**



- Hence statement 1 is not correct.

#### Q 46.A

- Personal income is the sum of all kinds of incomes received by individuals from all sources in the form of current transfer payments and factor incomes in a year. It includes factor income and transfer income. It does not include corporate profit tax and retained earnings.
  - Personal Income = Private Income – Corporation tax – Undistributed Profits (saving of private corporate sector) + Transfer payments. Hence option (a) is the correct answer.**
- Personal income refers to all income collectively received by all individuals or households in a country. Personal income includes compensation from a number of sources, including salaries, wages, and bonuses received from employment or self-employment, dividends and distributions received from investments, rental receipts from real estate investments, and profit sharing from businesses.

#### Q 47.C

- Marginal Productivity Theory**, simply states that the marginal productivity of capital determines the rate of interest. Here, only the role of capital is considered to be very important, as a producer can produce a much larger volume than what can be produced without capital. **No importance is given to the other factors of production like labour, land, etc.** Interest rate is decided and paid solely based on capital, as only it is considered to be productive.

- This theory considers loans extended only for production purposes. As it considers the capital is extended will generate higher productivity and the borrower will be able to pay interest to the lender. And thus the capital is considered to be productive.
- But, it fails to explain the Interest paid for consumption loans. Because in practice we find that interest-bearing loans are also made for consumption purposes.
- Eg: Car loan, bears certain interest, and the car is mostly used as a personal means of transport and does not generate any further capital.
- **Hence, option (c) is the correct answer.**

#### Q 48.A

- The base effect is the effect that choosing a different reference point for a comparison between two data points can have on the result of the comparison. The base effect is the distortion in a “monthly inflation figure that results from abnormally high or low levels of inflation in the year-ago month. **Hence option (a) is the correct answer.**
- The base effect can lead to distortion in comparisons and deceptive results, or, if well understood and accounted for, can be used to improve our understanding of data and the underlying processes that generate them.

#### Q 49.D

- **What is a Clean Note Policy?**
  - Reserve Bank of India has been continuously making efforts to make good quality banknotes available to the members of the public.
  - To help RBI and the banking system towards this objective, the members of the public are requested to ensure the following:
    - Not to staple the banknotes
    - Not to write/put rubber stamps or any other mark on the banknotes.
    - Not to use banknotes for making garlands/toys, decorating pandals and places of worship, showering on personalities in social events, etc.
- **Hence, option (d) is the correct answer.**

#### Q 50.B

- According to the System of National Accounts (SNA) developed by the United Nations, the economic territory of a country consists of a geographical territory administrated by a government within which persons, goods and capital circulate freely.
- The concept of domestic territory (Economic territory) is different from the geographical or political territory of a country. Domestic territory of a country includes the following:
  - Political frontiers of the country including its territorial waters.
  - Ships, and aircrafts operated by the normal residents of the country between two or more countries for example, Air India’s services between different countries.
  - **Fishing vessels, oil and natural gas rigs and floating platforms operated by the residents of the country in international waters** or engaged in extraction in areas where the country has exclusive rights of operation. **Hence option 1 is correct.**
  - **Embassies, consulates and military establishments of the country located in other countries**, for example, Indian embassy in U.S.A., Japan etc. **Hence option 2 is correct.**
- **It does not include (a) all embassies, consulates and military establishments of other countries in India and (b) offices of international organisations located in India. Hence option 3 and 4 are not correct.**

#### Q 51.B

- **A liquidity trap is an adverse economic situation that can occur when consumers and investors hoard cash rather than spending or investing it even when interest rates are low, stymying efforts by economic policymakers to stimulate economic growth.**
- During a liquidity trap, traditional monetary policy tools, such as lowering interest rates, may become ineffective because interest rates are already very low, and individuals or businesses may not respond as expected. In such a situation, central banks may resort to fiscal policy measures, particularly increasing government spending.

- **Lowering interest rates further:** In a liquidity trap, interest rates are already near or at zero, and further reductions may have limited impact because nominal interest rates cannot go below zero. This situation is known as the zero lower bound.
- **Increasing government spending:** To stimulate economic activity during a liquidity trap, central banks might recommend or collaborate with the government to increase spending on infrastructure, public projects, or other initiatives. This injection of funds into the economy can potentially boost demand, create jobs, and counteract the deflationary pressures associated with a liquidity trap.
- **Selling government bonds:** Selling government bonds is a traditional monetary policy tool, but during a liquidity trap, it may not be as effective in stimulating economic activity. The increased supply of bonds might not lead to the desired impact on interest rates or investment.
- **Imposing capital controls:** Capital controls involve restrictions on the movement of funds in and out of a country. While capital controls can be a tool to manage economic conditions, they are not typically a direct response to a liquidity trap. In some cases, capital controls may be used to stabilize financial markets or prevent a rapid outflow of funds, but they are not a primary measure during a liquidity trap.
- **Thus increasing government spending is often considered a more direct and effective approach during a liquidity trap to stimulate demand and address the limitations of traditional monetary policy.**
- **Hence option (b) is the correct answer.**

#### Q 52.B

- **Recent context:** The Ministry of Youth Affairs & Sports announced the National Sports Awards 2023 in December. The awardees will receive their awards from the President of India. National Sports Awards are given every year to recognize and reward excellence in sports.
- **‘Major Dhyan Chand Khel Ratna Award’** is given for the spectacular and most outstanding performance in the field of sports by a sportsperson over the period of the previous four years.
- **Arjuna Award for outstanding performance in Sports and Games’** is given for good performance over a period of the previous four years and for showing qualities of leadership, sportsmanship and a sense of discipline. **Hence statement 2 is correct.**
- **Dronacharya Award for Outstanding Coaches** in Sports and Games is given to coaches for doing outstanding and meritorious work on a consistent basis and for enabling sportspersons to excel in International events. **Hence statement 3 is correct.**
- **Dhyan Chand Award for Lifetime Achievement** in Sports and Games is given to honour sportspersons who have contributed to sports by their performance and who continue to contribute to the promotion of sports events after their retirement. **Hence statement 1 is not correct.**

#### Q 53.C

- **Recent context:** Tax Inspectors Without Borders (TIWB) launched a program in Saint Lucia and India has been chosen as the Partner Administration.
- **Tax Inspectors Without Borders (TIWB) is a joint initiative of the Organisation for Economic Co-operation and Development (OECD) and the United Nations Development Programme (UNDP) supporting countries in building tax audit capacity. Hence statement 2 is correct.**
- TIWB Programmes complement the broader efforts of the international community to strengthen cooperation on tax matters and contribute to the domestic resource mobilization efforts of developing countries.
- **The objective of the TIWB Initiative is to enable the sharing of tax audit knowledge and skills with tax administrations in developing countries** through a targeted, real-time "learning by doing" approach. Selected experts will work with local tax officials directly on current audits and audit-related issues concerning international tax matters and general audit practices relevant to specific cases. This is a specialized area of tax audit assistance, given its focus on providing assistance on real, current cases. **Hence statement 1 is correct.**

#### Q 54.B

- Small Finance Banks are private financial institutions with the objective of financial inclusion without any restriction in the area of operations.
- They can provide basic banking services like accepting deposits and lending to the unbanked sections such as small farmers, micro business enterprises, micro and small industries, and unorganized sector entities. Some of the operational Small Finance Banks in India include Ujjivan SFB, Janalakshmi SFB, etc.

- They were proposed by the **Nachiket Mor Committee** of RBI, as one of the differentiated banking systems for credit outreach and announced in the annual Budget 2014.
- **Who can promote:** Individuals/ professionals with 10 years experience in finance, NBFCs, microfinance cos, and local area banks.
- **What they must do:**
  - Have a minimum paid-up capital of Rs 200 crore. Initially, when licensing guidelines for small finance banks were issued, it was prescribed that the minimum paid-up equity capital requirement for setting up an SFB would be Rs 100 crore. **Hence statement 1 is not correct.**
  - Extend 75% of loans to the priority sector. **Hence statement 2 is correct.**
  - Have 25% of branches in unbanked areas. **Hence statement 3 is correct.**
  - Maintain reserve requirements
  - Cap loans to individuals and groups at 10% and 15% of net worth
  - Have a business correspondent network
- **What they can do:** Sell FOREX to customers sell mutual funds, insurance, and pensions convert into a full-fledged bank
- **What they can't do:**
  - Extend large loans.
  - Float subsidiaries.
  - Cannot deal in sophisticated financial products.

#### Q 55.A

- Intermediate goods are those goods which are meant either for reprocessing or for resale. Goods used in the production process during an accounting year are known as intermediate goods. These are non-durable goods and services used by the producers such as raw materials, oil, electricity, coal, fuel etc. and services of hired engineers and technicians etc. Goods which are purchased for resale are also treated as intermediate goods. For example, Rice, wheat, sugar etc. purchased by a retailer/wholesaler.
- **Intermediate goods are not included in the calculation of national income.** GDP is a measurement of the market value of all final goods and services produced in the economy.
- Only final goods are included in the calculation of national income because the value of intermediate goods is included in the value of final goods. **If it is included in national income it will lead to the problem of double counting.**
- **Hence both Statement-I and Statement-II are correct and Statement-II is the correct explanation for Statement-I.**

#### Q 56.B

- **Self-Regulatory Organisation (SRO) is a non-governmental organization** that represents a particular sector/industry and sets and enforces rules and standards relating to the conduct of its member entities. E.g. Financial Industry Regulatory Authority. **Hence statement 1 is not correct.**
- **Entity intending to function as an SRO shall be set up as a not-for-profit company registered under Section 8 of the Companies Act, 2013. Hence statement 2 is correct.**
- **Characteristics of SRO:**
  - SRO should have strong governance mechanisms, including focus on independent board, transparency, and adherence to well-defined processes.
  - Develop standards for improving compliance culture and adherence by its members to rules and regulations framed by RBI.
  - Devise and implement standardised procedures for handling disputes among members.

#### Q 57.C

Direct taxes are those which are paid once for all by the persons from whom they are collected and not passed on to another. In the direct taxes, the impact and the incidence of a direct tax are the same people.

##### Merits of direct tax

- **Equity:** Direct taxes have equity of sacrifice, depend upon the volume of income. They are based on the principle of progressive, so rates of tax increase as the level of income of a person rises. **Hence statement 1 is correct.**
- **Elasticity and productivity:** Direct taxes have elasticity because when the government faces some emergency, like earthquake, floods and famine the government can collect money for facing those problems with a direct tax.



- **Certainty:** Direct taxes have certainty on both sides' tax-payer and government. The taxpayers are aware of the quantity of tax. They have to pay and rate, time of payment, the manner of payment, and punishment from the side of government is also certain about the total amount they are getting.
- **Reduce inequality:** Direct taxes follow progressive principles so it is taxing the rich people with a higher level of taxation and the poor people with a lower level of taxation.
- **Good instrument in the case of inflation.:-** Tax policy as fiscal instrument plays important role in the case of the inflation, so the government can absorb the excess money by arising in the rate of existing taxes or imposition of new taxes. **Hence statement 3 is correct.**

Externalities occur in an economy when the production or consumption of specific good impacts a third party that is not directly related to the production or consumption. Externalities, such as pollution, are one of the main reasons why governments step in with increased regulations. Direct taxes don't consider externalities. Eg: A company manufacturing cigarettes and a pharmaceutical company having same net income will be taxed similarly. **Hence statement 2 is not correct.**

#### Q 58.B

- **Recent context:** In a major crackdown on sand mining, Bihar police busted illegal sand mining.
- Sand is the second most exploited natural resource in the world after water. Sand is classified as a minor mineral under the Mines and Minerals (Development and Regulations) Act, 1957 (MMDR Act). **Hence statement 1 is not correct.**
- **Section 15 of the MMDR Act empowers the State Governments for making rules for regulating the grant of quarry leases, mining leases or other mineral concessions in respect of minor minerals and for purposes connected therewith.** Hence, the regulation of minor minerals comes under the legislative and administrative domain of the State Governments.
- Further, Section 23C of the MMDR Act empowers the State Governments to make rules for preventing illegal mining, transportation and storage of minerals and for the purposes connected therewith. Hence, control of illegal mining comes under the legislative and administrative purview of the State Governments.
- Administrative control over minor minerals vests with State Governments, and accordingly, regulated through State specific rules. **Hence statement 2 is correct.**

#### Q 59.D

- **Qualitative Credit Control Methods**
- These are those tools through which the central bank not only controls the value of loans but also the purpose for which these loans are assigned by the commercial banks. Some of these are:
- **Moral Suasion:** Moral suasion means persuasion and request. To arrest the inflationary situation central bank persuades and requests the commercial banks to refrain from giving loans for speculative and non-essential purposes. On the other hand, to counter deflation central bank persuades the commercial banks to extend credit for different purposes.
- **Rationing of credit:** Rationing of credit is a method by which the Reserve Bank seeks to limit the maximum amount of loans and advances, and also in certain cases, fix ceiling for specific categories of loans and advances. RBI also makes credit flow to certain priority or weaker sectors by charging concessional rates of interest. This is at times also referred to as Priority Sector Lending.
- **Regulation of Consumer Credit:** Nowadays, most consumer durables like Cars, Televisions, and Laptops etc. are available on an installment basis financed through bank credit. Such credit made available by commercial banks for the purchase of consumer durables is known as consumer credit.
- **If there is excess demand for certain consumer durables leading to their high prices, the central bank can reduce consumer credit by (a) increasing down payment, and (b) reducing the number of installments of repayment of such credit. Hence, option (d) is the correct answer.**
- On the other hand, if there is deficient demand for certain specific commodities causing a deflationary situation, the central bank can increase consumer credit by (a) reducing down payment and (b) increasing the number of installments of repayment of such credit.
- **Direct action:** This method is adopted when a commercial bank does not cooperate with the central bank in achieving its desirable objectives. Direct action may be any many forms:
- Central banks may charge a penal rate of interest over and above the bank rate upon the defaulting banks; Central bank may refuse to rediscount the bills of those banks which are not following its directives; Central bank may refuse to grant further accommodation to those banks whose borrowings are in excess of their capital and reserves.

- **Margin Requirements:** Generally, commercial banks give loans against 'stocks or 'securities'. While giving loans against stocks or securities they keep margin. Margin is the difference between the market value of a security and its maximum loan value. Let us assume, a commercial bank grants a loan of Rs. 8000 against a security worth Rs. 10,000. Here, the margin is Rs. 2000 or 20%.
- If the central bank feels that prices of some goods are rising due to the speculative activities of businessmen and traders of such goods, it wants to discourage the flow of credit to such speculative activities. Therefore, it increases the margin requirement in case of borrowing for speculative business and thereby discourages borrowing. This leads to a reduction in the money supply for undertaking speculative activities and thus the inflationary situation is arrested.
- On other contrary, the central bank can encourage borrowing from commercial banks by reducing the margin requirement. When there is a greater flow of credit to different business activities, investment is increased. The income of the people rises. Demand for goods expands and the deflationary situation is controlled.
- Thus, margin requirement is a significant tool in the hands of the central bank to counter-act inflation and deflation.

#### Q 60.A

- **The Provisioning Coverage Ratio (PCR) measures a bank's ability to cover its bad loans or non-performing assets (NPAs) with the money it has set aside for that very purpose. It is calculated by dividing the total value of the bank's provisions for bad loans by the total value of its non-performing assets.**
- **The Loans to Deposits ratio (LDR) measures a bank's liquidity and its ability to fund its loan portfolio and is calculated by dividing a bank's total loans by its total deposits.**
- **The Cost to Income ratio (CIR) measures how efficient a bank is in managing its costs relative to its income. The ratio is calculated by dividing a bank's operating expenses by its operating income.**
- **The Capital Adequacy Ratio (CAR) measures a bank's financial strength and its ability to absorb potential losses. This ratio compares a bank's capital set aside by it to cover potential losses, against its total risk-weighted assets, which are loans and other investments. To calculate CAR, a bank's capital needs to be divided by its total risk-weighted assets.**
- **Hence, option (a) is the correct answer.**

#### Q 61.B

- Stock Market is a place where trading in stocks of public corporations and joint-stock companies are done. In India, the two most popular stock exchanges are BSE (Bombay Stock Exchange) and NSE (National Stock Exchange). A stock market index indicates the entire stock market. Fluctuations in these indices represent the returns obtained by the investors in the market. Nifty and Sensex are the flagship indices of NSE and BSE respectively.

NIFTY	SENSEX
<p><b>National Fifty abbreviated as Nifty is a yardstick of the 50 best companies in more than 20 sectors intensely traded by the public on the National Stock Exchange.</b></p> <p>It was launched by NSE in 1995, located in New Delhi, and is owned by India Index Services and Products (IISL) – a joint venture between CRISIL (Credit Rating and Information Services of India Limited) and NSE.</p> <p>It is calculated by taking the weighted average market capitalization of 50 companies on the basis of which the weights are assigned to each company.</p> <p><b>The base year is 1995 for which the index value is 1000.</b></p>	<p><b>Sensitive Index abbreviated as Sensex is a yardstick of the top 30 companies of over 20 different sectors highly traded by the public on the Bombay Stock Exchange.</b></p> <p>It is launched by BSE in 1986, located in Mumbai.</p> <p>The index is calculated on the basis of free-float market capitalization, which is calculated by multiplying the weighted average of some shares held by the government and the promoters of the company with the weighted average price.</p> <p><b>The base year is 1978-79, and the index value is 100.</b></p>

#### Q 62.A

- The Legal Entity Identifier (LEI) is a 20-character, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). It connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions.

- It is a global reference number that uniquely identifies every legal entity or structure that is party to a financial transaction, in any jurisdiction. In India, Legal Entity Identifier India Limited (LEIL) LEIL has been recognized by the Reserve Bank of India as an “Issuer” of Legal Entity Identifiers under the Payment and Settlement Systems Act 2007. It is a wholly-owned subsidiary of The Clearing Corporation of India Ltd. Hence, option (a) is the correct answer.
- The Clearing Corporation of India Ltd (CCIL) was set up in April, 2001 to provide guaranteed clearing and settlement functions for transactions in Money, G-Secs, Foreign Exchange and Derivative markets. CCIL’s adherence to the stringent principles governing its operations as a Financial Market Infrastructure has resulted in its recognition as a Qualified Central Counterparty (QCCP) by the Reserve Bank of India in 2014.

#### Q 63.C

- The term 'Shadow Banking' refers to the practice of **banking-like activities performed by non-banking finance companies**, which are not subject to strict regulation. However, these institutions **function as intermediaries between the investors and the borrowers**, typically **providing credit to riskier businesses and individuals** and generating liquidity in the system. **Hence option (c) is the correct answer.**
- Although these entities **do not accept traditional demand deposits offered by banks**, they do provide services similar to what commercial banks offer.
- The **2008 financial crisis** has shown that shadow banking can be a source of systemic risk to the banking system. The risks can be transmitted directly and through the interconnectedness of partially regulated entities with the banking system. **The liquidity crisis of Infrastructure Leasing & Financial Services (IL&FS) is one such example.**
- **Basel III norms** require central banks to tighten supervision on shadow banks across the globe through steps such as defining minimum capital. Accordingly, RBI has been increasing surveillance on shadow banking.
- The **Usha Thorat committee (2011)** proposed regulations on NBFCs, such as increasing tier I capital and risk weight on certain assets.

#### Q 64.A

- Factor income from abroad is the income earned by a country’s normal residents from the rest of the world for the factor services provided by them. The income is earned in the form of rent, wages, interest, salaries, dividends and retained earnings.
- **Net Factor Income from Abroad (NFIA) is the difference between the factor income earned by a country from abroad/rest of the world and factor income paid by a country abroad/rest of the world. Hence statement 1 is correct.**
  - $\text{Net Factor Income from Abroad} = \text{Factor income earned from abroad} - \text{Factor income paid abroad}$
- Net Factor from Abroad (NFIA) is essential for differentiating between the Domestic Income and National Income of an economy. At first, the Domestic Income is determined, and then after adding NFIA to it, National Income is determined.
- The Net Factor Income from Abroad of an economy can be zero, positive, or negative. It will be zero when the factor income earned from abroad and paid to abroad is equal. **NFIA will be positive when the factor income earned from abroad is more than the factor income paid to abroad.** It will be negative when the factor income earned from abroad is less than the factor income paid to abroad. **Hence statement 2 is not correct.**

#### Q 65.C

- From 2013-14 onwards, buy-back/switches of G-Secs has been a regular feature of cash and debt management operations of the Central Government. These instruments help to manage the debt profile and cash flows in line with the debt management objectives of the Central Government. In this process, **the redemption pressure/bunching of repayments in any given year is smoothened while also enabling improvement in secondary market liquidity in G-Secs.**
- While the objective of repurchase operations is to **reduce redemption pressure (the return of an investor's principal in a fixed-income security) in the immediate following year**, the **conversion operations help to elongate the maturity profile of outstanding G-Secs.** The quantum of repurchase operations depends on the availability of intra-year cash surpluses in the Central Government account. The cash outgo in conversion operations depends on the discount, if any, involved when a shorter tenor security is converted to longer tenor securities and **adds to gross fiscal deficit of the Central Government. Hence option (c) is the correct answer.**

**Q 66.A**

- Cyclical unemployment is a type of unemployment that is associated with fluctuations in the business cycle. It occurs when there is a downturn or recession in the economy.
- **During economic downturns, businesses often experience a decline in demand for goods and services. In response to reduced demand, businesses may cut back on production and, consequently, on hiring new employees. This reduction in hiring or even layoffs can lead to an increase in cyclical unemployment.**
- **As economic activity contracts during a recession, businesses may find it necessary to reduce their workforce, resulting in higher levels of cyclical unemployment.**
- Thus the cyclical nature of this type of unemployment means that it tends to rise during economic downturns and fall during economic upturns as businesses adjust their workforce based on the prevailing economic conditions.
- **Hence option (a) is the correct answer.**

**Q 67.C**

- Constituted under Article 267 of the Constitution, the Consolidated Fund of India is one of the most important government accounts.
- All the income generated through direct taxes, indirect taxes, and other sources of revenue such as
  - **Revenue earned from direct taxes such as income tax, corporate tax, capital gains tax, estate tax, etc**
  - Revenue earned from indirect tax such as Goods and Service Tax (GST)
  - **Dividends and profits earned from PSU's like NTPC, ONGC, SAIL, etc**
  - Profits earned from various government's general services.
  - **Disinvestment receipts**
  - Debt repayments
  - Loan recoveries are part of the Consolidated Fund of India.
- The money from the Consolidated Fund of India can only be withdrawn after the government gets approval from the Parliament.
- The Public Account of India accounts for flows for those transactions where the government is merely acting as a banker.
  - This fund was constituted under Article 266 (2) of the Constitution. It accounts for flows for those transactions where the government is merely acting as a banker.
  - **Examples of those are provident funds, small savings, and so on. These funds do not belong to the government. They have to be paid back at some time to their rightful owners. Because of the nature of the fund, expenditures from it are not required to be approved by the Parliament.**
- **Hence option (c) is the correct answer.**

**Q 68.B**

- **Debt Overhang:** This refers to a **situation where all current income gets used up in repaying the accumulated debt**, leaving little incentives to invest either in physical or human capital. **Hence option (b) is the correct answer.**
- The incentives become muted because any incremental benefit of such investment in physical or human capital is likely to go to the lenders in the form of repayment of existing obligations and not the farmer. Such borrowers are unlikely to receive new funding, either equity or debt, as the ability of the borrower to repay additional loans or grow his/her business/farm is in question.
- Debt overhang, therefore, leads to abandonment of beneficial investment and hence reduces social welfare
- **Debt Trap** is a situation in which a debt is difficult or impossible to repay, typically because high-interest payments prevent repayment of the principal.

**Q 69.D**

- Money is a standard verifiable record or an agreement that is widely accepted as a `medium of exchange in return of goods and services.
- Money is often defined in terms of the three functions or services that it provides:
  - As a **medium of exchange**, it facilitates transactions.
    - Without money, all transactions would have to be conducted by barter, which involves direct exchange of one good or service for another.
    - Money effectively eliminates the double coincidence of wants problem by serving as a medium of exchange that is accepted in all transactions, by all parties, regardless of whether they desire each others' goods and services.



- As a **store of value** its values does not degrade (except through inflation) with time. As long as it is recognized by authorities, it remains a valuable medium of exchange.
  - Apart from money, many other items such as land and gold are a store of value.
  - However, money is more liquid than most other stores of value because as a medium of exchange, it is readily accepted everywhere.
- As a **unit of account**, it provides a common measure of the value of goods and services being exchanged.
  - Value or price of a good can be fixed in terms of money which enables both the buyer and supplier to make decisions regarding the cost, quantity, profits etc.

#### Q 70.D

- Money supply, like money demand, is a stock variable. The total stock of money in circulation among the public at a particular point of time is called the money supply. RBI publishes figures for four alternative measures of money supply, viz. M1, M2, M3 and M4. They are defined as follows
  - **M1 = CU + DD**
  - M2 = M1 + Savings deposits with Post Office savings banks
  - **M3 = M1 + Net time deposits of commercial banks**
  - **M4 = M3 + Total deposits with Post Office savings organisations (excluding National Savings Certificates)**
- Where CU is currency (notes plus coins) held by the public and **DD is net demand deposits held by commercial banks**. The word 'net' implies that only deposits of the public held by the banks are to be included in the money supply. The interbank deposits, which a commercial bank holds in other commercial banks, are not to be regarded as part of the money supply.
- M1 and M2 are known as narrow money. **M3 and M4 are known as broad money. Hence, option (d) is the correct answer.**
- These gradations are in decreasing order of liquidity. M1 is the most liquid and easiest for transactions whereas M4 is the least liquid of all.
- M3 is the most commonly used measure of money supply. It is also known as aggregate monetary resources.

#### Q 71.C

- **Angel tax is a term used to refer to the income tax payable on capital raised by unlisted companies via issue of shares where the share price is seen in excess of the fair market value of the shares sold.** The excess realisation is treated as income and taxed accordingly. The tax was introduced in the 2012 Union Budget by then finance minister Pranab Mukherjee to arrest laundering of funds. It has come to be called angel tax since it largely impacts angel investments in startups.

#### Q 72.B

- **IFSC or Indian Financial System Code**
  - It is an alpha-numeric code that uniquely identifies a bank branch participating in the NEFT system. **Hence, statement 1 is correct.**
  - It's an 11-digit code with the first 4 alpha characters representing the bank, and the last 6 characters representing the branch. **Hence, statement 2 is not correct.**
  - The 5th character is 0 (zero). **Hence, statement 3 is correct.**
  - IFSC is used by the NEFT system to identify the originating/destination banks/branches and also to route the messages appropriately to the concerned banks/branches.

#### Q 73.B

- Gross National Product (GNP) at Market Price is defined as the value of all final goods and services produced in an economy by its own domestic factors of production, which may be employed within the economy and abroad in a financial year.
- Net National Product at Market Price (NNP) is the total money value of all the final goods and services excluding depreciation, which is the consumption of fixed capital. Thus
  - **NNP = GNP – Depreciation; Hence option (b) is the correct answer.**

#### Q 74.A

- **UPI Tap and Pay facility utilises near-field communication (NFC) technology to capture details about a payee's UPI ID without the need for a quick response (QR) code.** Mobiles and devices, which have NFC capability, can use the service. **Hence statement 1 is correct and statement 2 is not correct.**



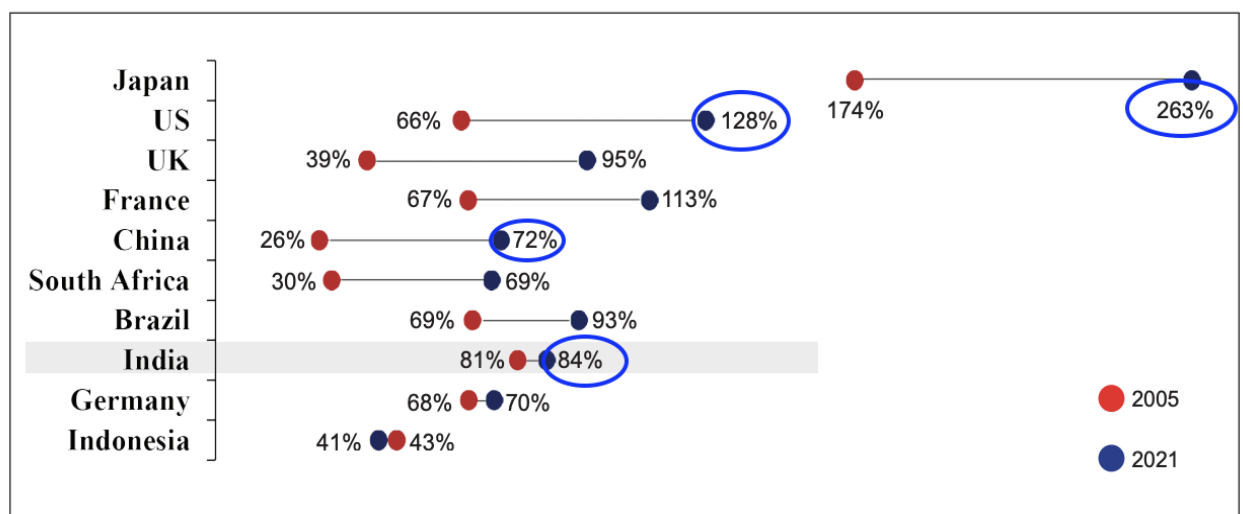
- NFC uses electromagnetic radio fields to allow two compatible devices to share information within a short range (4-5 centimetres). NFC, which stands for near-field communication, ensures a secure connection within a 4 cm distance, making it an ideal technology for UPI transactions.

#### Q 75.A

- The capital of a company is divided into shares. Each share forms a unit of ownership of a company and is offered for sale so as to raise capital for the company.
- **Equity shares give their holders the power to share the earnings/profits** and also bear the losses incurred by the company, whereas, the debentures are **debt instruments issued by a company with a fixed rate of interest. Hence, statement 1 is not correct.**
- **Equity shares give their holders the power to share the earnings/profits in the company as well as a vote** in the general meetings of the company. Whereas, debenture holders does not get any right to vote in the company's general meetings. **Hence, statement 2 is not correct.**
- **Debentures are considered less risky** compared to shares due to their **fixed interest payments** and higher claim on company assets in case of liquidation. **Hence, statement 3 is correct.**

#### Q 76.A

- General Government debt to GDP ratio from 2005 to 2021 across the countries



- Hence option (a) is the correct answer.

#### Q 77.B

- **A bear market is one that is in decline.** Share prices are continuously dropping, resulting in a downward trend that investors believe will continue in the long run, which, in turn, perpetuates the spiral. During a bear market, **the economy will typically slow down and unemployment will rise** as companies begin laying off workers. **In a bear market, investors rush to sell their stocks before they lose more value. Hence statement 2 is correct and statements 1 and 3 are not correct.**
- A bull market refers to a market that is on the rise. It is typified by a sustained increase in market share prices. In such times, investors have faith that the uptrend will continue in the long term. Typically, the country's economy is strong and employment levels are high. Typically, the country's economy is strong and employment levels are high.

#### Q 78.A

- PCA's full form stands for Prompt Corrective Action. PCA is a system that the RBI imposes on banks showing signs of financial stress. The regulator considers banks as unsafe if they fail to meet the standards on certain financial metrics or parameters.
- RBI takes into account four factors to determine whether it needs to put a bank under the PCA framework. These include profitability, asset quality, capital ratios and debt level.
- **When RBI puts a bank on its PCA watchlist, it imposes two types of limitations on it - mandatory and discretionary.** These include restrictions related to the expansion of a branch, dividend and director's remuneration and so on.

- **Nevertheless, the Central Bank may choose to take these actions at their discretion, where the RBI can:**
  - Ask the bank's board to reassess its business model and evaluate the profitability of the business line and operations.
  - Advise banks to reassess their business plans and strategy to take remedial measures, which may include dismissing certain officials from employment.
  - Ask a Bank's board to implement a resolution plan after seeking approval from the supervisor.
  - Advise banks to gauge their viability over the medium to long term besides evaluating balance sheet estimates.
  - PCA banks might not be able to hire more employees or fill up vacant positions.
  - Lastly, RBI may allow PCA banks to incur capital expenditure only to upgrade technology. However, the allocation of funds for the same has to be within pre-approved limits. **Hence, statement 1 is correct.**
- **The Reserve Bank of India (RBI) is considering bringing urban cooperative banks under its prompt corrective action (PCA) mechanism in order to enhance the cooperative sector lenders. They are not under PCA as of now. Hence statement 2 is not correct.**
  - **The Reserve Bank of India had introduced the supervisory action framework** to better manage stressed urban cooperative banks. The guidelines of SAF include threshold limits for asset quality, profitability and capital adequacy.

#### Q 79.D

- **RBI's Retail Direct Scheme** was launched in November 2021 **to allow the retail investors** (non-professional individuals who invest money in their own accounts through brokerage firms) **to buy and sell government securities (G-Sec) online**, both in the primary and secondary markets.
- Under the scheme, retail investors will have the **facility to open and maintain the 'Retail Direct Gilt Account' (RDG Account) with the RBI.**
- It will further **facilitate diversifying the government securities market**, which is dominated by institutional investors such as banks, insurance companies, mutual funds and others.
- **Hence, option (d) is the correct answer.**

#### Q 80.D

- A transfer payment is a one-way payment to a person or organization which has given or exchanged no goods or services for it. This contrasts with a simple "payment," which in economics refers to a transfer of money in exchange for a product or service. Transfer payments commonly refer to efforts by local, state, and federal governments to redistribute money to those in need.
- Governments use such payments as means of income redistribution by giving out money under social welfare programs such as **social security, old age or disability pensions, student grants, unemployment compensation, Health Services, such as public health insurance and other free health programs etc.**
- **Corporate bailouts and subsidies are not commonly referred to as transfer payments. No subsidies should not be treated as transfer payments because value addition has already occurred. A corporate bailout may be considered as an investment. Hence option (d) is the correct answer.**

#### Q 81.B

- **The cost Inflation Index (CII) is used for the Computation of Long Term Capital Gain.**
  - **It is a measure of inflation that finds application in tax law when computing long-term capital gains on the sale of assets.**
  - Section 48 of the Income-Tax Act defines the index as what is notified by the Central Government every year, having regard to a 75 percent average rise in the consumer price index (CPI) for urban non-manual employees for the immediately preceding previous year. **Hence statement 2 is correct.**
- **The cost Inflation index is Notified by the Central Board of Direct Taxation (CBDT) every year and to date, CBDT has notified the Cost Inflation Index for the Financial Year 1981-82 to the Financial year 2023-24. Hence statement 1 is not correct.**

#### Q 82.A

- **Recent context:** Indian Navy commissioned stealth guided missile destroyer INS Imphal.
- INS Imphal is the third of four indigenous Visakhapatnam **class stealth-guided missile destroyers under project 15B.** Project 15B is the latest in the lineage of Project 15A (Kolkata class) and Project 15 (Delhi

class) indigenous destroyers with upgraded capabilities and greater indigenous content. The other two destroyers of this Project are INS Visakhapatnam and INS Mormugao.

- Hence option (a) is the correct answer.

### Q 83.C

- Major items of expenditure of Union government.

(₹ करोड़) (In ₹ crore)

	2021-2022 वास्तविक Actuals	2022-2023 बजट अनुमान Budget Estimates	2022-2023 संशोधित अनुमान Revised Estimates	2023-2024 बजट अनुमान Budget Estimates
Pension	198946	207132	244780	234359
Defence	366546	385370	409500	432720
Subsidy -				
Fertiliser	153758	105222	225220	175100
Food	288969	206831	287194	197350
Petroleum	3423	5813	9171	2257
Agriculture and Allied Activities (Excluding PM-KISAN)	76492	83521	76279	84214
PM-KISAN*	66825	68000	60000	60000
Commerce and Industry	47068	53116	37540	48169
Development of North East	2653	2800	2755	5892
Education	80352	104278	99881	112899
Energy	53696	49220	70936	94915
External Affairs	14146	17250	16973	18050
Finance	57364	21354	17908	13574
Health	84091	86606	77351	88956
Home Affairs	112301	127020	124872	134917
Interest	805499	940651	940651	1079971
IT and Telecom	25053	79887	74106	93478
Others	108447	113301	108102	120524
Planning and Statistics	3753	5720	6209	6268
Rural Development	228760	206293	243317	238204

- Hence option (c) is the correct answer.

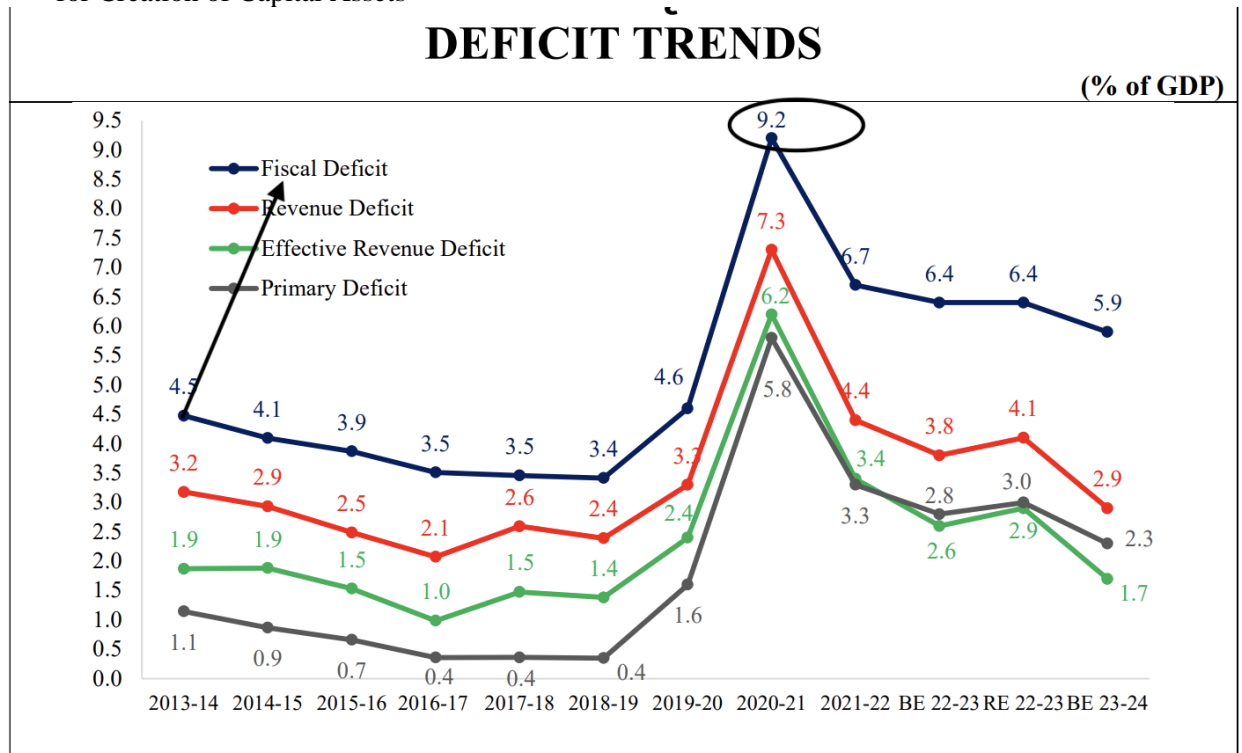
### Q 84.C

- **Circular Flow of Income with Financial Market:**
- In the two-sector model, we assume that all income received by the households are spent on goods and services. But, in real life, households save part of their income and receive interest on it. The firms borrow from households for investment purposes. Financial institutions are intermediaries between savers and investors (here, households and firms). Financial market collects household saving and passes it on to the business sector as investment
- **Leakages and Injections:**
  - Leakages are the amount withdrawn from the flow of income. It could be in the form of **saving by households, tax payments, or spending on imports. Hence option (c) is the correct answer.**
  - On the other hand, injections are the amount added to the flow of income. Injections to the circular flow could be in the form of investment, government spending, subsidy, or export. Leakages are also called 'withdrawals' while injections are called 'additions'

### Q 85.C

- Fiscal Deficit (FD) is the adverse fiscal balance which is a difference between the Revenue Receipts Plus Non-Debt Capital Receipts (NDCR) i.e. total of the non-debt receipts and the total expenditure.
- FD is reflective of the total borrowing requirement of the Government.

- Revenue Deficit (RD) refers to the excess of revenue expenditure over revenue receipts.
- Effective Revenue Deficit (ERD) is the difference between Revenue Deficit and a Grant-in-Aid for the Creation of Capital Assets.
- Primary Deficit is measured as Fiscal Deficit less interest payments.
- Effective Capital Expenditure (Eff-Capex) refers to the sum of Capital Expenditure and Grants-in-Aid for Creation of Capital Assets



- From the above graph, we can see that both statements 1 and 2 are correct.

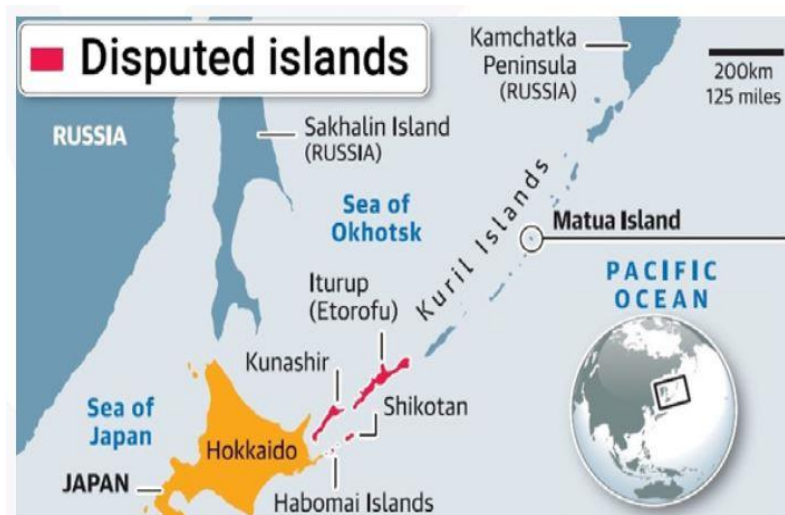
**Q 86.D**

- MAT stands for Minimum Alternate Tax.
- At times it may happen that a taxpayer, being a company, may have generated income during the year, but by taking advantage of various provisions of Income-tax Law (like exemptions, deductions, depreciation, etc.), it may have reduced its tax liability or may not have paid any tax at all.
- **Due to an increase in the number of zero tax paying companies, MAT was introduced by the Finance Act, 1987 with effect from the assessment year 1988-89. Later on, it was withdrawn by the Finance Act, 1990, and then reintroduced by the Finance (No. 2) Act, 1996, wef 1-4-1997. Hence statement 1 is not correct.**
- The objective of the introduction of MAT is to bring into the tax net "zero tax companies" which despite having earned substantial book profits and having paid handsome dividends, do not pay any tax due to various tax concessions and incentives provided under the Income-tax Law.
- As per the concept of MAT, the tax liability of a company will be higher of the following:
  - The tax liability of the company is computed as per the normal provisions of the Income-tax Law, i.e., tax is computed on the taxable income of the company by applying the tax rate applicable to the company.
  - Tax computed in the above manner can be termed as normal tax liability. **Tax computed @ 15% (plus surcharge and cess as applicable) on book profit (manner of computation of book profit is discussed in later part).** The tax computed by applying 15% (plus surcharge and cess as applicable) on book profit is called MAT.
- **MAT is levied at the rate of 9% (plus surcharge and cess as applicable) in case of a company, being a unit of an International Financial Services Centre and deriving its income solely in convertible foreign exchange. Hence statement 2 is not correct.**

**Q 87.D**

- **Kuril Islands is an archipelago that extends from Kamchatka Peninsula (Russia) to Hokkaido Island (Japan). It separates the Sea of Okhotsk from Pacific Ocean. Many of its islands are geologically active.**

- Russia and Japan both assert sovereignty over four islands (referred to as the Northern Territories in Japan and South Kurils in Russia). **Hence option (d) is the correct answer.**



#### Q 88.A

- Money supply to the public is influenced mainly by the central bank of the country and its commercial banks, which in turn changes the preference of the public for holding cash balances vis-a-vis deposits in the banks.
- These influences on money supply can be summarized by the following key ratios:
  - **The Reserve deposit ratio:**
    - Banks hold a part of the money people keep in their bank deposits as reserve money and loan out the rest to various investment projects. Reserve money consists of two things – vault cash in banks and deposits of commercial banks with RBI.
    - Banks use this reserve to meet the demand for cash by account holders.
    - Reserve deposit ratio (rdr) is the proportion of the total deposits, commercial banks keep as reserves.
    - **A lower reserve ratio requirement gives banks more money to lend, at lower interest rates, which makes borrowing more attractive to customers. Hence, Statement I is correct.**
    - **Keeping reserves is costly for banks, as, otherwise, they could lend this balance to interest-earning investment projects. Hence, Statement II is correct and is the correct explanation of Statement I.**
    - However, RBI requires commercial banks to keep reserves to ensure that banks have a safe cushion of assets to draw on when account holders want to be paid.
- **Hence, option (a) is the correct answer.**

#### Q 89.B

- **NASA is preparing to launch ‘Plankton, Aerosol, Cloud, and Ocean Ecosystem’ (PACE) mission in early 2024. Hence statement 2 is correct.**
- **The mission will provide a combination of global atmospheric and oceanic observations that will enhance our understanding of Earth’s atmosphere.** By monitoring aerosols in the atmosphere along with plankton on the surface of the ocean, scientists can collect information about the health of the Earth. **Hence statement 1 is not correct.**
- It aims to benefit society in the areas of water resources, the impact of disasters, ecological forecasting, human health, and air quality.

#### Q 90.A

- A market in which **securities are sold for the first time** is known as a **Primary Market**, whereas, a market in which the **sale and purchase of existing securities and second-hand securities** are made is known as a **Secondary Market**. **Hence, statement 1 is correct.**
- The **price of securities in a primary market is fixed by the management of the company** issuing them, whereas, the price of securities in a **secondary market is fixed by the demand and supply of the stock exchange market**. **Hence, statement 2 is not correct.**



#### Q 91.A

- **Recent context:** Scientists have discovered an ancient underwater mountain range hidden within the world's strongest ocean current, the ACC.
- The Antarctic Circumpolar Current (ACC) is the most important current in the Southern Ocean **and the only current that flows completely around the globe. Hence statement 1 is correct.**
- The Southern Ocean comprises southernmost waters below 60 degrees south latitude, It encircles the entire Antarctic continent. The Antarctic Circumpolar Current (ACC) is the largest wind-driven current on Earth. **It is driven by strong westerly winds and creates some of the roughest seas in the world that are notorious to sailors. Hence statement 2 is not correct.**
- The ACC, as it encircles the Antarctic continent, flows eastward through the southern portions of the Atlantic, Indian, and Pacific Oceans.

#### Q 92.A

- The "lump of labor fallacy" is an economic misconception that revolves around the idea that the total amount of work available in an economy is fixed, like a fixed "lump" of labor.
- This fallacy suggests that there is only a certain amount of work to be done, and if one person or group of people gets more work or employment, it comes at the expense of others who are then left unemployed.
- Key features about the lump of labor fallacy:
  - Fixed Work Supply: The fallacy assumes that there is a fixed amount of work or jobs in the economy and that any increase in employment for one group necessarily means a decrease for another.
  - Dynamic Economy: In reality, economies are dynamic and can adapt to changes. The amount of work available is not fixed; it can expand as the economy grows, new industries emerge, and technology evolves.
  - Productivity and Innovation: Technological advancements and increases in productivity can lead to the creation of new jobs and industries. While certain jobs may become obsolete, new opportunities arise as economies evolve.
  - Misunderstanding of Labor Markets: The lump of labor fallacy often stems from a misunderstanding of how labor markets operate. It wrongly assumes a zero-sum game in which one person's gain is another person's loss in terms of employment.
- Understanding and dispelling the lump of labor fallacy is crucial for policymakers, economists, and the general public, as it supports the idea that economic growth and technological progress can lead to overall improvements in living standards and employment opportunities rather than a fixed pool of work to be shared.
- **Hence option (a) is the correct answer.**

#### Q 93.C

- **Production taxes** are independent of the quantity (volume) of production. It is often imposed even if the products are not produced. Production taxes are paid with relation to production and are independent of the volume of actual production. For example: land revenues, **stamps fees, registration fees, tax on the profession. Hence option (c) is the correct answer.**
- Similarly, **Production Subsidies** are received with relation to production and are independent of the volume of actual production. For example: subsidies to Railways, **input subsidies to farmers**, subsidies to the village and small industries, administrative subsidies to corporations or cooperatives.
- **Product taxes** depend on quantity produced and are paid on per unit of product. Though the product taxes are imposed on the producers but they are ultimately borne by the consumers (as it is an indirect tax). For example: **GST**, service tax and import and export duties.
- **Product Subsidies** depends on quantity produced and are received on per unit of product. For example: subsidies on food, petroleum and fertilizer, interest subsidies given to farmers, households, subsidies for providing insurance to households at lower rates.

#### Q 94.A

- In India, Spot Exchanges refer to **electronic trading platforms which facilitate the purchase and sale of specified commodities, including agricultural commodities, metals, and bullion** by providing spot delivery contracts in these commodities.
  - This market segment functions like the equity segment in the main stock exchanges. Alternatively, this can be considered as a guaranteed direct marketing by sellers of the commodities. Spot Exchanges leverage the latest technology available in the stock exchange framework for the trading of

goods. This is an innovative Indian experiment in the trading of goods and is distinct from what is commonly known as “commodity exchanges” which trade in futures contracts in commodities.

- **Advantages of Spot Exchanges:**
  - ✓ **It can lead to efficient price determination as the price is determined by a wider cross-section of people from across the country, unlike the present scenario where price discovery for commodities happens only through local participation. This also ensures transparency in price discovery.**
  - ✓ Anonymity ensures convergence of different price perceptions, as the buyer or seller merely expresses their desire to trade without even meeting directly.
  - ✓ If spot exchanges can ensure participation in large numbers by farmers, traders, and processors across the country it can eliminate the possibility of cartelization and other such unhealthy practices prevalent in commodity markets.
  - ✓ Spot Exchanges can also usher in some best Practices in commodity trading like a system of grading for quality, creating a network of warehouses with assaying facilities, facilitating trading in relatively smaller quantities, lower transaction costs etc.
  - ✓ Bank finance available against the goods in the warehouse on easier terms improves holding capacity and can actually incentivize farm production and hence reduce rural poverty.
  - ✓ Since the trades are guaranteed, counterparty risk is avoided.
- Some of the spot exchanges operating in India are:
  - ✓ **National Spot Exchange Ltd (NSEL)** - a national-level commodity spot exchange promoted by Financial Technologies (India) Ltd (FTIL) and National Agricultural Cooperative Marketing Federation of India Limited (NAFED). However, since 2013, National Spot Exchange Ltd has ceased to function. NSEL commenced “Live” trading on October 15, 2008; **NCDEX Spot Exchange Limited** (established in October 2006); **Indian Bullion Spot Exchange Limited** (they have described themselves as an online over-the-counter spot exchange).
- **Hence statement 1 is correct and 2 is not correct.**

#### Q 95.C

- The income elasticity of demand is a measure of the relationship between a change in the quantity demanded for a particular good and a change in real income. It refers to the sensitivity of the quantity demanded for a certain product in response to a change in consumer incomes.
- The formula for calculating income elasticity of demand is: **Income Elasticity of Demand = % change in quantity demanded / % change in income**
- **Normal goods have a positive income elasticity of demand.** As incomes rise, more goods are demanded at each price level. The quantity demanded for normal necessities will increase with income, but at a slower rate than luxury goods. This is because consumers, rather than buying more of the necessities, will likely use their increased income to purchase more luxury goods and services. During a period of increasing incomes, the quantity demanded for luxury products tends to increase at a higher rate than the quantity demanded for necessities. The quantity demanded for luxury goods is very sensitive to changes in income.
- **Inferior goods have a negative income elasticity of demand** - the quantity demanded for inferior goods falls as incomes rise. For example, the quantity demanded for generic food items tends to decrease during periods of increased incomes.
- **Hence, both the given statements are correct.**

#### Q 96.C

- **Recent context:** Skilling NGO Unnati First To List On Social Stock Exchange (SSE)
- SSE is a separate segment of the Stock Exchange that can help Social enterprises to raise funds from the public through the stock exchange mechanism.
- To be recognized as a social enterprise, organizations need to demonstrate that 67% of their activities have targeted
  - underserved or less privileged population segments or
  - regions which have recorded lower performance in the development priorities of central or state governments
- **Not-for-profit Organizations (NPOs) and For-profit social enterprises can list themselves in SSEs.**
- Enterprises not eligible to be identified as Social Enterprise
  - **corporate foundations**
  - **political or religious organizations or activities,**

- professional or trade associations,
- infrastructure, and housing companies, except affordable housing
- **Hence option (c) is the correct answer.**

#### Q 97.B

- **Recent context:** During Air Force Exercise Astrashakti-2023, India became the first country to demonstrate engaging four aerial targets simultaneously at a 25 km range using a single firing unit. This test was conducted using the Akash Weapon System.
- **Akash Weapon System is a Short Range Surface to Air Missile System** to protect vulnerable areas and points from air attacks. It was indigenously designed and developed by the Defence Research and Development Organisation (DRDO). **Hence statement 1 is not correct.**
- **It can simultaneously engage Multiple Targets in Group Mode or Autonomous Mode.** It has built-in Electronic Counter-Counter Measures (ECCM) features. **Hence statement 2 is correct.**

#### Q 98.D

- **Anchor investors are institutional investors who are offered shares in an IPO a day before the offer opens.** As the name suggests, they are supposed to ‘anchor’ the issue by agreeing to subscribe to shares at a fixed price so that other investors may know that there is demand for the shares offered.
- High Net Worth individuals who invest their own money into start-ups are called Angel Investors. Angel investors invest in small startups or entrepreneurs. Often, angel investors are among an entrepreneur's family and friends. The capital angel investors provide may be a one-time investment to help the business propel or an ongoing injection of money to support and carry the company through its difficult early stages.
- An investment banker is an individual who often works as part of a financial institution and is primarily concerned with raising capital for corporations, governments or other entities.
- A merchant bank is a company that deals mostly in international finance, business loans for companies, and underwriting. These banks are experts in international trade, which makes them specialists in dealing with multinational corporations. A merchant bank may perform some of the same services as an investment bank, but it does not provide regular banking services to the general public.
- **Hence option (d) is the correct answer.**

#### Q 99.C

- Nidhi in the Indian context/language means “treasure”. However, in the Indian financial sector, it refers to any mutual benefit society notified by the Central / Union Government as a Nidhi Company.
- They are created mainly to cultivate the habit of thrift and savings among its members. **Hence, statement 1 is correct.**
- The companies doing Nidhi business, viz. borrowing from members and lending to members only, are known under different names such as Nidhi, Permanent Fund, Benefit Funds, Mutual Benefit Funds, and Mutual Benefit Company. **Hence, statement 2 is not correct.**
- Nidhi's are companies registered under section 620A of the Companies Act, 1956 (Section 406 of the new Companies Bill 2012, as passed by Lok Sabha) and are regulated by the Ministry of Corporate Affairs (MCA). **Hence, statement 3 is correct.**

#### Q 100.D

- LIBOR or ICE LIBOR (previously BBA LIBOR) is a **benchmark rate that world's leading banks charge each other for short-term loans.**
- It stands for Intercontinental Exchange London Interbank Offered Rate and serves as the first step to calculating interest rates on various loans throughout the world. LIBOR is administered by the ICE Benchmark Administration (IBA) and is based on five currencies: the U.S. dollar (USD), euro (EUR), pound sterling (GBP), Japanese yen (JPY), and Swiss franc (CHF).
- **Hence option (d) is the correct answer.**

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