

ERUDITION IAS

Learning Simplified

GS ECONOMY

OBJECTIVE QUESTIONS & EXPLANATORY ANSWERS

Specially designed for UPSC Prelims 2017

by

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Note for the Students

- Please attempt the questions serial wise as it will help in building the concepts.
- Any clarification/doubt can be shared at ERUDITION IAS Facebook Page:
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- 1.** The Quarterly and Annual GDP data is released by the CSO with a time lag of:
- (a) One month
(b) Two months
(c) Three months
(d) Four months
- 2.** Consider the following statements regarding Gross Domestic Product (GDP):
- (i) It is the value added by all the firms in the economy
(ii) It is the final value of goods and services produced in the economy
(iii) It is the sum of final consumption and investment expenditure by the household, private and government sector and net of exports and imports
(iv) It is the income received by the four factors of production
- Select the correct answer using the code given below:
- (a) (i) & (ii) only
(b) (i), (ii) & (iii) only
(c) (i), (ii) & (iv) only
(d) All of the above
- 3.** The demand for GDP in the economy comes from which of the following sectors:
- (i) Household
(ii) Private
(iii) Government
(iv) External
- Select the correct answer using the code given below:
- (a) (i) & (ii) only
(b) (ii) & (iii) only
(c) (i), (ii) & (iii) only
(d) All of the above
- 4.** Which of the following factors may affect a country's potential GDP:
- (i) Physical capital
(ii) Human Capital
(iii) Labour
(iv) Total factor productivity
- Select the correct answer using the code given below:
- (a) (i) only
(b) (i) & (iv) only
(c) (i), (ii) & (iii) only
(d) All of the above
- 5.** Consider the following statements:
- (i) Base Year prices are used to calculate the real GDP
(ii) Base Year prices are used to calculate the nominal GDP
- Select the correct answer using the code given below:
- (a) (i) only
(b) (ii) only
(c) Both (i) & (ii)
(d) Neither (i) nor (ii)
- 6.** Economic growth in India is measured by GDP at:
- (a) Constant market prices
(b) Current market prices
(c) Factor Cost at constant prices
(d) Factor Cost at market prices

7. If India is experiencing economic growth, then which of the following statements must hold true:

- (i) Real GDP is increasing
- (ii) Nominal GDP is increasing
- (iii) Rate of growth of real GDP is increasing
- (iv) Rate of growth of nominal GDP is increasing

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii) only
- (c) (i) & (iii) only
- (d) (i) & (iv) only

8. If a country is experiencing recession, then which of the following shall be true:

- (a) Decrease in real GDP
- (b) Decrease in nominal GDP
- (c) Decrease in rate of growth of GDP
- (d) All of the above

9. Consider the following statements regarding investment in the economy:

- (i) It can be financed by external borrowings
- (ii) It can be financed by domestic savings
- (iii) It includes import of capital goods

Select the correct answer using the code given below:

- (a) (ii) only

- (b) (i) & (ii) only
- (c) (ii) & (iii) only
- (d) All of the above

10. The National Income of a country (India) is equal to which of the following:

- (a) Gross National Product (GNP)
- (b) Net National Product at Market Prices
- (c) Net National Product at Factor Cost
- (d) Income going to the household sector

11. Consider the following statements:

- (i) Net Factor Income from Abroad is equivalent to net of exports & imports
- (ii) If government changes indirect taxes then it will impact GDP (at constant prices) growth rate calculation
- (iii) Net of Indirect taxes and subsidies are included in the calculation of national income

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (iii) only
- (c) (ii) & (iii) only
- (d) All of the above

12. Which of the following constitutes investment in the economy:

- (i) Production of consumption goods
- (ii) Production of capital goods
- (iii) Production of services

(iv) Buying and selling of shares

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (ii) only
- (c) (ii) & (iv) only
- (d) All of the above

13. Consider the following statements in an economy:

- (i) Decrease in consumption expenditure may lead to increase in capital accumulation
- (ii) Increase in savings may lead to increase in capital accumulation
- (iii) Increase in savings leads to future economic growth
- (iv) Forgone present consumption leads to increased future consumption

Select the correct answer using the code given below:

- (a) (ii) only
- (b) (ii) & (iii) only
- (c) (i), (ii) & (iii) only
- (d) All of the above

14. The decrease in dependency ratio (ratio of dependent population to working age population) of a country may lead to which of the following situation:

- (i) Increase in savings rate
- (ii) Decrease in savings rate
- (iii) Increase in Capital Formation
- (iv) Decrease in Capital Formation

Select the correct answer using the code given below:

- (a) (i) & (iii) only
- (b) (ii) & (iv) only
- (c) (i) & (iv) only
- (d) (ii) & (iii) only

15. Consider the following statements regarding Incremental Capital Output Ratio (ICOR):

- (i) It shows how efficiently capital is being used to produce output
- (ii) It is the extra unit of capital required to produce one additional unit of output
- (iii) It is the extra unit of output produced from one additional unit of capital
- (iv) It is the ratio of change in capital to change in output

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii) only
- (c) (i), (ii) & (iv) only
- (d) (i), (iii) & (iv) only

16. Capital formation in a country will necessarily lead to which of the following:

- (i) Increase in ICOR
- (ii) Decrease in ICOR
- (iii) Economic growth

Select the correct answer using the code given below:

- (a) (i) & (iii) only
- (b) (ii) & (iii) only
- (c) (iii) only
- (d) None of the above

17. Consider the following statements in an economy where the efficiency of capital is decreasing.

- (i) It will lead to decrease in production of goods and services
- (ii) It will have no impact on production of goods and services
- (iii) It will lead to increase in labour productivity

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (iii) only
- (c) (ii) & (iii) only
- (d) All of the above

18. Investment in the economy is decreasing, which of the following will increase:

- (a) GDP
- (b) Rate of growth of GDP
- (c) Inflation
- (d) Imports

19. Economic growth in a country will necessarily have to occur if:

- (a) There is technological progress in the country
- (b) There is population growth in the country
- (c) There is capital formation in the country
- (d) The country's exports are increasing

20. A country is going through a phase of industrialization. Which of the following statements are correct?

- (a) Capital to labour ratio increases
- (b) Productivity of labour increases
- (c) Total factor productivity increases
- (d) All of the above

21. Match the following indices with their publishers:

Index

- | | |
|-------|------------------------|
| (i) | WPI |
| (ii) | CPI combined |
| (iii) | GDP Deflator |
| (iv) | CPI-Industrial Workers |

Published by

- | | |
|----|----------------------------|
| 1. | Labour Bureau |
| 2. | Office of Economic Advisor |
| 3. | CSO |

Select the correct answer using the code given below:

- (a) (i)-2, (ii)- 3, (iii)-3, (iv)-1
- (b) (i)-1, (ii)- 1, (iii)-2, (iv) -1
- (c) (i)-1, (ii)-3, (iii)-3, (iv)-2
- (d) (i)-1, (ii)-2, (iii)-3, (iv)-3

22. Which of the following statements are correct about CPI rural, CPI urban and CPI combined index?

- (i) Price data is collected by NSSO
- (ii) Price data is published by CSO
- (iii) The base year is 2011-12
- (iv) It is released for all India and for states and UTs separately

Select the correct answer using the code given below:

- (a) (ii), (iii) & (iv) only
- (b) (i), (ii) & (iii) only
- (c) (ii) & (iii) only
- (d) All of the above

23. Consider the statements regarding the various inflation indices published in the country:

- (i) Wholesale Price Index (WPI) does not represent the inflation in services
- (ii) Consumer Price Index (CPI) represents the inflation in services also
- (iii) CPI and WPI represent the inflation of imported components also
- (iv) GDP deflator captures the inflation of the goods and services produced domestically

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (i), (ii), (iii) only
- (c) (ii), (iii),(iv) only
- (d) All of the above

24. The WPI index (base year 2004-05 = 100) for May 2014 & May 2015 are 182 and 192 respectively. Consider the following statements:

- (i) Average increase in wholesale prices from May 14 to May 15 is 10%
- (ii) Average increase in wholesale prices from base year to May 15 is 92%
- (iii) Average increase in wholesale prices from May 14 to May 15 is less than 10%
- (iv) Average increase in wholesale prices from May 14 to May 15 is more than 10%

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (ii) & (iii) only
- (c) (ii) & (iv) only
- (d) None of the above

25. Which of the following is a common measure of degree of 'openness of an economy':

- (a) Exports and imports share in world GDP
- (b) Balance of Payments as a percentage of GDP
- (c) Trade balance as a percentage of GDP
- (d) Exports and imports of goods and services as a percentage of GDP

26. In which of the following cases the ratio of global trade to global output (GDP) will decrease:

- (i) Increase in share of agricultural GDP of countries
- (ii) Increase in share of Industrial GDP of countries
- (iii) Increase in share of services GDP of countries
- (iv) Countries becoming richer

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (iii) only
- (c) (iii) & (iv) only
- (d) All of the above

27. The Indian exchange rate system is termed as "managed float" because:

- (a) RBI fixes the exchange rate

- (b) RBI fixes the exchange rate and keeps adjusting depending on the economic situation
- (c) RBI intervenes in the exchange market to prevent volatility
- (d) None of the above

28. A Country has floating (flexible) exchange rate system. Consider the following statements:

- (i) Rise in interest rate in the country may lead to appreciation of its currency
- (ii) Inflation in the country may lead to depreciation of its currency

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

29. If a country has 'Pegged' (fixed but adjustable) exchange rate, then consider the following statements:

- (i) Inflation in the country may make its exports less competitive
- (ii) If the country devalues its currency in proportion to the inflation then its exports may remain competitive

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

30. Consider the following statements regarding purchasing power parity (PPP) exchange rates:

- (i) If two countries have zero rate of inflation, their PPP exchange rates will be constant
- (ii) The prices of goods will be same in both the countries when converted at PPP exchange rate

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

31. Which of the following statements is correct?

- (a) An overvalued currency will boost exports from the country
- (b) An undervalued currency will boost exports from the country
- (c) Overvaluation/ undervaluation of currency does not impact exports
- (d) None of the above

32. The export competitiveness of a country can be best measured through which of the following exchange rates:

- (a) Nominal Exchange Rate
- (b) Real Exchange Rate
- (c) Nominal Effective Exchange Rate
- (d) Real Effective Exchange Rate

33. Consider the following statements regarding securities:

- (i) Bonds are debt securities
- (ii) All debt securities are bonds
- (iii) Shares/Stocks are securities
- (iv) Savings and Fixed deposits are securities

Select the correct answer using the code given below:

- (a) (i) & (iii) only
- (b) (ii) & (iii) only
- (c) (iii) & (iv) only
- (d) (i) & (iv) only

34. Consider the following statements regarding bonds:

- (i) Bond price depends on the market interest rate
- (ii) Bond price increases with increase in market interest rate
- (iii) Bond price decreases with increase in market interest rate
- (iv) Bond prices depend on the profit/loss of the companies issuing the bonds

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (iv) only
- (c) (i) & (iii) only
- (d) (i),(iii) & (iv) only

35. Which of the following investors/agencies can purchase government of India securities?

- (i) Reserve Bank of India
- (ii) Portfolio Investors
- (iii) Financial Institutions
- (iv) Individuals

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (iii) only
- (c) (iii) only
- (d) All of the above

36. Consider the following statements:

- (i) Currencies and coins are fiat money
- (ii) Currencies do not have intrinsic value but coins have
- (iii) Currencies and coins are legal tenders
- (iv) Cheques are legal tenders

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (iii) only
- (c) (iii) & (iv) only
- (d) (ii), (iii) & (iv) only

37. Consider the following statements regarding Monetary Base in India:

- (i) It is the total liability of RBI
- (ii) It is the total liability of Government of India

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

38. Which of the following are part of Monetary Base of an economy:

- (i) Currency notes and coins with the public
- (ii) Vault cash of commercial banks
- (iii) Deposits of commercial banks with RBI
- (iv) Deposits of Government of India with RBI

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii) only
- (c) (iii) & (iv) only
- (d) All of the above

39. Reserve money of the commercial banks includes which of the following:

- (i) Deposits of Public
- (ii) Government securities held by banks
- (iii) Cash held by banks in their vaults
- (iv) Money deposited with RBI

Select the correct answer using the code given below:

- (a) (ii) & (iii) only
- (b) (ii), (iii) & (iv) only
- (c) (iv) only
- (d) All of the above

40. Consider the following statements regarding Cash Reserve Ratio (CRR) kept with RBI by commercial banks:

- (i) It ensures safety to the people's deposits in banks
- (ii) It ensures solvency of banks

- (iii) It increases the cost of funds for the banks
- (iv) Banks earn interest on CRR

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii) only
- (c) (i), (ii) & (iii) only
- (d) All of the above

41. The Scheduled Commercial Banks (SCB) are required to maintain CRR with RBI as per the regulation:

- (a) Reserve Bank of India Act 1934
- (b) The Banking Regulation Act 1949
- (c) Securities Contract (Regulation) 1956
- (d) None of the above

42. Which of the following is not part of money supply in the economy?

- (i) Money lying with the government
- (ii) Deposits of commercial banks with other commercial banks
- (iii) Money lying with the Central bank
- (iv) Deposits of public with commercial banks

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) (i) & (ii) only
- (d) (i), (ii) & (iii) only

43. Money can be created in the economy in which of the following ways:

- (i) Fractional reserve banking
- (ii) Full reserve banking

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

44. Consider the following statements regarding Money Multiplier:

- (i) It increases with increase in reserve requirements of banks
- (ii) It decreases with increase in reserve requirements of banks
- (iii) It increases with Monetary Base
- (iv) It decreases with Monetary Base

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (ii) only
- (c) (ii) & (iii) only
- (d) (ii) & (iv) only

45. How many times RBI reviews the Monetary Policy in a Financial Year?

- (a) Quarterly
- (b) Quarterly and Mid Quarterly
- (c) Bimonthly

- (d) Six Monthly

46. As per the new Monetary Policy Framework signed between Govt. of India and RBI, the primary objective of monetary policy is:

- (a) Price Stability
- (b) Economic Growth
- (c) Financial Stability
- (d) All of the above

47. RBI is using which of the following inflation indices as anchors for "Inflation Targeting":

- (a) WPI
- (b) GDP Deflator
- (c) CPI combined
- (d) CPI-Industrial Workers

48. Consider the following statements regarding the new 'Monetary Policy Framework' signed between Govt. of India and Reserve Bank of India:

- (i) The primary objective of Monetary Policy is price stability
- (ii) There is a flexible target for inflation that RBI needs to achieve
- (iii) Monetary Policy Framework is operated by RBI
- (iv) If RBI fails to achieve the target, it needs to submit report to the Govt. of India stating reasons of failure

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (iii) only
- (c) (i), (ii) & (iv) only

(d) All of the above

49. As per the new Monetary Policy Framework, who will determine the inflation target?

- (a) Government of India (GoI)
- (b) Reserve Bank of India (RBI)
- (c) GoI in consultation with RBI
- (d) Monetary Policy Committee

50. Consider the following statements regarding the "Monetary Policy Committee (MPC)":

- (i) MPC will decide the Inflation Target
- (ii) MPC will decide the Repo Rate
- (iii) MPC will have 6 members
- (iv) RBI governor will have a casting vote

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (i) & (iii) only
- (c) (ii), & (iii) only
- (d) (ii), (iii) & (iv) only

51. Which of the following are true regarding the monetary policy followed by RBI in the recent past.

- (i) Accommodative
- (ii) Dovish
- (iii) Easy monetary policy
- (iv) Contractionary

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (ii) & (iii) only

(c) (i), (ii) & (iii) only

(d) All of the above

52. Consider the following statements:

- (i) Open Market Operation is a monetary policy tool
- (ii) Open Market Operations take place in secondary market
- (iii) Sterilization is a Market Stabilization Scheme
- (iv) Sterilization is a day to day phenomenon

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (i) & (iv) only
- (c) (ii) & (iv) only
- (d) (i), (ii), (iii) only

53. Consider the following statements regarding Open Market Operations:

- (i) It is conducted by Commercial Banks
- (ii) It is conducted by RBI
- (iii) It is about debt securities
- (iv) It is about equity securities

Select the correct answer using the code given below:

- (a) (ii) only
- (b) (ii) & (iii) only
- (c) (ii), (iii) & (iv) only
- (d) All of the above

54. Consider the following statements regarding 'Open Market Operations'

- (i) It results in an increase or decrease in Monetary Base

- (ii) It results in an increase or decrease of Money Supply
- (iii) It is managed by RBI but securities are bought and sold by commercial banks & not RBI
- (iv) Securities are bought and sold by RBI

Select the correct answer using the code given below:

- (a) (ii) & (iii) only
- (b) (ii) & (iv) only
- (c) (i), (ii) & (iv) only
- (d) All of the above

55. Which of the following rates is used by RBI as the penal rate in case banks are not meeting their reserve requirements?

- (a) Bank Rate
- (b) Discount Rate
- (c) Marginal Standing Facility Rate
- (d) Weighted Average of Retail and Wholesale inflation

56. Which of the following agencies conducts 'inflation expectation survey' of households in India?

- (a) Central Statistical Organization
- (b) National Sample Survey Organization
- (c) Reserve Bank of India
- (d) Ministry of Finance

57. RBI is keeping the policy rate at a higher level for quite some time. Which of the following conditions may have led to such behavior?

- (i) Inflation in the economy is high
- (ii) Inflation expectation in the economy is high

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

58. Foreign Direct Investment (FDI) in India can happen by which of the following ways:

- (i) Subsidiary
- (ii) Joint Venture
- (iii) Acquisition of shares
- (iv) Purchase of government securities

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (ii) & (iii) only
- (c) (i), (ii) & (iii) only
- (d) All of the above

59. Consider the following statements regarding Foreign Direct Investment (FDI):

- (i) FDI investment may happen through secondary market
- (ii) FDI investment is possible through both primary & secondary market
- (iii) FDI investment is about equity securities
- (iv) FDI investment is about debt securities

Select the correct answer using the code given below:

- (a) (i) only

- (b) (ii) & (iii) only
- (c) (iii) only
- (d) (ii) & (iv) only

60. Consider the following statements regarding Foreign Portfolio Investors (FPI/FII):

- (i) FPI is mainly into primary market
- (ii) FPI investment may happen through primary market
- (iii) FPI investment happens only in equity shares
- (iv) FPI investment happens only in debt securities

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) (ii) & (iii) only
- (d) None of the above

61. Consider the following statements:

- (i) Foreign Portfolio investments are more volatile than FDI
- (ii) FDI investors can easily sell their holdings and quit the market
- (iii) Foreign Portfolio investment is sector specific
- (iv) FDI investment in general target the capital market

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (iii) only
- (c) (iii) & (iv) only
- (d) (iv) only

62. The Real Rate of Interest is equal to the Nominal Interest Rate minus inflation. Consider the following statements:

- (i) Real Interest Rate must be positive to encourage savings and reduce consumption
- (ii) Real Interest Rate must be negative to encourage savings and reduce consumption
- (iii) Nominal interest rate in the market may be negative
- (iv) Inflation rate in the market may be negative

Select the correct answer using the code given below:

- (a) (i) only
- (b) (iii) only
- (c) (i) & (iii) only
- (d) (i) & (iv) only

63. Which of the following factors may lead to increase in savings in the economy?

- (i) Positive real interest rate
- (ii) Low inflation rate
- (iii) Rise in per capita income
- (iv) Growth of financial intermediaries

Select the correct answer using the code given below:

- (a) (iii) only
- (b) (iii) & (iv) only
- (c) (ii) & (iii) only
- (d) All of the above

64. The people of a country are willing to deposit/ save money in the

commercial banks. This behavior in the economy may be caused due to:

- (a) Higher inflation rate
- (b) Higher nominal interest rate
- (c) Higher real interest rate
- (d) Higher money supply

65. If an economy is in “Liquidity Trap”, then which of the following statements shall be true:

- (i) The interest rate in the market will be very low/zero
- (ii) People and businesses both will hold on to their cash and don't spend
- (iii) People will be willing to spend
- (iv) Cash holdings of banks will rise

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii) only
- (c) (i), (ii) & (iv) only
- (d) (i) & (iv) only

66. Consider the following statements:

- (i) Inflation benefits creditors
- (ii) Inflation benefits debtors
- (iii) Inflation benefits bondholders
- (iv) Inflation benefits depositors

Select the correct answer using the code given below:

- (a) (i) & (iii) only
- (b) (ii) only
- (c) (iii) only
- (d) (i), (iii) & (iv) only

67. Consider the following statements regarding Base Rate:

- (i) It is the minimum rate below which banks cannot lend
- (ii) It is decided by the RBI
- (iii) It is decided by the respective banks
- (iv) It is same for all the banks

Select the correct answer using the code given below:

- (a) (i), (ii) & (iv) only
- (b) (i) & (iii) only
- (c) (i), (iii) & (iv) only
- (d) (ii) & (iv) only

68. The decrease in Cash Reserve Ratio (CRR) requirement by RBI will impact the Base Rate of banks in which of the following manner:

- (a) It may lead to increase in Base Rate
- (b) It may lead to decrease in Base Rate
- (c) It may lead to increase or decrease in Base Rate
- (d) It will have no impact on Base Rate

69. As per the new methodology, the lending rate is calculated by the banks based on:

- (a) Average Cost of Funds
- (b) Marginal Cost of Funds
- (c) Repo Rate
- (d) Inflation Rate

70. Which of the following statements are true regarding the Marginal

Cost of Funds based Lending Rate (MCLR):

- (i) All the new loans w.e.f April 2016 must be priced with reference to MCLR
- (ii) Banks will do lending at or above MCLR
- (iii) Banks shall review the MCLR every month
- (iv) MCLR will help in better transmission of policy rate into lending rate

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii)
- (c) (ii), (iii) & (iv)
- (d) All of the above

71. "Government offers above market interest rate on the small savings schemes like PPF etc.". It leads to:

- (i) Hindrance in monetary policy transmission
- (ii) Supports monetary policy transmission
- (iii) Mostly benefits the rich people
- (iv) Mostly benefits the poor people

Select the correct answer using the code given below:

- (a) (i) & (iii) only
- (b) (i) & (iv) only
- (c) (ii) & (iii) only
- (d) (ii) & (iv) only

72. Consider the following two statements:

- (i) Headline inflation measures price inflation arising due to all types of commodities in the economy
- (ii) Core inflation measures the headline inflation excluding volatile components i.e. food and fuel items

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

73. If a country is experiencing inflation then what must decrease:

- (a) Wage level
- (b) The output of goods and services
- (c) The amount of money needed to purchase a given quantity of goods and services
- (d) Purchasing Power

74. The rise in prices of goods and services in an economy may be caused due to:

- (i) Increase in money supply
- (ii) Increase in government expenditure
- (iii) RBI purchasing government securities from the public
- (iv) Implementation of the 7th Pay Commission

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (i), (ii) & (iii) only
- (c) (i), (ii), & (iv) only

(d) All of the above

75. To reduce the rate of inflation, the Government should:

- (a) Increase public expenditure
- (b) Encourage consumer expenditure
- (c) Increase Income tax
- (d) Reduce Interest Rate

76. If a country's economy is experiencing positive real growth rate, then which of the statements may be true:

- (i) Money needs to be pumped in the economy to keep the deflation away
- (ii) Money needs to be sucked from the economy to keep the inflation away

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

77. The amount of Money Supply in the economy affects the following macroeconomic variables:

- (a) Rate of Interest
- (b) Price level
- (c) Output
- (d) All of the above

78. If the supply of money is increased in the economy, then which of the following statements are true:

- (a) It will lead to increase in interest rates
- (b) It will lead to decrease in interest rates
- (c) It will necessarily lead to economic growth
- (d) None of the above

79. Which of the following scenarios can support sustainable economic growth:

- (i) Deflation
- (ii) Low and moderate inflation
- (iii) Galloping inflation
- (iv) Hyperinflation

Select the correct answer using the code given below:

- (a) (ii) only
- (b) (i) & (ii) only
- (c) (ii) & (iii) only
- (d) All of the above

80. 'Stagflation' occurs in which of the following situation:

- (a) Demand pull inflation
- (b) Cost push inflation

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

81. Consider the following statements:

- (i) High output leads to high unemployment

- (ii) High unemployment leads to high inflation

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

82. Consider the following statements:

- (i) Disinflation is declining rate of inflation but the rate of inflation remains positive
- (ii) Deflation is general decrease in price level and the inflation rate is negative

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

83. If the economy is experiencing disinflation, then which of the following statements will be correct:

- (i) Nominal GDP > Real GDP
- (ii) Real GDP > Nominal GDP

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) None of the above
- (d) Can't be answered

84. Consider the following statements regarding an economy facing deflation:

- (i) Companies defer their investments
- (ii) People defer their expenditures
- (iii) Demand decreases
- (iv) Unemployment increases

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (iii) only
- (c) (iii) & (iv) only
- (d) All of the above

85. Which of the following constitute Capital Account in Balance of Payment (BoP)?

- (i) Global Depository Receipts (GDRs)
- (ii) Trade Credit
- (iii) Government securities purchased by foreign Investors
- (iv) Securities purchased by foreign portfolio investors

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (iii) & (iv) only
- (c) All of the above
- (d) None of the above

86. Which of the following statements will be considered as part of 'Transfer Payments' in balance of payment?

- (i) Money sent by an NRI to his friend in India
- (ii) Money sent by an Indian employee who has gone abroad temporarily

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

87. The Current Account Deficit in Balance of Payment can be financed through:

- (i) Net capital inflow
- (ii) Foreign exchange reserve transaction

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) None of the above

88. The visit of foreigners in India to see the various places/events in the country, amounts to which of the following in terms of economy:

- (a) Production
- (b) Consumption
- (c) Import
- (d) Export

89. Consider the following statements:

- (i) Capital Account convertibility is related to the government's Capital Budget
- (ii) India has full capital account convertibility
- (iii) Current Account convertibility is related to governments current year domestic transactions
- (iv) India has partial current account convertibility

Select the correct answer using the code given below:

- (a) (i) & (iii) only
- (b) (i), (ii) & (iii) only
- (c) (i), (iii) & (iv) only
- (d) None of the above

90. Which of the following functions are part of the Reserve Bank of India (RBI) acting as Banker to Banks.

- (i) Enabling banks to maintain their accounts with RBI for statutory reserve requirements
- (ii) Enabling settlement of interbank transfer of funds
- (iii) RBI provides short term loans and advances to banks
- (iv) Acting as lender of last resort

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii) only
- (c) (i), (ii) & (iii) only
- (d) All of the above

91. RBI acts as a 'lender of last resort' (extends loans to banks facing temporary liquidity problems) to

ensure the following in the economy:

- (i) To prevent possible failure of the banks
- (ii) To protect the interest of the depositors of the banks
- (iii) To ensure financial stability in the economy

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii) only
- (c) (i) & (iii) only
- (d) All of the above

92. Which of the following functions are part of the Reserve Bank of India (RBI) acting as Banker to Central Government.

- (i) RBI maintains the account for the various central government funds like Consolidated Fund of India, Contingency Fund and Public Account of India
- (ii) RBI acts as advisor to the government on monetary and banking related matters
- (iii) RBI provides Ways and Means Advances to the government
- (iv) RBI floats loans and manages them on behalf of the government

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (ii) & (iii) only
- (c) (i), (ii) & (iii) only
- (d) All of the above

93. Consider the following statements regarding RBI:

- (i) RBI regulates interest rates on savings & Time deposits in commercial banks
- (ii) RBI regulates "Money Market"

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both of the above
- (d) None of the above

94. The Reserve Bank of India regulates the commercial banks in the following matters:

- (i) Advances to priority sectors
- (ii) Maintenance of reserves
- (iii) Branch Expansion
- (iv) Provisioning against NPAs

Select the correct answer using the code given below:

- (a) (ii) & (iii) only
- (b) (i), (ii) & (iii) only
- (c) (ii), (iii) & (iv) only
- (d) All of the above

95. Mergers and Acquisitions of commercial banks requires approval of which of the following agency/ies ?

- (i) Reserve Bank of India (RBI)
- (ii) Competition Commission of India (CCI)

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

96. Which of the following are characteristic situation for 'Bank Run'?

- (i) Customers withdraw their deposits fearing that banks will run out of reserves
- (ii) Banks are in risk of default
- (iii) Central Bank acts as lender of last resort

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii) only
- (c) (iii) only
- (d) All of the above

97. Consider the following statements regarding Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAES) Act 2002:

- (i) It allows only RBI to classify any asset as non performing
- (ii) It allows RBI or any other authority or body as applicable to classify any asset as non performing
- (iii) It allows the banks and financial institutions to sell the security once it becomes non performing
- (iv) It allows the banks and financial institutions to sell the security in

case of secured and unsecured debt

Select the correct answer using the code given below:

- (a) (i) & (iv) only
- (b) (ii) & (iv) only
- (c) (ii) & (iii) only
- (d) (ii), (iii) & (iv) only

98. NABARD provides refinance to which of the following types of financial institutions:

- (i) Commercial Banks
- (ii) Regional Rural Banks
- (iii) State Cooperative Banks & Land Development Banks
- (iv) Non Banking Financial Companies

Select the correct answer using the code given below:

- (a) (ii) only
- (b) (ii) & (iii) only
- (c) (i), (ii) & (iii) only
- (d) All of the above

99. Which of the following statements are correct regarding "Rural Cooperative Banks":

- (i) They are regulated by NABARD
- (ii) They are supervised by NABARD

Select the correct answer using the code given below:

- (a) only (i)
- (b) only (ii)
- (c) Both (i) & (ii)

(d) Neither (i) nor (ii)

100. Which of the following statements are correct regarding "Regional Rural Banks (RRBs)":

- (i) They are regulated by RBI
- (ii) They are supervised by NABARD

Select the correct answer using the code given below:

- (a) only (i)
- (b) only (ii)
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

101. The central government is recapitalizing the Public Sector Banks to achieve the following:

- (i) To meet Basel III norms
- (ii) To increase the capital adequacy ratio
- (iii) To improve the bank's balance sheet and prevent them from going bankrupt
- (iv) To increase the money supply in the system

Select the correct answer using the code given below:

- (a) (i) & (ii)
- (b) (i), (ii) & (iii) only
- (c) (i) & (iii) only
- (d) (iii) & (iv) only

102. Consider the following statements regarding "Sovereign Gold Bonds" scheme launched recently:

- (i) These are government securities denominated in grams of gold
- (ii) Issued by RBI on behalf of Govt. of India
- (iii) Investors will receive fixed interest rate
- (iv) If the market price of gold declines, investors will be protected against capital loss

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (ii) & (iii) only
- (c) (i), (ii) & (iii) only
- (d) All of the above

103. Which of the following are components of India's Foreign Exchange Reserves?

- (i) SDR: Special Drawing Rights
- (ii) FCA: Foreign Currency Assets
- (iii) RTP: Reserve Tranche Position
- (iv) Gold

Select the correct answer using the code given below:

- (a) (ii) only
- (b) (ii) & (iv) only
- (c) (i), (ii) & (iv) only
- (d) All of the above

104. Consider the following statements regarding the transactions happening at the international level for trade and financial flows.

- (i) There is an international authority with the power to force the use of a particular currency

- (ii) There is a basket of currencies which can only be used to settle international transactions
- (iii) Currencies which maintain a stable purchasing power are generally accepted
- (iv) Freely convertible currencies are generally accepted

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) & (iv) only
- (c) (iii) & (iv) only
- (d) (ii), (iii) & (iv) only

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105. Prime Minister, on 8th of Nov 2016, declared that the existing Rs. 500 and Rs. 1000 notes will not be legal tender. This was done under which of the following Act.

- (a) RBI Act 1934
- (b) Banking regulation Act 1949
- (c) Payment and Settlement Systems Act 2007
- (d) Does not require any statutory backing

106. "Demonetization" of Rs. 500 and Rs. 1000 currency notes has resulted in which of the following:

- (a) Decrease in liquidity in the economy
- (b) Reduction in money supply
- (c) Decrease in market interest rates
- (d) All of the above

107. In the short run "Demonetization" has resulted in which of the following:

- (i) Aggregate demand shock
- (ii) Aggregate supply shock
- (iii) Reduction in discretionary consumption expenditure
- (iv) Uncertainty regarding investment plans

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (i) & (iii) only
- (c) (ii) & (iii) only
- (d) All of the above

108. Consider the following statements regarding the "Benami Transactions Act 2016":

- (i) A transaction where a property is held by a person, but has been paid by another person is called a benami transaction
- (ii) Unaccounted cash deposited in others' account is benami transaction
- (iii) Property transactions among the family members is not benami transaction

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii) only
- (c) (ii) & (iii) only
- (d) All of the above

109. Consider the following statements:

- (i) Bank notes are legal tenders
- (ii) Bank notes are unlimited legal tenders
- (iii) Bank notes are guaranteed by the Central Government
- (iv) Bank notes are guaranteed by the RBI

Select the correct answer using the code given below:

- (a) (i) & (iii) only
- (b) (i) & (iv) only
- (c) (i), (ii) & (iii) only
- (d) (ii) & (iv) only

110. Who is the final authority in approving the design, form and material of bank notes:

- (a) Governor of RBI
- (b) Central Board of RBI
- (c) Central Government
- (d) Governor of RBI in consultation with Central Government

111. Which agency has the authority to declare that certain bank notes cease to be legal tender:

- (a) RBI governor
- (b) RBI Central Board
- (c) Central Government
- (d) Central Government on the recommendation of RBI Central Board

112. Which of the following could be the after effects of demonetization:

- (i) RBI's liability would reduce to the extent the old notes does not come to the banking system
- (ii) transfer of wealth from holders of illicit black money to the public sector
- (iii) Shift of resources from the private sector to the government
- (iv) Indirect and corporate taxes would decline to the extent growth slows

Select the correct answer using the code given below:

- (a) (i) & (iii) only
- (b) (i), (ii) & (iii) only
- (c) (ii), (iii) & (iv) only
- (d) All of the above

113. The amount of currency notes that RBI needs to print in a particular year will depend on which of the following:

- (i) Projected GDP growth
- (ii) Electronic transactions in the economy

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

114. Consider the following statements regarding "Immediate Payment Service (IMPS)":

- (i) It is provided by National Payments Corporation of India
- (ii) It offers an instant, 24X7, interbank electronic fund transfer
- (iii) It offers services through mobile phones also

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (ii) only
- (c) (i) & (iii) only
- (d) All of the above

115. Consider the following statements regarding "Merchant Discount Rate (MDR)":

- (a) It is the discount given to the customers for doing online transactions

- (b) It is the discount given to the merchants for doing online transactions
- (c) It is a charge to the merchant by a bank for accepting payment through debit and credit cards
- (d) It is a fixed charge per transaction

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116. Which of the following figures are presented as part of the Budget presentation in Parliament?

- (i) Budgeted receipts and expenses for the next Financial Year (FY)
- (ii) Budgeted receipts and expenses for the current FY
- (iii) Revised receipts and expenses for the current FY
- (iv) Actual receipts and expenses for the last FY

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii) only
- (c) (i), (ii), & (iii) only
- (d) All of the above

117. Consider the following statements regarding presentation of Budget in the Parliament:

- (i) Finance Bill is introduced on the very first day when the Finance Minister presents Budget in the Parliament
- (ii) Appropriation Bill is introduced after the voting on demand for grants is over

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

118. In case the Union Budget is not approved by 1st April, then which of

the following options is most appropriate:

- (a) The Constitution empowers Lok Sabha to grant a "Vote-on-Account"
- (b) The government can still withdraw money from the "Consolidated Fund of India"
- (c) An Interim Budget needs to be passed
- (d) The government can take internal and/or external debt to meet its fund requirement

119. Consider the following statements regarding 'Contingency Fund of India'

- (i) The fund is at the disposal of the president of India
- (ii) The fund is at the disposal of the Prime Minister of India
- (iii) The funds spent shall ultimately be approved by the parliament
- (iv) The funds spent are recouped from the Consolidated Fund of India

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) & (iv) only
- (c) (i), (iii) & (iv)
- (d) (i) & (iv)

120. Consider the following statements regarding the Budget prepared by Government of India:

- (i) It is a constitutional obligation that the budget shall be divided into i.e. receipts and expenditure
- (ii) It is a constitutional obligation that the budget shall be divided into revenue budget and capital budget

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

121. With respect to the Budget of the Central Government, Capital Receipts are those receipts which either:

- (i) Create a liability for the government
- (ii) Causes reduction in assets of the government

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Either (i) or (ii)

122. The Grants-in-aid given by the Central Government to the State Governments and local bodies for creation of capital assets are classified in the Union budget under?

- (a) Revenue expenditure
- (b) Capital Expenditure

- (c) Both Revenue and Capital expenditure
- (d) None of the above

123. Which of the following are Non Tax Receipts of the Central Government?

- (i) Issue of Passport and Visa
- (ii) Registration of Companies
- (iii) Royalty from on shore oilfields
- (iv) Royalty from offshore oilfields

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i), (ii) & (iii) only
- (c) (i), (ii) & (iv) only
- (d) All of the above

124. Which of the following are Non-debt capital receipts of Govt. of India

- (i) Disinvestment
- (ii) Recovery of loans
- (iii) Public Account receipts
- (iv) Treasury Bills

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii) only
- (c) (iii) & (iv) only
- (d) (i), (ii) & (iii) only

125. Tax revenue collection in the economy mainly depends on which of the following:

- (i) Nominal GDP
- (ii) Real GDP

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

126. “Tax Buoyancy” in the economy is defined as:

- (i) Ratio of percentage change in tax revenue to percentage change in GDP
- (ii) Ratio of change in tax revenue to change in GDP
- (iii) Percentage increase in tax revenues as measured from previous year
- (iv) Incremental change in tax revenues required to increase the GDP by one percent

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii) only
- (c) (iii) only
- (d) (ii) & (iv) only

127. The money accruing from the sale of “National Savings Certificates” goes to which account of the Government of India?

- (a) Consolidated Fund of India
- (b) Prime Minister National Relief Fund
- (c) Public Account of India
- (d) Contingency Fund of India

128. Which of the following receipts goes to Public Account of India:

- (i) Post Office Savings Account
- (ii) Kisan Vikas Patra
- (iii) Sukanya Samridhi Account
- (iv) Public Provident Fund

Select the correct answer using the code given below:

- (a) (i) & (iv) only
- (b) (ii) & (iii) only
- (c) (ii), (iii) & (iv)
- (d) All of the above

129. The Public Debt of Government of India includes which of the following:

- (i) Treasury Bills
- (ii) External Commercial Borrowing (ECB)
- (iii) NRI deposits
- (iv) Foreign Direct Investment in India (FDI)

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (iii) only
- (c) (i), (ii) & (iii) only
- (d) (ii) & (iv) only

130. Which of the following are part of India’s External Debt?

- (i) External Commercial Borrowing (ECB)
- (ii) NRI Deposits
- (iii) Investments made by Portfolio Investors in debt securities

- (iv) Portfolio Investors purchasing government securities

Select the correct answer using the code given below:

- (a) (i) only
- (b) (iv) only
- (c) (i), (iii) & (iv) only
- (d) All of the above

131. Fiscal Deficit is equal to:

- (i) Total expenditure minus total receipts
- (ii) Total expenditure minus total receipts excluding borrowing
- (iii) Revenue deficit plus capital expenditure minus non debt creating capital receipts
- (iv) Total borrowing

Select the correct answer using the code given below:

- (a) (i) & (iv) only
- (b) (ii) & (iii) only
- (c) (ii), (iii) & (iv) only
- (d) All of the above

132. Fiscal Deficit of the Government of India is equal to which of the following:

- (a) Debt creating capital receipts
- (b) Non Debt capital receipts
- (c) Debt and non debt capital receipts
- (d) Capital receipts less of revenue receipts

133. The fundamental task of Government's budget policy is to preserve fiscal sustainability. The

various parameters which signify fiscal sustainability are:

- (i) Fiscal Deficit
- (ii) Revenue Deficit
- (iii) Primary Deficit
- (iv) Debt-to-GDP ratio

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i), (ii) & (iii) only
- (c) (i) & (iv) only
- (d) All of the above

134. Consider the following statements regarding the government's fiscal deficit:

- (i) It may be inflationary
- (ii) It may not be inflationary
- (iii) It raises aggregate demand

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) (i) & (iii) only
- (d) All of the above

135. Consider the following statements regarding FRBM Act 2003

- (i) It is applicable to Centre and State both
- (ii) It prohibits government borrowing from RBI except in few cases
- (iii) It prohibits RBI from subscribing to primary issues of central government securities

- (iv) It ensures transparency in fiscal operations

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) & (iii) only
- (c) (ii), (iii) & (iv) only
- (d) All of the above

136. Which of the following statement is not true regarding "Outcome Budget":

- (a) It is not presented in parliament
- (b) It measures development outcomes of govt. programmes
- (c) It helps in better service delivery
- (d) It reduces unnecessary expenses

137. Consider the following statements regarding 'Fiscal Consolidation' policy:

- (i) It is an effort by the government to bring down fiscal deficit
- (ii) It is an effort to reduce public debt
- (iii) It is an effort to reduce current account deficit
- (iv) It is an effort to raise revenues and bring down wasteful expenses

Select the correct answer using the code given below:

- (a) (i), (ii) & (iii) only
- (b) (i), (ii) & (iv) only
- (c) (iv) only
- (d) All of the above

138. Consider the following statements regarding Central Sales Tax (CST)

- (i) It is an origin based tax
- (ii) It is levied by the Centre
- (iii) It is administered by the Centre
- (iv) It is administered by the State

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (i) & (iv) only
- (c) (i), (ii) & (iv) only
- (d) (ii) & (iv) only

139. Consider the following statements regarding Value Added Tax (VAT):

- (i) VAT is consumption based tax
- (ii) VAT is destination based tax

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

140. Consider the following statements regarding the present taxation system in India

- (i) Service Tax is imposed by Centre only
- (ii) VAT is imposed by states/UTs only

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only

- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

141. Consider the following statements regarding Minimum Alternate Tax (MAT) in India:

- (i) Applicable to companies and individuals both
- (ii) MAT will be included in GST once implemented
- (iii) The companies are required to pay both MAT and Corporate Income Tax
- (iv) It was introduced as companies, in spite of having high book profit, were able to reduce their taxable income

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (i) & (iii) only
- (c) (iv) only
- (d) (i), (ii) & (iii) only

142. A product is manufactured in State A and sold in State B. Which of the following taxes it will attract?

- (i) VAT
- (ii) Central Sales Tax (CST)
- (iii) Excise Duty
- (iv) Customs Duty

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (iv) only
- (c) (ii) & (iii) only
- (d) (i), (ii) & (iii) only

143. Which of the following taxes are direct in nature:

- (i) Land Revenue
- (ii) Property Tax
- (iii) Stamp Duty
- (iv) Service Tax

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii) only
- (c) (i), (ii) & (iii) only
- (d) (iii) & (iv) only

144. Match the following type of taxes and examples:

- (i) Progressive Tax
- (ii) Proportional Tax
- (iii) Regressive Tax

- 1. Personal Income Tax
- 2. Goods and Services Tax
- 3. Corporate Income Tax

Select the correct answer using the code given below:

- (a) (i) - 1, (ii) - 2, (iii) - 3
- (b) (i) - 1, (ii) - 3, (iii) - 2
- (c) (i) - 2, (ii) - 1, (iii) - 3
- (d) (i) - 2, (ii) - 3, (iii) - 1

145. Which of the following taxes are regressive in nature?

- (i) Income Tax
- (ii) Sales Tax
- (iii) Goods & Services Tax (GST)
- (iv) Value Added Tax (VAT)

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) (i) & (ii) only
- (d) (ii), (iii) & (iv) only

146. Consider the following statements regarding Goods and Services Tax (GST):

- (i) GST is a value added tax
- (ii) GST is a multipoint destination based tax

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

147. Consider the following statements regarding Goods and Services Tax (GST):

- (i) Taxes need to be paid at each point in the value chain
- (ii) It will have input tax credit mechanism
- (iii) It is a transaction tax
- (iv) The total taxes will be passed on to the consumers

Select the correct answer using the code given below:

- (a) (i) & (iii) only
- (b) (i), (ii) & (iii) only
- (c) (iii) & (iv) only
- (d) All of the above

148. What does "Revenue Neutral Tax Rate" means in reference to the Goods and Services Tax":

- (a) The rate at which tax revenues for States and Centre will remain the same as before GST
- (b) The tax rate will be same for the Centre and State
- (c) The tax rate at which Central and States revenues will be same
- (d) All of the above

149. Which of the following taxes are part of the central "divisible pool".

- (i) Corporate Income Tax
- (ii) Service Tax
- (iii) Cess
- (iv) Surcharge

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii) only
- (c) (iii) & (iv) only
- (d) All of the above

150. Which of the following is not a parameter for horizontal distribution of central tax proceeds within the states as per the Fourteenth Finance Commission report?

- (a) Population & Demographic change
- (b) Fiscal Discipline
- (c) Area & Forest Cover
- (d) Income Distance

151. The Macroeconomic Vulnerability Index (MVI) of a country is

constructed by adding together which of the following:

- (i) Fiscal Deficit
- (ii) Current Account Deficit
- (iii) External Debt
- (iv) Inflation

Select the correct answer using the code given below:

- (a) (i), (iii) & (iv) only
- (b) (i), (ii) & (iv) only
- (c) (ii) & (iii) only
- (d) All of the above

152. The term ‘Crowd-out’ in economy is related to which of the following:

- (i) Increased public sector spending replaces private sector spending
- (ii) Government deficit spending through borrowed money increases interest rates
- (iii) Government spending uses up financial resources that would otherwise be used by private firms
- (iv) Government providing a service or good that would otherwise be a business opportunity for private industry

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii) only
- (c) (ii) & (iii) only
- (d) All of the above

153. The term ‘Crowd-in’ in the economy is related to which of the following?

- (i) Targeted government spending acts as an engine of growth in the short run
- (ii) Government spending complements the private investment
- (iii) Government substitutes the private investment
- (iv) Government spending boosts demand for goods which in turn increases private demand

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (i) & (iii) only
- (c) (i), (ii) & (iv) only
- (d) (i), (iii) & (iv) only

154. Consider the following statements regarding “Inverted Duty Structure”:

- (i) It makes domestic manufactured goods less competitive against finished product imports in the domestic market.
- (ii) Finished goods are taxed at higher rate than the raw materials
- (iii) Raw materials are taxed at higher rate than the finished products
- (iv) The duty in the “Inverted Duty Structure” is Customs Duty

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (i) & (iii) only
- (c) (i) & (iv) only
- (d) (i), (iii) & (iv) only

155. Consider the following statements:

- (i) Insurance penetration is measured as the percentage of insurance premium to GDP
- (ii) Insurance density is measured as the ratio of premium (in US dollar) to total population

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) (i) & (ii) both
- (d) Neither (i) nor (ii)

156. If a factory is running at peak production with certain number of labourers then the marginal productivity of labour will be:

- (a) Positive
- (b) Negative
- (c) Zero
- (d) One

157. Which of the following statements are true regarding 'Terms of trade' (ToT) of a country with another country:

- (i) It is ratio of export price index to import price index
- (ii) It is a ratio of value of exports to value of imports
- (iii) It is a measure of how much imports a country can get for a unit of exported goods
- (iv) ToT increases with increase in price of exported goods

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) & (iv)
- (c) (i), (iii) & (iv) only
- (d) (ii), (iii) & (iv) only

158. Which of the following are Consistent/ compliant with WTO trade rules:

- (i) Anti-Dumping Duty
- (ii) Safeguard measures
- (iii) Countervailing Duty

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii) only
- (c) (i) & (iii) only
- (d) All of the above

159. Unemployment rate is defined as:

- (a) Number of people not in job as a ratio of total population
- (b) Number of people not in job as a ratio of labour force
- (c) Number of people not in job but actively looking for job as a ratio of labour force
- (d) Number of people not in job but actively looking for job as a ratio of total population

160. The unemployment caused due to the workers living far from the regions and are unable to move to the locations where jobs are available is an example of:

- (a) Cyclical
- (b) Frictional
- (c) Structural
- (d) Disguised

161. The unemployment caused due to the workers lacking the requisite job skills is an example of:

- (a) Cyclical
- (b) Structural
- (c) Frictional
- (d) Disguised

162. In a country, jobs are available but still people are unemployed as there is a serious mismatch between what companies need and what workers can offer. This kind of unemployment is referred as:

- (a) Cyclical
- (b) Structural
- (c) Seasonal
- (d) Frictional

163. A person has left his current job and is looking for another job. He/she is facing which type of unemployment:

- (a) Structural
- (b) Cyclical
- (c) Frictional
- (d) He/ she will not be considered as unemployed

164. In case of disguised unemployment, which of the following will hold true:

- (i) Marginal productivity of capital will be zero
- (ii) Productivity of labour will be less

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

165. Consider the following statements regarding an economy facing cyclical unemployment:

- (i) It may lead to inflation in the economy
- (ii) It may lead to deflation in the economy
- (iii) It can be tackled through expansionary monetary policy
- (iv) It can be tackled through expansionary fiscal policy

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) (i), (iii) & (iv) only
- (d) (ii), (iii) & (iv) only

166. Which of the following are true for underemployment:

- (i) Workers in job that do not utilize their skills
- (ii) Workers in low paying jobs as relative to their skills
- (iii) Part time workers preferring full time jobs
- (iv) Productivity of labour is low

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (i), (ii) & (iii) only
- (c) (ii), (iii) & (iv) only
- (d) All of the above

167. The economy is facing jobless growth, which of the following statements will be true:

- (a) Employment elasticity will decrease
- (b) Productivity of labour will decrease
- (c) Investment in the economy is decreasing
- (d) None of the above

168. In India, the agricultural 'Crop Year' period is from:

- (a) 1st January – 31st December
- (b) 1st April – 31st March
- (c) 1st July – 30th June
- (d) 1st October – 30th September

169. The National Census is conducted by which of the following offices/ agencies:

- (a) Central Statistical Office (CSO)
- (b) National Sample Survey Office (NSSO)
- (c) Registrar General and Census Commissioner, Ministry of Home Affairs
- (d) Census Bureau of India

170. Which of the following issues the "World Development Report" periodically?

- (a) World Bank
- (b) International Monetary Fund
- (c) European Bank for Reconstruction and Development
- (d) Asian Development Bank

171. The "Consumer Confidence Survey" in India is conducted by which of the following:

- (a) Reserve Bank of India
- (b) National Sample Survey Organization (NSSO)
- (c) Department of Consumer Affairs
- (d) Ministry of Labour & Employment

172. Consider the following indices and their publishers and match the columns:

Index

- (i) Ease of doing business Index
- (ii) Human Development Index
- (iii) Global Hunger Index
- (iv) Universal Health Coverage Index

Publisher

- 1. International Food Policy Research Institute
- 2. World Bank
- 3. United Nations Development Programme
- 4. International Monetary Fund

Select the correct answer using the code given below:

- (a) (i)-2, (ii)-3, (iii)-1, (iv)-4
- (b) (i)-4, (ii)-2, (iii)-3, (iv)-1
- (c) (i)-2, (ii)-3, (iii)-1, (iv)-2
- (d) (i)-4, (ii)-3, (iii)-1, (iv)-2

173. The Multidimensional Poverty Index (MPI) identifies multiple deprivations at the household and individual level in the following areas :

- (i) Standard of living

- (ii) Education
- (iii) Health

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii) only
- (c) (i) & (iii) only
- (d) All of the above

174. Which of the following are characteristics of 'Public Goods':

- (i) Shall be provided by the government
- (ii) Cannot be provided through market mechanism
- (iii) Not possible to exclude anyone from using these goods
- (iv) A person can enjoy the benefits of these goods without reducing their availability to others

Select the correct answer using the code given below:

- (a) (i) only
- (b) (iii) & (iv) only
- (c) (ii), (iii) & (iv) only
- (d) All of the above

175. Consider the following statements:

- (i) Minimum Export Price (MEP) is the price below which exports are not permitted
- (ii) MEP is imposed to curb the price rise and prevent disruptions in domestic supply
- (iii) Minimum Import Price (MIP) is the price below which imports are not allowed

- (iv) MIP is imposed to curb imports and protect domestic producers

Select the correct answer using the code given below:

- (a) (i) & (iii) only
- (b) (ii) & (iii) only
- (c) (ii), (iii) & (iv) only
- (d) All of the above

176. Consider the following statements regarding National Investment Infrastructure Fund (NIIF):

- (a) It is a company registered under Company's Act 2013
- (b) It is a trust registered under Indian Trust Act 1882
- (c) It is a cooperative established under Multi-State Cooperative Society Act 2002
- (d) None of the above

177. Central government has regulated (notified MRP) the price of Bt cotton seeds under which of the following acts?

- (a) Essential Commodities Act 1955
- (b) Agricultural Produce Marketing Committee Act enacted by States
- (c) The Prevention of Black Marketing and Maintenance of Supplies of Essential Commodities Act, 1980
- (d) Food Products Order 1956

178. Consider the following statements regarding the "Price Stabilization Fund" launched under Ministry of Agriculture:

- (i) It will promote direct purchase of produce from farmers
- (ii) It will maintain a strategic buffer stock
- (iii) It will protect consumers by supplying commodities at reasonable prices
- (iv) It is a kind of market intervention scheme

Select the correct answer using the code given below:

- (a) (ii) only
- (b) (ii) & (iii) only
- (c) (i), (ii), (iii) only
- (d) All of the above

179. Consider the following statements regarding the "Gold Monetization Scheme":

- (i) It will help in mobilization of gold held by households and institutions
- (ii) It will facilitate the use of gold for productive purpose
- (iii) It will help in reducing import of gold and Current Account Deficit (CAD)
- (iv) Banks will be allowed to lend this gold to jewellers

Select the correct answer using the code given below:

- (a) (i) & (iii) only
- (b) (i), (ii) & (iii) only
- (c) (ii) & (iv) only
- (d) All of the above

180. The names 'Shishu', 'Kishor' and 'Tarun' are related to which of the following recently launched government scheme:

- (a) MUDRA Bank
- (b) Payment Bank
- (c) Rural Infrastructure Development Fund
- (d) Soil Health Cards

181. Consider the following statements regarding the recently launched MUDRA Bank:

- (i) It will provide direct lending to small entrepreneurs
- (ii) MUDRA loans will be available for manufacturing, trading and service activities

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

182. Consider the following statements regarding Payment Banks:

- (i) They accept savings deposits
- (ii) They accept Time Deposits
- (iii) They can lend
- (iv) They cannot lend

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (i) & (iii) only
- (c) (iii) only
- (d) (i) & (iv) only

183. Consider the following statements regarding payment banks:

- (i) They will be set up as differentiated banks
- (ii) They may act as Business Correspondents for other banks
- (iii) They will provide payments / remittance services to migrant

labour workforce and small businesses

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii) only
- (c) (ii) & (iii) only
- (d) All of the above

184. Consider the following statements regarding "Small Finance Banks":

- (i) They will promote savings from unserved sections of the population
- (ii) They will supply credit to small business units, small farmers, micro and small industries and unorganized sector
- (iii) They shall comply with reserve requirements of RBI i.e. CRR & SLR
- (iv) They shall comply with the priority sector lending target

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) & (iv)
- (c) (i), (iii) & (iv)
- (d) All of the above

185. Consider the following statements regarding the "Kisan Vikas Patra" reintroduced by the government in 2014

- (i) It is a savings scheme
- (ii) No maximum limit on investment
- (iii) Only farmers can purchase

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii) only
- (c) (i) & (iii) only
- (d) All of the above

186. Consider the following statements regarding 'Soil Health Card' Scheme of Government of India:

- (i) It aims to provide soil health card to every farmer
- (ii) It will carry crop wise recommendations of nutrients/fertilizers required for the farm
- (iii) Soil Testing will be done once in every three years

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (i) & (iii) only
- (c) (ii) & (iii) only
- (d) All of the above

187. Consider the following statements regarding the National Agricultural Market (NAM) launched in April 2016:

- (i) It is an online platform with physical markets at the backend
- (ii) It will integrate the APMC mandis of various states
- (iii) NAM will increase the choice for farmers to sell his produce
- (iv) Small Farmers Agribusiness Consortium (SFAC) is acting as the nodal agency for NAM

Select the correct answer using the code given below:

- (a) (i) & (iii) only
- (b) (i), (ii) & (iii) only
- (c) (i) & (iv) only
- (d) All of the above

188. Consider the following statements regarding the 'Nutrient Based Subsidy' Scheme.

- (i) It is given for phosphatic and potassic fertilizers
- (ii) It is given for urea
- (iii) The prices of fertilizers under nutrient based scheme are regulated by the government
- (iv) Subsidy is based on per kg of nutrients present in the fertilizer

Select the correct answer using the code given below:

- (a) (i) & (iii) only
- (b) (ii) & (iii) only
- (c) (i) & (iv) only
- (d) (iii) & (iv) only

189. Which of the following are the objectives of the "New Urea Policy 2015":

- (i) Maximizing indigenous urea production
- (ii) Promoting energy efficiency and reducing the carbon-footprint
- (iii) Reducing the subsidy burden of the government
- (iv) Adopting best technology in the world and become globally more competitive

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (i), (ii) & (iii) only
- (c) (ii), (iii) & (iv) only
- (d) All of the above

190. Which of the following statements are true regarding the present subsidy regime for urea fertilizer

- (i) It is sold at a government notified price
- (ii) The imports of urea in India is canalized
- (iii) The subsidy is given on a cost plus basis
- (iv) Mandatory production of neem coated urea for domestic producers

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (iii) only
- (c) (ii), (iii) & (iv) only
- (d) All of the above

191. Which of the following statements are true regarding the term "Crowd funding":

- (i) It is a method of financing through the internet/social media
- (ii) Small amounts of money is raised from large number of investors
- (iii) It has the potential to increase entrepreneurship
- (iv) It is also referred as marketplace financing

Select the correct answer using the code given below:

- (a) & (ii) only
- (b) (i), (ii) & (iii) only
- (c) (ii), (iii) & (iv) only
- (d) All of the above

192. Which of the following statements are true regarding the "Goods and Services Tax Network (GSTN)":

- (i) It is a non-Government private limited company
- (ii) It provides IT infrastructure and services for the implementation of GST.

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

193. Which of the following statements are true regarding "International Fund for Agricultural Development" (IFAD):

- (i) It is a specialized agency of the United Nations
- (ii) It is a specialized agency of the World Bank Group
- (iii) It focuses on food production in developing countries
- (iv) It focuses on eradicating rural poverty in developing countries

Select the correct answer using the code given below:

- (a) (i) & (iii) only

- (b) (i), (iii) & (iv) only
- (c) (ii) & (iii) only
- (d) (ii), (iii) & (iv)

194. Consider the following statements regarding the "Most Favoured Nation (MFN)" principle of WTO trade:

- (i) A member country can grant more favours to a particular member country
- (ii) MFN is basically a principle of non discriminatory trade
- (iii) India has granted MFN status to Pakistan
- (iv) Free Trade Agreements are exceptions to the MFN principle

Select the correct answer using the code given below:

- (a) (i) & (iii) only
- (b) (i), (ii) & (iii) only
- (c) (ii) & (iii) only
- (d) (ii), (iii) & (iv)

195. Consider the following statements regarding the "Public Finance Management System (PFMS)":

- (i) It comes under the office of Controller General of Accounts, Ministry of Finance
- (ii) It comes under Department of Expenditure, Ministry of Finance
- (iii) It is an end to end online solution for processing payments, reconciliation and reporting of central schemes
- (iv) It tracks fund utilization up to the last mile for central schemes

Select the correct answer using the code given below:

- (a) (i) & (iii) only
- (b) (ii) & (iii) only
- (c) (i), (iii) & (iv) only
- (d) (ii), (iii) & (iv) only

196. Which of the following sector are most labour intensive

- (a) Leather
- (b) Textile and garments
- (c) Food processing
- (d) Steel

197. Which of the following department/agency is in charge of the "financial policy in regard to the utilization of the proceeds of disinvestment":

- (a) Department of Economic Affairs
- (b) Department of Investment and Public Asset Management
- (c) Department of Expenditure
- (d) None of the above

198. Which of the following statements are true regarding "Angel Investors/Investment":

- (i) Angel investors invest in small startups and entrepreneurs
- (ii) Angel investment happens generally through debt funds
- (iii) Angel investors provide more favourable terms and conditions as compared to other lenders
- (iv) Angel investment in India is regulated by SEBI

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (iii) only
- (c) (ii) & (iv) only
- (d) (i), (iii) & (iv)

199. Consider the following statements regarding the "Banks Board Bureau (BBB)" constituted in 2016:

- (i) It will recommend for appointment of heads in PSBs and Financial Institutions
- (ii) It will help PSBs in developing strategies and capital raising plans
- (iii) It will improve the governance of the Public Sector Banks (PSBs)

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (iii) only
- (c) (ii) & (iii) only
- (d) All of the above

200. Consider the following statements regarding "Sovereign Wealth Funds (SWFs)":

- (i) SWFs are State owned investment funds
- (ii) SWFs are established through fiscal and trade surpluses
- (iii) They are used to stabilize budget and economy of the country from excess volatility in revenues
- (iv) SWFs typically invests in government owned projects/assets

Select the correct answer using the code given below:

- (a) (i) & (iv) only
- (b) (ii) & (iii) only
- (c) (ii), (iii) & (iv) only
- (d) (i), (ii) & (iii) only

201. Consider the following statements regarding "Market Stabilization Scheme (MSS)":

- (i) It is a monetary policy tool
- (ii) It is used to absorb surplus liquidity from the system
- (iii) It is done through the sale of government securities

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii) only
- (c) (ii) & (iii) only
- (d) (i), (ii) & (iii)

202. Enforcement Directorate enforces which of the following laws:

- (i) Foreign Exchange Management Act (FEMA) Act 1999
- (ii) Prevention of Money Laundering Act (PMLA) 2002

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

203. RBI changed its monetary policy stance from accommodative to

neutral. Which of the following could be the probable reasons:

- (i) Inflation is edging up in the economy
- (ii) Demand is firming up in the economy
- (iii) A decline in Consumer confidence
- (iv) RBI will have flexibility to move the policy rate in any direction

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (ii) & (iv) only
- (c) (i), (ii) & (iv) only
- (d) All of the above

204. Consider the following statements regarding "counter-cyclical" fiscal policy:

- (i) Government uses the counter cyclical policy to cool down the economy during boom period
- (ii) In counter cyclical policy, government increases spending and reduces taxes during economic slowdown

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

205. Consider the following statements regarding "Participatory Notes" (P-notes):

- (i) It is a way of Foreign Direct Investment (FDI)
- (ii) P-notes are issued by Foreign Institutional Investors (FIIs) registered with SEBI to other foreign investors who are not required to register with SEBI
- (iii) Unaccounted money enters the country through P-notes

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (iii) only
- (c) (ii) & (iii) only
- (d) All of the above

206. Consider the following statements regarding "Exchange Traded Funds (ETF)":

- (i) ETFs are traded like stocks and can be bought and sold throughout the day
- (ii) ETFs can be used as a vehicle for disinvestment
- (iii) ETFs offers the benefit of diversification of risks

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii) only
- (c) (ii) & (iii) only
- (d) All of the above

207. Consider the following statements regarding the "Gini Index":

- (i) It is a measure of inequality of income

- (ii) It is a measure of equality of income
- (iii) The higher the index the higher the inequality
- (iv) If the index is one then it implies that all the income of the country belongs to one person

Select the correct answer using the code given below:

- (a) (i) & (iv) only
- (b) (ii) & (iii) only
- (c) (ii) & (iv) only
- (d) (i), (iii) & (iv)

208. Which of the following statements are true regarding the "Reflationary Policy":

- (i) It is a way of stimulating the economy following a dip in the business cycle
- (ii) It is a way to reverse the deflationary trends in the economy
- (iii) It is a policy through which government prevents overheating of the economy
- (iv) It is a policy of increasing the money supply by reducing the interest rate

Select the correct answer using the code given below:

- (a) (i) & (iv) only
- (b) (iii) only
- (c) (ii) & (iv) only
- (d) (i), (ii) & (iv)

209. If the US Central Bank raises their interest rate then it may lead to

which of the following in the Indian economy:

- (a) Rupee depreciation
- (b) Rupee appreciation
- (c) Investors moving to India
- (d) Increase in money supply

210. If government is favouring certain companies which are sourcing certain products domestically, then it is a violation of which of the following WTO principle/Agreement:

- (a) Free trade
- (b) National Treatment (NT)
- (c) Most Favoured Nation (MFN)
- (d) Trade Facilitation Agreement

211. Which ministry/department grants "Infrastructure Status" to the various sectors:

- (a) Department of Economic Affairs, Ministry of Finance
- (b) Department of Financial Services, Ministry of Finance
- (c) Reserve Bank of India (RBI)
- (d) None of the above

212. Which of the following sectors has recently been granted infrastructure status in the budget presented for 2017-18:

- (a) Electricity generation
- (b) Low cost housing
- (c) Ports
- (d) Telecommunication towers

213. Consider the following statements regarding "Islamic/ Sharia banking":

- (i) It is based on the principle of not charging interest from the borrowers
- (ii) It is based on the principle of prohibition of interest payment
- (iii) It is based on the principle of sharing of profit and loss
- (iv) It will help in financial inclusion

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) & (iv) only
- (c) (i), (ii) & (iv) only
- (d) All of the above

214. Consider the following statements regarding the "Foreign Contribution (Regulation) Act 2010":

- (i) Ministry of Home Affairs is responsible for regulating the Act
- (ii) Ministry of Finance is responsible for regulating the Act
- (iii) The Act regulates foreign contribution and foreign hospitality
- (iv) It prohibits political organizations and any association engaged in production & broadcast of audio or audio visual news

Select the correct answer using the code given below:

- (a) (i) & (iii) only
- (b) (ii) & (iii) only
- (c) (i) & (iv) only
- (d) (i), (iii) & (iv) only

215. Country A has not been granted "market economy status" by its group partners. Which of the following statements are true:

- (i) Prices of majority of products in the country A is regulated by the government
- (ii) It is easy for the trading partners of country A to impose anti dumping duty against A
- (iii) Market economy status is related to IMF

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (ii) & (iii) only
- (c) (i) & (iii) only
- (d) All of the above

216. Consider the following statements regarding the "National Small Savings Funds (NSSF)":

- (i) The proceeds of small savings scheme of Central government goes to NSSF
- (ii) NSSF is a part of Public Account of India
- (iii) NSSF is a part of Consolidated Fund of India (CFI)

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii) only
- (c) (i) & (iii) only
- (d) (iii) only

217. Consider the following statements regarding the "Zero Defect, Zero Effect (ZED)" scheme:

- (i) The scheme is for MSME sector
- (ii) It ensures producing high quality manufacturing products
- (iii) It ensures minimal negative impact on environment.
- (iv) It is a cornerstone of the flagship Make in India programme

Select the correct answer using the code given below:

- (a) (i) & (iv) only
- (b) (ii) & (iii) only
- (c) (i), (ii) & (iii) only
- (d) All of the above

218. Consider the following statements regarding "Tax Avoidance" and "General Anti Avoidance Rules (GAAR)":

- (i) Tax avoidance is legal
- (ii) Tax avoidance is illegal
- (iii) GAAR target business transactions that are entered into with the objective of avoiding tax
- (iv) GAAR target transactions entered into for tax evasion and tax avoidance both

Select the correct answer using the code given below:

- (a) (i) & (iii) only
- (b) (i) & (iv) only
- (c) (ii) & (iii) only
- (d) (ii) & (iv) only

219. Railway budget has been merged with the Union budget from FY 2017-18. Which of the following statements were true before the merger?

- (i) The budgetary support given by the Central government to the Railways was treated as loan in perpetuity (Capital-at-Charge)
- (ii) Ministry of Railway used to remit dividend to the Central government

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

220. Consider the following statements regarding the "Common Services Centre (CSC)":

- (i) They are part of the Digital India programme
- (ii) They are implemented on public private partnership modal
- (iii) They are provided exclusively by the government
- (iv) They act as access points for delivery of various electronic services

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (i) & (iii) only
- (c) (iii) & (iv) only
- (d) (i), (ii) & (iv) only

221. Consider the following statements regarding the "Banking Ombudsman Scheme":

- (i) Banking Ombudsman is appointed by the RBI
- (ii) RBI acts as the banking ombudsman
- (iii) It resolves customer complaints against deficiency in certain banking services
- (iv) It has been introduced under the Reserve Bank of India Act 1934

Select the correct answer using the code given below:

- (a) (i) & (iii) only
- (b) (ii) & (iii) only
- (c) (ii), (iii) & (iv) only
- (d) (i) & (iv) only

222. Consider the following statements regarding "Krishi Vigyan Kendras (KVKs)":

- (i) KVKs are completely financed by Govt. of India
- (ii) KVKs are financed jointly by Govt. of India and the State governments
- (iii) KVKs work as knowledge and resource centre of agricultural technologies to make it available to farmers
- (iv) KVKs produce quality product to make it available to farmers

Select the correct answer using the code given below:

- (a) (i) & (iii) only
- (b) (ii) & (ii) only

- (c) (ii) & (iv) only
- (d) (i), (iii) & (iv)

223. Which of the following statements are true regarding the "Strategic Disinvestment" of public sector enterprises:

- (a) Sale of shares to private entities
- (b) Sale of shares to private entity with management control
- (c) Sale of majority shares to public
- (d) Sale of assets to financial institutions

224. The "Internal and Extra Budgetary Resources" of Central Public Sector Undertakings (CPSUs) include which of the following:

- (i) Profit of the CPSUs
- (ii) Domestic and foreign loans raised by the CPSUs

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (i)
- (d) Neither (i) nor (ii)

225. RBI keeps its foreign exchange reserves with which of the following agency/ies?

- (i) Bank for International Settlement (BIS)
- (ii) Foreign Commercial banks
- (iii) Other/foreign Central banks
- (iv) Other institutions approved by Central Board of RBI

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) & (iii) only
- (c) (iii) & (iv) only
- (d) All of the above

226. Which of the following statements are true regarding the "Property Tax":

- (i) Levied by Central Government
- (ii) Levied by State Governments
- (iii) Levied on urban land and buildings
- (iv) Levied on all kinds of properties like land, shares, securities

Select the correct answer using the code given below:

- (a) (i) & (iii) only
- (b) (ii) & (iii) only
- (c) (i) & (iv) only
- (d) (ii) & (iv) only

227. Which of the following has the biggest adverse impact on the economic growth of the country in the last financial year?

- (a) Fixed investment expenditure
- (b) Government expenditure
- (c) Household consumption expenditure
- (d) Exports

228. From the demand side which of the following sector was the major driver of GDP growth in the last financial year?

- (a) Government consumption

- (b) Private/household consumption
- (c) Private Investment
- (d) External Sector

229. GST will be levied on which of the following:

- (i) Sale of land
- (ii) Sale of building (constructed)

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

230. The average WPI inflation declined in 2015-16 but increased in 2016-17. This is due to:

- (i) Rise in global commodity prices
- (ii) Base effect

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

231. Which of the following statements are true for the Regional Connectivity Scheme (RCS)/UDAN:

- (i) Connects unserved and underserved airports
- (ii) Government provides Viability Gap Funding (VGF)
- (iii) There will be multiple players operating on each route

Select the correct answer using the code given below:

- (a) (i) only
- (b) (i) & (ii) only
- (c) (ii) & (iii) only
- (d) All of the above

232. Match the following reports/publications with its agencies.

Reports:

- (i) International Debt Statistics
- (ii) World Investment Report
- (iii) Global Competitiveness Report
- (iv) Doing Business Report

Agencies:

- 1. World Bank
- 2. UNCTAD
- 3. World Economic Forum
- 4. IMF

Select the correct answer using the code given below:

- (a) (i) - 1, (ii) - 2, (iii) - 3, (iv) - 4
- (b) (i) - 1, (ii) - 2, (iii) - 3, (iv) - 1
- (c) (i) - 4, (ii) - 2, (iii) - 3, (iv) - 1
- (d) (i) - 4, (ii) - 3, (iii) - 2, (iv) - 1

233. Which of the following statements are true regarding the Foreign Currency Non Resident (FCNR) Accounts:

- (i) Resident Indians and NRI's both can open
- (ii) Only Foreign currency can be deposited
- (iii) Rupee can be deposited
- (iv) Can have both demand and time deposits

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (ii) only
- (c) (ii) & (iv) only
- (d) (i), (ii) & (iv) only

234. Which of the following statements are true regarding the Primary Agriculture Credit Societies (PACS):

- (i) It operates at the village level
- (ii) It provides short term credit
- (iii) It provides direct credit to small and marginal farmers
- (iv) Regulated by RBI

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (ii) & (iii) only
- (c) (i), (ii) & (iii) only
- (d) All of the above

235. Consider the following statements regarding National Housing Bank (NHB):

- (i) Housing finance companies are regulated by NHB
- (ii) Housing finance companies are regulated by RBI
- (iii) NHB provides direct finance for individual housing loans
- (iv) NHB provides refinance for individual housing loans

Select the correct answer using the code given below:

- (a) (i) & (iii) only
- (b) (ii) & (iii) only

- (c) (i) & (iv) only
- (d) (ii) & (iv) only

236. Which of the following statement is true regarding skewflation:

- (a) Sustained and across the board price increase in commodities
- (b) Inflation in some commodities while deflation in others
- (c) Inflation along with stagnation in the economy
- (d) None of the above

237. Consider the following statements regarding 'White Label ATMs'

- (i) They are set up, own and operated by non-bank entities
- (ii) The white label ATM operators issue their own cards (credit/debit/prepaid)

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

238. Consider the following statements regarding "International Solar Alliance (ISA)":

- (i) It is a coalition of solar resource rich countries
- (ii) The members of the alliance lie fully or partially between tropic of cancer and tropic of capricorn
- (iii) It was launched by the Prime Minister of India

- (iv) It was launched at the United Nations Climate Change Conference in Paris

Select the correct answer using the code given below:

- (a) (i) & (iii) only
- (b) (ii), (iii) & (iv) only
- (c) (i), (ii) & (iv) only
- (d) All of the above

239. The "Baltic Dry Index" is an indicator of:

- (i) Merchandise trade
- (ii) Shipping Services

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

240. Which of the following are part of the 'Index of Industrial Production (IIP)':

- (i) Mining and quarrying
- (ii) Electricity generation
- (iii) Gas production
- (iv) Forestry

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) & (iii) only
- (c) (i), (ii) & (iii) only
- (d) All of the above

241. The ratio of labour force in the informal to formal sector in India is approximately:

- (a) 50:50
- (b) 70:30
- (c) 80:20
- (d) 90:10

242. Consider the following statements regarding the "Purchasing Managers' Index (PMI)" reported by Markit:

- (i) It is a measure of economic health of the country
- (ii) It is published for manufacturing only
- (iii) It is published for manufacturing and services both
- (iv) It is released monthly

Select the correct answer using the code given below:

- (a) (i) & (ii) only
- (b) (i) & (iii) only
- (c) (ii) & (iv) only
- (d) (i), (iii) & (iv) only

243. Consider the following statements regarding "Kisan Credit Card (KCC)" scheme:

- (i) It provides short term credit for cultivation of crops
- (ii) It provides long term credit
- (iii) It provides credit for consumption requirements of farmers household
- (iv) Available to owner cultivator, tenant farmers and share croppers

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) & (iv) only
- (c) (i), (ii) & (iii) only
- (d) All of the above

244. Which of the following statements are correct regarding the "SMILE" scheme:

- (a) It is linked to providing credit to MSME enterprises under Make in India
- (b) It is linked to providing financial support by Govt. of India for women and SC/ST entrepreneurs
- (c) It is a scheme to provide support to small and marginal farmers for allied activities
- (d) None of the above

245. The main objective of the "Sagarmala" project launched by the government is:

- (a) Development of ports
- (b) Port-led development
- (c) Connecting the ports along the coastline through roads and railways
- (d) creation of economic zones alongside the ports

246. Which of the following are schemes for the resolution of NPA problem:

- (a) 5/25 Refinancing of Infrastructure
- (b) Strategic Debt Restructuring
- (c) Asset Quality Review

(d) All of the above

247. The new Hydrocarbon Exploration and Licensing Policy (HELP) is based on which of the following model:

- (a) Profit Sharing
- (b) Revenue Sharing
- (c) Cost Plus
- (d) None of the above

248. The term "Swiss Challenge" is related to which of the following:

- (a) Power distribution licenses
- (b) Public Private Partnership
- (c) Awarding Government contracts
- (d) Distribution of Banking licenses

249. Consider the following statements regarding demerit goods

- (i) They generally have negative externality
- (ii) To reduce the consumption of demerit goods government imposes sin tax

Select the correct answer using the code given below:

- (a) (i) only
- (b) (ii) only
- (c) Both (i) & (ii)
- (d) Neither (i) nor (ii)

250. Headcount ratio is defined as:

- (a) Ratio of population below the poverty line to above the poverty line

- (b) Ratio of population above the poverty line to below the poverty line
- (c) Proportion of population that lives below the poverty line
- (d) Proportion of population that lives above the poverty line

ANSWER SHEET

QN	ANS	QN	ANS	QN	ANS	QN	ANS	QN	ANS	QN	ANS	QN	ANS	QN	ANS
1	B	37	A	73	D	109	C	145	D	181	B	217	D		
2	D	38	D	74	D	110	C	146	C	182	D	218	A		
3	D	39	B	75	C	111	D	147	D	183	D	219	C		
4	D	40	C	76	A	112	D	148	A	184	D	220	D		
5	A	41	A	77	D	113	C	149	B	185	B	221	A		
6	A	42	D	78	B	114	D	150	B	186	D	222	D		
7	A	43	A	79	A	115	C	151	B	187	D	223	B		
8	A	44	B	80	B	116	D	152	D	188	C	224	C		
9	D	45	C	81	D	117	C	153	C	189	D	225	D		
10	B	46	A	82	C	118	A	154	D	190	D	226	B		
11	C	47	C	83	A	119	C	155	C	191	D	227	A		
12	B	48	D	84	D	120	C	156	C	192	C	228	A		
13	D	49	C	85	C	121	C	157	C	193	B	229	D		
14	A	50	D	86	A	122	A	158	D	194	D	230	C		
15	C	51	C	87	C	123	C	159	C	195	C	231	B		
16	C	52	D	88	D	124	B	160	C	196	B	232	B		
17	A	53	B	89	D	125	A	161	B	197	A	233	B		
18	A	54	C	90	D	126	A	162	B	198	D	234	C		
19	C	55	A	91	D	127	C	163	C	199	D	235	C		
20	D	56	C	92	C	128	D	164	B	200	D	236	B		
21	A	57	C	93	B	129	A	165	D	201	D	237	A		
22	D	58	C	94	D	130	D	166	D	202	C	238	D		
23	D	59	C	95	C	131	C	167	A	203	C	239	C		
24	B	60	B	96	D	132	A	168	C	204	C	240	C		
25	D	61	A	97	C	133	D	169	C	205	C	241	D		
26	C	62	D	98	D	134	D	170	A	206	D	242	D		
27	C	63	D	99	B	135	C	171	A	207	D	243	D		
28	C	64	C	100	C	136	A	172	C	208	D	244	A		
29	C	65	C	101	B	137	B	173	D	209	A	245	B		
30	C	66	B	102	C	138	C	174	D	210	B	246	D		
31	B	67	B	103	D	139	C	175	D	211	A	247	B		
32	D	68	B	104	C	140	C	176	B	212	B	248	C		
33	A	69	B	105	A	141	C	177	A	213	D	249	C		
34	C	70	D	106	D	142	D	178	D	214	D	250	C		
35	D	71	A	107	D	143	B	179	D	215	A				
36	B	72	C	108	D	144	B	180	A	216	B				

EXPLANATORY ANSWERS

1. (b)

CSO releases the quarterly and annual GDP data with a lag of two months. For example the data for the GDP growth for FY 2015-16 will be released on 31st May 2016.

2. (d)

An economy produces two types of final goods i.e. consumption and capital goods. Consumption goods get consumed and capital goods are used for further production process (capital goods are also called investment). These two types of goods are purchased by the four sectors of the economy

- Household sector (consumption goods)
- Private sector (capital goods)
- Government sector (consumption and capital both)
- External sector (consumption and capital booth)

GDP is the sum of the final value of all goods and services (consumption and capital) produced in the economy or it can also be defined as value added by all the enterprises in the economy. So (i) & (ii) statements are true.

Whatever goods and services (consumption and capital) are produced in the economy is ultimately purchased by household, private, government sector and the rest is exported. So (iii) statement is true.

By Income method, GDP is also equal to the income received by the four factors of production i.e. Profit, Rent, Interest and wages. So (iv) statement is also true.

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 11, 1.9]

3. (d)

Explained above.

4. (d)

Potential GDP is the real value of goods and services that can be produced when a country's factors of production are fully employed. It is the maximum sustainable level of output that an economy can produce. It depends on:-

- Physical capital i.e. factories, equipments etc.
- Human capital i.e. knowledge, skills, attitude creativity etc.
- Labour (physical)
- Total factor productivity i.e. productivity of various factors of production such as capital, land, labour etc.

5. (a)

6. (a)

7. (a)

8. (a)

Real GDP growth measures growth in quantity only and nominal GDP measures growth in value (which includes quantity and price as well).

Now, suppose an economy produces wheat and rice. The quantities produced and the market price is given in the table.

	2011-12	2012-13	2013-14	2014-15
Wheat	10kg X Rs. 10/kg	11kg X Rs. 10.5/kg	12kg X Rs. 11/kg	12.5kg X Rs. 12/kg
Rice	8kg X Rs. 12/kg	9kg X Rs. 12.5/kg	10kg X Rs. 13/kg	10.5kg X Rs. 13.5/kg
Nominal GDP	$10 \times 10 + 8 \times 12 =$ Rs. 196	$11 \times 10.5 + 9 \times 12.5 =$ Rs. 228	$12 \times 11 + 10 \times 13 =$ Rs. 262	$12.5 \times 12 + 10.5 \times 13.5 =$ Rs. 291.75
Real GDP	$10 \times 10 + 8 \times 12 =$ Rs. 196	$11 \times 10 + 9 \times 12 =$ Rs. 218	$12 \times 10 + 10 \times 12 =$ Rs. 240	$12.5 \times 10 + 10.5 \times 12 =$ Rs. 251

To calculate Real GDP, we take the price of any year as constant and declare it as a base year. So suppose we declare 2011-12 as base year then we will take price of wheat as Rs. 10/kg and price of rice as Rs. 12/kg as constant in all the subsequent years to calculate the real GDP.

The base year for calculation of GDP is 2011-12. So if we want to calculate India's Real GDP for 2014-15 then we will have to take the quantities produced in 2014-15 and the prices of 2011-12 (base year). And if we want to calculate the Nominal GDP of 2014-15 then we will have to take the quantities produced in 2014-15 and the market prices of the same year i.e. 2014-15.

So, for Q.5 only the (i) statement is true.

In India, **economic growth is measured by real GDP** i.e. GDP at **constant** Market Prices as per the global best practices. So for Q.6, statement (a) is correct.

Consider the above table once again.

	2011-12	2012-13	2013-14	2014-15
Nominal GDP	Rs.196	Rs.228	Rs.262	Rs.291.75
Change in Nominal GDP	16.3%	14.9%	11.4%	
Real GDP	Rs.196	Rs.218	Rs.240	Rs.251

Change in Real GDP	11.2%	10.1%	4.6%
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So, Real GDP is steadily/consistently increasing from 2011-12 to 2014-15 but "change in real GDP" is decreasing from 11.2% to 4.6%. (And same is true for nominal GDP also)

The above is a case of economic growth as real GDP is increasing.

So Q.7, only (i) statement is the required criteria. Because even if (iii) statement is not true (as in the above example), a country may experience economic growth.

When the "real GDP" decreases or "change in real GDP" is negative then it is a case of recession. So, Q.8 only (a) is true

9. (d)

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 7, 1.7]

10. (b)

National Income and Net National Income are same terms and used interchangeably.

Net National Income = Net National Product (NNP)

Earlier (before January 2015) CSO was using factor cost to calculate NNP but now it uses Market Prices to calculate NNP.

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 15, 1.10]

11. (c)

Goods and services produced in India and sold outside the country i.e. to the foreigners is referred as exports. But the Net Factor Income from Abroad (NFIA) is the income earned by the four factors of production from abroad. In case of NFIA the production happens in abroad but in case of exports the production happens in the domestic country. So NFIA is different from exports and hence statement (i) is false

Now, the indirect taxes and subsidies are included in the GDP and National Income.

So statements (ii) & (iii) are true

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 15, 1.10]

12. (b)

The value of capital goods produced is defined as investment.

Hence, production of consumption goods and services are not investment.

Buying and selling of shares from one person to another person is also not investment for the economy as only the ownership changes and nothing happens on ground.

So, only (ii) statement is true.

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 7, 1.7]

13. (d)

In any country, two types of final goods are produced, consumption and capital. Whenever a country consumes less, then more capital goods are produced i.e. it leads to capital accumulation. So (i) statement is true.

When a country consumes less, it saves more and this saving leads to investment in the economy i.e. production of capital goods. So (ii) statement is also true.

When a country saves more i.e. consumes less, it leads to production of more capital goods and the capital goods increase the production of other goods and services leading to future economic growth. So (iii) statement is also true.

If any country forgoes (gives up) present consumption then it saves more and this increased savings leads to increase in future consumption. So (iv) statement is also true.

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 10, Case II]

14. (a)

Whenever in any country, the working population increases and dependent population decreases, the savings in the economy increases. (This also happens at the family level. If a family has more working members and less dependents then savings of the family increases). The increased savings leads to increase in investments.

So, (i) & (iii) statements are true.

15. (c)

Incremental Capital Output Ratio (ICOR) is defined as:-

$$\text{ICOR} = \frac{\text{change in capital}}{\text{change in output}} = \frac{\text{investment \% in GDP}}{\% \text{ change in GDP}}$$

It represents how efficiently capital is used to produce output. It also represents how much extra unit of capital is required to produce one additional unit of output.

Hence, statement (iii) is false.

So, if ICOR of India = 5, then India requires Rs. 5 of capital goods to produce Rs. 1 of output. If our ICOR is 5 and we want a growth of 8% in GDP then we will have to do 40% investment.

16. (c)

Capital formation means production of capital goods.

Production of capital goods leads to future production of goods and services and hence economic growth. So, statement (iii) is true

Production of capital goods increases the capital stock in the economy but does not tell whether there is any increase in efficiency of that capital. Efficiency is measured as how much output is produced from how much of inputs.

17. (a)

Capital goods are required to produce consumption goods as well as capital goods.

When the efficiency of capital decreases it produces less consumption goods as well as capital goods.

Labour productivity is measured as:

$$\frac{\text{Total production}}{\text{Total no. of labourers}}$$

When the efficiency of capital is decreasing, it will lead to less production which effectively decreases the labour productivity as the overall ratio decreases.

18. (a)

19. (c)

Investment in the economy means production of capital goods.

When the economy produces all consumption goods and no capital goods (investment) then its GDP shall remain constant i.e. it will not grow. But till the time there is net production of capital goods i.e. investment in the economy, the production of goods and services (GDP) will must increase. Hence, Q. 18, statement (a) is correct.

Capital formation means production of capital goods. So if there is capital formation, it will necessarily lead to increase in GDP i.e. economic growth. Hence Q. 19, statement (c) is correct.

20. (d)

When a country goes through industrialization, it uses more capital and less labour comparatively or we can say labours are replaced by capital (machinery) .That means ratio of capital to labour increases sharply. So statement (a) is true.

It also leads to increase in production. So, production per labour also increases which means increase in labour productivity. So statement (b) is also true

Total factor productivity means productivity of all factors of production i.e. labour, capital, land etc. During industrialization, when overall production increases, production per unit of inputs i.e. labour, capital, land etc also increases. So statement (c) is also true

21. (a)

WPI is published by Office of Economic Advisor, Ministry of Commerce and Industry.

CPI-Industrial Workers, CPI-Agricultural Labourers, CPI-Rural Labourers is published by Labour Bureau, Ministry of Labour and Employment.

CPI-Rural, CPI-Urban, CPI-Combined is published by Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation (MoSPI)

GDP Deflator is published by CSO, MoSPI

22. (d)

23. (d)

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 27, 1.19]

24. (b)

25. (d)

Openness is measured as Exports + Imports of goods and services of a country as a percentage of its GDP. So (d) is correct

Trade balance means Exports - Imports, so statement (c) is incorrect.

26. (c)

When countries become richer, non-traded services constitute a greater share of output (GDP), causing GDP to grow faster than trade and hence global trade to global output decreases.

27. (c)

The value of Rupee with respect to other currencies for example \$ is decided by the market forces of demand and supply and not regulated by RBI. But when Rupee becomes volatile with respect to \$ then RBI intervenes in the market and buys and sells dollars to contain the volatility of rupee. So the Rupee is called managed/dirt float.

Floating Exchange Rate can be of two types 1. Free Float and 2. Managed Float

In those countries where Central Bank doesn't interfere in the exchange rate market are called free float for example US.

Before 1993, India's exchange rate was "Fixed and adjustable" or Pegged exchange rate.

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 29, 2.3]

28. (c)

When a country has floating exchange rate system, then its value depends on the market forces of demand and supply. When the interest rate in the country increases foreign investors are interested in investing in the country leading to an increased demand of that currency which ultimately leads to appreciation of that currency.

So (i) statement is true.

When there is high inflation in the country the value of that currency decreases. So, earlier if we were getting \$1 in Rs. 60 then due to inflation in India the same \$1 we may get in Rs. 70.

So (ii) statement is also true.

29. (c)

Pegged exchange rate means a country fixes its exchange rate with another country currency or a basket of currencies and when required changes it accordingly.

Suppose Nominal Exchange Rate is \$1 = Rs.60 (Nominal exchange rate means how many Rs. can be purchased in \$1 from the market.)

For example, suppose

	India	US
Burger Price	Rs. 30	\$1

In this case US will import the burgers from India as in \$1 they will get Rs. 60 and in Rs. 60 they will get 2 burgers in India, so India will export burgers to US.

But if due to inflation the burger price in India becomes Rs. 60 then exports from India will stop. So inflation in the country make exports less competitive.

Hence, (i) statement is true.

But when price of burger in India reaches to Rs. 60 and RBI devalues the exchange rate to \$1 = Rs. 120 then again exports from India will start. Because now foreigners will get Rs. 120 in \$1 and in Rs. 120 they will again get 2 burgers in India.

So (ii) statement is also true.

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 29, 2.3]

30. (c)

Suppose Nominal Exchange Rate is \$1 = Rs.60 and India and US produces just burgers.

	India	US
Burger Price	Rs. 30	\$1

To calculate PPP exchange rate, we need to compare the prices of a basket of goods in India with US.

In the above case by comparing the prices of burger in India and US, we will get \$1 = Rs. 30

So, \$1 = Rs. 30 is the PPP exchange rate. It implies whatever Rs. 30 can purchase in India, \$1 can purchase in US i.e. purchasing power of Rs. 30 in India is equal to purchasing power of \$1 in US.

So, if the inflation rate is different in the countries then PPP exchange rate will change. But if there is no inflation (prices remains same) then PPP exchange rates will be constant.

So, (i) statement is true.

When we use PPP exchange (\$1 = Rs. 30) rate to convert the price of burger in US in Indian currency then it is Rs. 30 in US which is the same as in India also.

So, (ii) statement is also true.

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 20, 1.15]

31. (b)

Suppose (Nominal) exchange rate is \$1 = Rs. 60

Now if an Indian exporter exported a particular commodity (1 unit) in the international market whose price is \$8, then in India after conversion he will get ultimately Rs. 480.

But if the rupee is undervalued (means depreciated) i.e. \$1 = Rs. 64 then he can sell his product in the international market at a price of \$7.5 and can earn the same Rs. 480. So the Indian exporters can sell their product more competitively in the international market, just because rupee is undervalued or depreciated.

32. (d)

Suppose Nominal Exchange Rate is \$1 = Rs.60

	India	US
Burger Price	Rs. 30	\$1

Whether India will export burgers to US or not depends on three parameters/prices

- Price of Burger in US (directly proportional, i.e. if it increases, exports to US will increase)
- Price of Burger in India (indirectly proportional, i.e. if it increases exports to US will decrease)
- Nominal Exchange Rate (directly proportional, i.e. if it increases exports to US will increase)

And all the three parameters are captured in Real Exchange Rate

$$\begin{aligned}\text{Real Exchange Rate} &= \frac{\text{Price in US} \times \text{Nominal Exchange Rate}}{\text{Price in India}} \\ &= \frac{1 \times 60}{30} \\ &= 2\end{aligned}$$

Till Real Exchange Rate > 1 , India will continue to export its burgers to US.

If Real Exchange Rate becomes equal to 1, then export & import will stop.

If Real Exchange Rate < 1 , then US will start exporting its burgers to India.

So Real Exchange Rate determines export competitiveness between two countries.

But if India wants to measure its export competitiveness with all its trading partners then it calculates **Real Effective Exchange Rate** which is a weighted average (with respect to trade value) of the Real Exchange Rates of its trading partners.

[For detailed explanation, refer the *Indian Economy Book of Erudition IAS*, page 21, 1.15]

33. (a)

Securities are financial instruments (receipts/ papers) which gives return in future and which are tradable. There are mainly two types of securities:-

- Debt (which gives fixed interest rate): for example bonds, debentures
- Equity (which gives profit/ loss): for example shares/stocks

Savings and Fixed deposit instruments are not tradable in the market.

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 30, 2.4]

34. (c)

Bonds offer fixed interest rate depending on the interest rate prevailing in the market.

Suppose the market interest rate (banks fixed deposit rate) is 9% and a company has issued bonds at 10% fixed interest rate.

Now when market interest rate increases to 12% then people want to sell their bonds and deposit money in banks at 12% due to which the bond prices fall.

Share prices (and not bonds) depend on profit and loss of the companies
So, only (i) & (iii) statements are true.

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 21, 1.15]

35. (d)

There are three kinds of government securities.

Central government issues two kinds of securities :

- Treasury Bills (< 1 year)
- Dated securities (< 1 year < 30 year)

And state governments issue "State Development Loans" (SDL)

These securities can be purchased by RBI, foreign investors (portfolio investors), financial institutions like banks and individuals also.

36. (b)

Currencies and coins are fiat money because they derive their value from government "fiat"/order. If the coin is melted then it will not fetch the same value in the market and the paper of which the currency note is made of does not have any value in the market. Hence, Currency notes and coins are called fiat money and they do not have intrinsic value.

They are also called legal tenders as they cannot be refused by any citizen of the country for settlement of any kind of transaction. Cheques drawn on savings or current accounts, however can be refused by anyone as a mode of payment. Hence cheques and demand deposits are not legal tenders. So only (i) & (iii) statements are true.

[Ref: 12th new NCERT Macro, Page 38]

37. (a)

38. (d)

Monetary Base or High Powered Money is the total liability of the Monetary Authority of RBI.

It consists of currency (notes and coins in circulation with the public and vault cash of commercial banks) and deposits held by government and commercial banks with RBI.

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 41, 2.9]

39. (b)

When people deposit money in banks (public deposits), then banks keep only a certain portion (which is called reserves) with them and the rest they lend.

The portion that they keep as reserves can be in the form of cash or gold or they can purchase government securities (bonds) or they can deposit with RBI.

So only (ii), (iii) & (iv) statements are true.

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 41, 2.10]

40. (c)

One of the basic reasons of keeping CRR with RBI is to provide safety to the public deposits. It also insures solvency i.e. staying in business and liquidity problems.

Since banks do not earn interest on the CRR, so it is idle money for the banks which increases its costs.

41. (a)

[Ref: RBI Act 1934, Sec 42]

42. (d)

Money supply is defined as the stock of money in circulation among the **public**.

So money lying with government, RBI and interbank deposits are not considered as money supply.

43. (a)

44. (b)

Banks are permitted to keep only a fraction of our deposits as reserves, rest they can lend and this lending creates money in the system.

For example, If I deposited Rs. 100 in a bank, the bank keeps Rs. 20 in reserves and rest i.e. Rs. 80 it lends to someone else. Now, money with me is Rs. 100 and with the other person Rs. 80. So total money got created in the system is Rs. 180 out of Rs. 100.

This is called fractional reserve banking.

(In this case Rs. 100 will be monetary base and Rs. 180 will be money supply and money supply divided by monetary base i.e. $180/100$ is called money multiplier)

If banks are mandated to keep all the deposited money i.e. Rs. 100 as reserves then banks would not be able to lend and no new money will be created in the system.

Money multiplier decreases when banks are required to keep more reserves.

Money multiplier remains constant due to change in monetary base because in that case money supply also changes and the ratio of money supply to monetary base does not change.

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 41, 2.10]

45. (c)

RBI reviews the monetary policy once in every two months i.e. 6 times in a year.

46. (a)

47. (c)

48. (d)

49. (c)

50. (d)

The agreement on "Monetary Policy Framework" was signed between the Govt. of India and RBI in Feb 2015.

Following are the important features of the agreement:-

- The objective of monetary policy is to primarily maintain price stability, while keeping in mind the objective of growth
- The monetary policy framework is operated by RBI
- The inflation target is 4% with a band of +/- 2%
- The inflation target is decided by Govt. of India in consultation with RBI
- The inflation is the Consumer Price Index (CPI) Combined published by Ministry of Statistics and Programme Implementation (CSO)
- The RBI shall be seen to have failed to meet the Target if inflation is more than 6% or less than 2% for three consecutive quarters
- In case RBI fails to meet the target, it will have to give a written report to Govt. of India explaining the reasons of failure, remedial actions to be taken and an estimated time period within which the Target would be achieved

The Govt. of India will constitute a "Monetary Policy Committee" (MPC) which will determine the Policy (Repo) Rate required to achieve the inflation target. The MPC will have 6 members. Three from RBI (including the RBI Governor) and 3 will be appointed by Govt. of India. All the members will have one vote and in the event of equality of votes, the Governor will have a second or casting vote. The decision of the MPC will be binding on RBI. Earlier, the RBI Governor individually used to decide the Repo Rate.

All the above changes (Monetary Policy Committee and Monetary Policy Framework) have been introduced in the Reserve Bank of India Act 1934 through the Finance Act 2016.

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 43, 2.11]

51. (c)

RBI is reducing the Repo Rate consistently since January 2015 when it was 8% to 6.25% in April 2017.

Expansionary, Accommodative, Dovish and Easy monetary policy are similar terms used when RBI tries to increase the money supply.

52. (d)

Open Market Operations (OMO) is a monetary policy tool where RBI buys/sells government securities in the secondary (open) market to increase or decrease the money supply.

Due to foreign investments inflow or outflow, money supply in the Indian economy increases/decreases. To prevent or sterilize the economy from such external shocks RBI buys or sells government securities to keep the money supply unchanged. This is called sterilization and it is not a day to day phenomenon but rather used less frequently.

[Ref: 12th new NCERT Macro, Page 45]

53. (b)

Government issues only debt securities like treasury bills, dated securities and state development loans.

Anybody can give loan (debt) to government but they cannot own government i.e. they cannot purchase government shares. Government never issues shares. Government is different from government companies (PSUs) which can issue shares and bonds both.

Open Market Operations is conducted by RBI where it buys or sells govt. bonds.

So, (ii) & (iii) statements are true.

54. (c)

Open Market Operations is conducted by RBI and RBI buys and sells govt. bonds.

It results in increase/decrease of Monetary Base and Money Supply both.

So, (i), (ii) & (iv) statements are true.

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 41, 2.10 and page 43, 2.11]

55. (a)

All penal interest rates on shortfall in reserve requirements are linked to the Bank Rate.

$$\text{Rev. Repo Rate} = \text{Repo Rate} - 0.25\%$$

$$\text{MSF Rate} = \text{Repo Rate} + 0.25\%$$

Bank Rate = Marginal Standing Facility (MSF) Rate

56. (c)

RBI conducts quarterly 'inflation expectation survey' of households.

[Ref: Economic Survey 2014-15 Vol-II, Page 75, Household Inflation Expectations]

57. (c)

RBI keeps the repo rate high or increases it when the inflation in the economy increases.

When "inflation expectation" of the people is high, i.e. they are expecting that in future inflation will increase, then such a behaviour of the people ultimately leads to higher inflation in the economy due to which RBI increases the repo rate.

So, both the statements are true.

[Ref: Economic Survey 2015-16 Vol-II, Page 17, Monetary Developments]

58. (c)

Foreign Direct Investment (FDI) happens in three ways:-

- A foreign company purchasing shares of Indian company
- A foreign company in collaboration with an Indian company establishing a new company called Joint Venture Company in India
- A foreign company establishing a subsidiary or a child company in India

59. (c)

60. (b)

61. (a)

	FDI	FPI/FII
1	It is only in equity/shares/ownership	It is both in equity and debt (loan)
2	It is only through primary market	Generally through secondary market but can happen through primary market
3	Generally new shares are issued and the new capital (money) comes to the company through which the company invests in new factory, machines etc.	Generally only the owners change hands and new capital does not come to the company
4	The foreign investor purchase large shareholding and appoints Board of Directors and get involved in the decision making (active management) of the company	Foreign investors generally purchase small shareholdings and do not get involved in the management of the company
5	Foreign investors try to make the company profitable through their decision making and target the profit of the company	Foreign investors target the share price of the company and derive their gain from rise of share prices
6	It is sector specific. For example, a steel company in US will invest only in a steel company in India and try to make that company profitable through their management and decision making and get a share of the profit	It is in general capital market. For example, a foreign investor is not particular about any company/ sector in India and is willing to invest in any company which gives a chance of share price appreciation
7	It is a long term investment as to turn the company profitable, the foreign investor needs to get invested for a long time.	It is generally short term investment
8	Generally the government specify a lock in period and during this period the foreign investor cannot sell his investment and hence it is quite stable	There is no lock in period and the foreign investor can return any time by selling his investment. This makes the currency volatile

62. (d)

Nominal Interest Rate (Deposit Rate) = Inflation + Real Interest Rate

If inflation is 5% and banks offer deposit rate 5% then nobody will deposit money in banks as whatever banks are offering will be eaten away by inflation. People deposit money in banks to earn something and this is possible only when real interest rate is positive.

So if inflation is 5% and banks are offering deposit rate 7% then the real interest rate will be 2%. This means the depositors are actually/really getting a 2% return.

When real interest rate is positive people save (deposit) money in banks and reduce their consumption.

Inflation in the economy may be negative, but nominal interest rate i.e. deposit rate can never be negative. Deposit rate negative means you are keeping money in banks and banks are charging interest from you.

So, (i) & (iv) statements are true.

63. (d)

When inflation in the economy is low, people expenses decreases and they are able to save more.

When per capital income increases it leads to higher savings in the economy.

Growth of financial intermediaries means financial institutions like banks. Increase in banks in the economy lead to increased saving behaviour.

So all the statements are true.

64. (c)

Higher nominal interest rate (deposit rate) may not lead to higher savings.

For example if the deposit rate is 10% and inflation is also 10% then people may not be interested in depositing money in banks as the real interest rate is zero.

It is the real interest rate which people look while depositing money in banks.

65. (c)

Liquidity Trap is a situation where the Central Bank wants to increase the money supply in the economy in case of recession but fails to lower the interest rate as the interest rates (repo rate and deposit rates) almost reaches zero. This makes the monetary policy ineffective.

In such a situation people would like to hold on to their cash (may be savings deposits in banks that is also called cash and not the fixed deposit) and may not spend money as there is almost zero or negative inflation and banks deposit rates are almost zero.

So, (i), (ii) & (iv) statements are true.

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 69, 2.20]

66. (b)

Creditor means the person who has given money to someone

Debtor means who has taken money from someone

Depositors means who has deposited money in banks or financial institutions

Bondholders means person who is holding bonds

When a person holds physical asset whose price is denoted in Rupee then he benefits from price increase or inflation.

But a person who holds financial assets (like Rs. 100 note) or any financial instrument which guarantees fix return of cash payments in future then he loses from price rise. This is because the purchasing power of rupee decreases due to inflation.

Hence, in case of inflation, depositors, creditors and bondholders will lose.

So, only (ii) statement is true

67. (b)

68. (b)

69. (b)

70. (d)

Base Rate was introduced in July 2010 replacing the Benchmark Prime Lending Rate (BPLR) system. Base Rate is the minimum rate below which Scheduled Commercial Banks cannot lend. RBI publishes guidelines for calculation of Base Rate and every bank calculates its own base rate.

Base rate calculation methodology was based on various factors like:

- **(Average) Cost of deposits/funds** (interest rate that bank offers to its depositors)
- Cost of maintaining CRR and SLR (if the banks are required to keep higher reserves like CRR and SLR, then they will be able to lend less money & will have to charge higher interest rate)
- Operational Costs of Banks
- Return on Net worth (investment)

From 1st April 2016, RBI has introduced a new methodology for calculation of the Base Rates based on marginal cost of funds rather than average cost of funds. This new methodology is called Marginal Cost of Funds based Lending Rate (MCLR)

MCLR calculation methodology will be based on the following factors:-

- **Marginal cost of deposits/funds**
- Cost of maintaining CRR and SLR
- Operational Costs of Banks
- Tenor Premium (based on the time period for which loan is given)

The basic difference between the previous Base Rate and the new MCLR based rate is the change from average to marginal.

(When RBI reduces the repo rate, banks reduce their deposit rate as the repo rate acts as the benchmark rate in the economy. Earlier the calculation of lending rate was based on average cost of deposits to the banks. So, due to reduction in repo rate and further reduction of deposit rates by banks, the average cost of deposits of the banks did not reduce because still banks need to pay the higher deposit rate to all its previous depositors.

In the new method banks will calculate the lending rate based on marginal cost of deposits. So, when RBI will reduce the repo rate and banks reduce the deposit rate, the marginal cost of deposits will get reduced and the banks will have to reduce the lending rates)

This will help in better monetary policy transmission.

The banks shall review and publish their MCLR every month.

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 58, 2.15]

71. (a)

When government offers high rate on its own savings scheme then banks are apprehensive of reducing their deposit rates as it will lead to people depositing money in government savings schemes rather than in banks. When the banks are not able to reduce their deposit rate they do not reduce the lending rate also as it will squeeze/reduce their profits.

It hinders in monetary policy transmission and benefits mostly rich people.

[Refer Economic Survey 2015-16 Vol-I, Page 96, Small Savings]

72. (c)

73. (d)

When a country faces inflation, we require more money to purchase a given quantity of goods and services and the purchasing power of rupee decreases . In case of inflation generally wages increases but nothing can be said about the output.

So, (d) option is true.

74. (d)

One of the reasons of rise in prices of goods and services is due to increase in money supply. And increase in money supply can be caused to government increasing the expenditure or government increasing the salaries through implementation of 7th Pay Commission. When RBI purchases government security from the public it pays money to the public and ultimately increases the money supply.

So, all the statements are true.

75. (c)

To reduce the rate of inflation government should reduce the money supply which it can do through increase in income tax.

So, (c) option is true.

All the other options increases money supply.

76. (a)

When a country experiences real growth i.e. the production of goods and services increases in quantity terms then the economy requires more money for transaction purpose. If the money is not pumped in the economy then due to less money chasing too many goods and services, the economy may experience deflation.

So, only (i) statement is true.

77. (d)

The amount of money supply in the economy impacts prices i.e. when money supply increases inflation increases and when money supply decreases inflation decreases.

Money supply impacts GDP also, as more money is required to increase the output.

When the demand for money increases, rate of interest goes up in the economy. So, when money supply increases then rate of interest may decrease in the economy and vice versa.

So, all statements are correct.

78. (b)

Explained above.

Increase in money supply may not necessarily lead to economic growth.

79. (a)

Deflation is bad for economic growth. Because when prices start declining people postpone their purchase decisions and company's postpone their investment decisions. This leads to decrease in demand in the economy. People also do not keep money in banks because holding of cash gives real return due to negative inflation which ultimately decreases investment.

Low and moderate inflation is good for economic growth as it creates demand in the economy and people are also willing to save money in banks which ultimately increases investment.

Galloping or Hyperinflation eats away the savings of the people as they spend too much money in buying goods and services which ultimately decreases investment.

Banks also do not offer higher interest rate (than inflation) in such cases and people do not keep money in banks as they do not get any real return.

So, only (ii) statement is true.

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 70, 2.21]

80. (b)

It is an economic anomaly where stagnation in the economy is accompanied by high inflation (instead of low inflation due to falling demand). Triggered first in 1973 by the OPEC's fourfold increase in oil prices which raised all prices, thus slowing down economic growth.

Stagflation = Stagnation in the economy + Inflation

Generally when economy stagnates (slows down) then inflation also comes down due to lower demand in the economy. But stagflation is an exception where economy slows down but the inflation is high. And this may be because of the steep rise in prices of some inputs required in the production process.

81. (d)

When the output in the economy is high, that means factories are working at full potential and employing more labour. So, (i) statement is not true.

When the unemployment in the economy is high, people have less money to purchase goods and services i.e. the demand in the economy decreases which leads to decrease in prices. So, (ii) statement is also not true.

82. (c)

Consider an example:

	2012	2013	2014	2015
Onion Prices (Rs/kg)	10	11	11.6	12
Inflation	10%	5.45%	3.45%	

In the above example onion prices are increasing. But inflation (increase in prices) is decreasing from 10% to 5.45% to 3.45% but it is positive. This is a case of Disinflation (declining rate of inflation but the rate of inflation remains positive).

So, (i) statement is true.

Consider next example:

	2012	2013	2014	2015
Onion Prices (Rs/kg)	10	9.5	9	8
Inflation	-5%	-5.6%	-5.6%	-11.1%

In the above example onion prices are decreasing, so the inflation is negative. This is a case of Deflation.

So, (ii) statement is also true.

83. (a)

Disinflation means prices are increasing (but inflation is decreasing and is positive).

When prices are increasing, Nominal GDP will always be greater than Real GDP.

(If the current year is taken as the base year then Nominal GDP = Real GDP)

84. (d)

When the economy is facing deflation, that means prices are decreasing.

In such a situation, whatever I can buy today in Rs. 100, in the same Rs. 100, I will be able to purchase more in the next year. This leads to postponement of purchase decisions by the people and the demand in the economy decreases. When the demand decreases, companies defer their production and investment decisions which lead to increase in unemployment.

So, all the statements are correct.

85. (c)

Those transactions come under Capital Account (BoP) which creates future obligations/liabilities or change in assets/liabilities. For example loans, shares, deposits etc.

Global Depository Receipts (GDRs) are basically shares issued abroad by a domestic company through banks.

Trade Credit means credit/loan given for trade purpose.

Securities are basically financial assets, so it will always be included in Capital Account.

So, all are part of Capital Account of BoP

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 66, 2.19]

86. (a)

BoP is basically transactions of the residents of the country with the rest of the world.

And transfer payments means anything given for free.

In the (i) statement, the transaction between Indian resident and Non Resident (NRI) is for free, without any work done or consideration. So it is a case of transfer payment.

In the (ii) statement, the transaction is between Indian resident and its employer (non-resident company) for some work done by the Indian. So it is not a case of free transfer rather it is factor income.

So, only (i) statement is true.

87. (c)

If the Current Account is negative that means we are spending more and earning less (imports are more than exports), then we require foreign exchange to fund the Current Account Deficit.

This foreign exchange can come if we are surplus in Capital Account i.e. there is a net inflow in Capital Account. Or we can also use the foreign exchange reserves of our country.

So, both statements are true.

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 66, 2.19]

88. (d)

Exports means produced within the country and sold to foreigners (or non residents). If a foreigner is coming to India and then purchasing wheat then it is a case of exports.

In the same way, if a foreigner is coming to India for medical treatment or tourism then the foreigner is basically purchasing medical and tourism services produced in our country.

So, the best possible answer is exports.

89. (d)

Current Account Convertibility means Rupee can be converted into foreign currencies and foreign currencies into Rupee at market rate (nominal exchange rate) for any transactions under current account of BoP. For example, if anybody wants to import cotton then he can get his Rupees converted into dollars (to purchase the cotton) at market rate as RBI allows full conversion for all current account transactions.

Capital Account Convertibility means Rupee can be converted into foreign currencies and foreign currencies into Rupee at market rate (nominal exchange rate) for any transactions under capital account of BoP. RBI puts various restrictions if anybody would like to convert its rupee into dollar for purchase of shares, other assets abroad which is a part of capital account.

90. (d)**91. (d)**

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 45, 2.12]

92. (c)

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 45, 2.12]

93. (b)

- RBI has deregulated interest rate on term/ time deposits since Oct 1997.
- RBI had deregulated interest rate on savings deposits since May 2011.
- RBI regulates three categories of financial markets; money markets, government securities markets and foreign exchange markets.

94. (d)

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 45, 2.12]

95. (c)

Mergers and Acquisitions of commercial banks require the approval of Competition Commission of India (CCI) and Reserve Bank of India (RBI) both.

CCI is the "Fair Trade Regulator".

CCI looks into the competition part of such deal and RBI looks into the prudential aspects. The RBI is the sector regulator, so the health of banks is its concern. The CCI's concern is their behaviour in the market and the consumers in the market,"

[Ref: Business Standard, news dated Nov 12, 2012]

Kotak Mahindra Bank Limited and ING Vysya Bank Limited merger was approved by both CCI and RBI.

96. (d)

A bank run is a situation that occurs when a large number of bank's customers withdraw their deposits simultaneously due to concerns about the bank's solvency (Solvency is the ability of a company to meet its long-term financial obligations which is essential to staying in business). As more and more people withdraw their funds, the probability of default increases, thereby prompting more people to withdraw their deposits. In extreme cases, the bank's reserves may not be sufficient to cover the withdrawals. A bank run is typically the result of panic which can ultimately lead to default. In such a situation, the RBI stands by the commercial banks as a guarantor and extends loans to ensure the solvency of the banks. This function of RBI is also called 'lender of last resort'.

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 49, 2.12]

97. (c)

Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act 2002 allows the banks and financial institutions to seize the security (collaterals for the loan) and sell it in case the loan becomes non-performing (NPA) but only if it is secured (i.e. some collateral has been placed against it).

So, (iii) is true and (iv) is not true

The Act allows RBI or if the bank/ financial institution is administered or regulated by any other authority then as per the classification guidelines issued by such authority.

So, statement (i) is not true and (ii) is true.

98. (d)

NABARD does not give direct loan but it gives loan to Commercial Banks, Regional Rural Banks (RRBs), State Cooperative Banks & Land Development Banks **and** Non Banking Financial Companies (NBFCs) for further lending to the agriculture and rural sectors.

[Ref: NABARD website:- <https://www.nabard.org/english/Longterm.aspx>]

99. (b)

Rural Cooperative Banks are regulated by RBI and supervised by NABARD

100. (c)

Regional Rural Banks (RRBs) are regulated by RBI and supervised by NABARD

101. (b)

Central government is recapitalizing the public sector banks (i.e. putting in more capital/money into the banks) to increase its capital in the bank. This will increase the capital adequacy ratio of banks which is also a requirement of Basel III norm. It helps in preventing the banks from going bankrupt.

102. (c)

"Sovereign Gold Bonds" are basically government bonds (securities) denominated in terms of gold. Suppose somebody is purchasing gold bonds worth Rs. 100 by payment in rupees, then this Rs. 100 bond will also be denominated in grams of gold as per the market price of gold at the time of purchase and the investor will earn a fix interest rate. So an investor holding gold bonds will get the benefit of price appreciation if the price of physical gold in the market is increasing and interest both but he will lose if the price of gold in the market decreases. An investor who is purchasing physical gold rather than gold bonds will only get the benefit of price appreciation and not the interest, so it is better to purchase gold bonds.

[Ref: <https://www.rbi.org.in/Scripts/FAQView.aspx?Id=109>]

103. (d)

[Ref: www.rbi.org.in/Scripts/WSSView.aspx?Id=20634]

104. (c)

[Ref: 12th new NCERT Macro, Page 76]

105. (a)

As per the RBI Act 1934, Section 26, "on recommendation of the Central Board the Central Government may, by notification in the Gazette of India, declare that, with effect from such date as may be specified in the notification, any series of bank notes of any denomination shall cease to be legal tender".

106. (d)

Liquidity is measured by effective cash in circulation. The demonetization has led to liquidity crunch as the old Rs. 1000 and Rs. 500 notes could not be used for transaction purpose and there were restriction on withdrawal of new currency notes.

In the banking system, demonetization has led to increase in liquidity (here liquidity means deposits with the banks) which has resulted in decreased market interest rates.

Economists define money supply as broad measures that encompasses both cash and bank deposits, because these are very close substitutes. A key aspect of the November 8 demonetization, however, is that the convertibility between cash and bank deposits was impeded. Cash could not be easily deposited into bank accounts, while withdrawals were subject to strict limits. So we can say that demonetization has led to reduction in money supply.

107. (d)

Demonetization in the short run is potentially:

- An aggregate demand shock, because it reduces the supply of money and affects private wealth (especially of those holding unaccounted money and owning real estate)
- An aggregate supply shock to the extent that cash is a necessary input for economic activity (for example if agricultural producers require cash to pay labour)
- An uncertainty shock because economic agents face difficulty in assessing the impact and duration of the liquidity shock as well as further policy responses (causing consumers to defer or reduce discretionary consumption and firms to reconsider investment plans).

[Ref: Economic Survey 2016-17 Page No. 69]

108. (d)

As per the " Benami Transactions (Prohibition) Amendment Act, 2016", a "benami property" means any property which is the subject matter of a benami transaction and also includes the proceeds from such property. A "benami transaction" means a transaction or an arrangement:

- where a property is transferred to, or is held by, a person, and the consideration for such property has been provided, or paid by, another person; and
- the property is held for the immediate or future benefit, direct or indirect, of the person who has provided the consideration.

As per the Act, property transactions among the family members is not benami transaction. And unaccounted cash deposited in others' account is benami transaction.

109. (c)

A country or its citizens may use many modes of exchange in their daily lives. History tells us that ancient humans used salt and spices as currency. But 'Legal tender' is the money that is recognized by the law of the land, as valid for payment of debt. It must be accepted for discharge of debt. The RBI Act of 1934, which gives the central bank the sole right to issue bank/ currency notes, states that "Every bank note shall be legal tender at any place in India in payment for the amount expressed therein".

Legal tender can be limited or unlimited in character. In India, coins function as limited legal tender. Therefore, 50 paise coins can be offered as legal tender for dues up to ₹10 and smaller coins for dues up to ₹1. Currency notes are unlimited legal tender and can be offered as payment for dues of any size.

As per the RBI Act 1934, all bank notes are guaranteed by the Central Government

110. (c)

As per the RBI Act 1934, Clause 25, "the design, form and material of bank notes shall be such as may be approved by the Central Government after consideration of the recommendations made by the Central Board of RBI.

111. (d)

As per section 26 of the RBI Act 1934, on recommendation of the Central Board the Central Government may, by notification in the Gazette of India, declare that, with effect from such date as may be specified in the notification, any series of bank notes of any denomination shall cease to be legal tender.

112. (d)

The currency held by public is the liability of RBI as whenever somebody comes with the currency note to the RBI, it needs to return a sum equivalent to the value of currency. So if some old notes does not come to the banking system then it will become invalid, and RBI will never have to return equivalent value of those currency notes.

If the black money does not come back to the banking system after demonetization then RBI's liability would reduce by that amount and its net Assets (net worth) will increase. This ultimately means that the private money has been transferred to the RBI. Hence it is a kind of transfer of illicit black money to the public sector.

Demonetization may have some negative impact on GDP growth which will impact the revenues from indirect and corporate taxes.

"Black economy is the market based production of goods and services – legal or illegal – that escapes capture in the official GDP statistics. And the tax that the government forfeits on this activity circulates as black money."

113. (c)

When the production of goods and services increases then the value of transaction in the economy also increases. To settle the increased transactions we require more currency notes. If electronic transactions are happening in the economy then it will reduce the demand for hard currency notes.

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 27, 2.1]

114. (d)

Immediate Payment Service (**IMPS**) offers an instant, 24X7, interbank electronic fund transfer service through **mobile phones**. IMPS is an emphatic tool to transfer money instantly within banks across India through mobile, internet and ATM which is not only safe but also economical both in financial and non financial perspectives. This facility is provided by National Payments Corporation of India (NPCI).

Real Time Gross Settlement (**RTGS**), which can be defined as the continuous (real-time) settlement of funds individually on an order by order basis (without netting). 'Real Time' means the processing of instructions at the time they are received rather than at some later time. 'Gross Settlement' means the settlement of funds transfer instructions occurs individually (on an instruction by instruction basis). The RTGS system is primarily meant for large value transactions.

National Electronic Funds Transfer (**NEFT**) is an electronic fund transfer system that operates on a Deferred Net Settlement (DNS) basis which settles transactions in batches and are not real time. In DNS, the settlement takes place with all transactions received till the particular cut-off time. These transactions are netted (payable and receivables) in NEFT whereas in RTGS the transactions are settled individually. Any transaction initiated after a designated settlement time would have to wait till the next designated settlement time. Contrary to this, in the RTGS transactions are processed continuously throughout the RTGS business hours.

115. (c)

Government and the RBI are supporting digital payments to encourage cashless economy. To facilitate digital transactions, the Merchants (businessmen/shopkeepers) have to set payment infrastructure like PoS (Point of Sale) machines and they have to start a unique account which is called the Merchant Account with a bank to avail payments from the customers. As the banks provides payment services, the merchants have to give a payment to the bank for using the payment infrastructure set up by the bank. This charge to a merchant by a bank for accepting payment from their customers in credit and debit cards every time a card is used for payments (like swiping) in their stores is called Merchant Discount Rate (MDR) and is expressed in percentage of the transaction value.

116. (d)

[Ref: Gol budget: <http://www.unionbudget.nic.in/> -> Budget at a glance (pdf file)]

117. (c)

118. (a)

[Ref: Indian Polity by Laxmikanth, Parliament->Budget in Parliament-> Passing of Appropriation Bill]

119. (c)

[Ref: Indian Polity by Laxmikanth, Parliament-> 22.25]

120. (c)

[Ref: Indian Polity by Laxmikanth, Parliament->Budget in Parliament->Constitutional Provisions]

[Ref: 12th new NCERT Macro, Page 61, Components of the Government Budget]

121. (c)

[Ref: 12th new NCERT Macro, Page 63, Capital Receipts]

122. (a)

[Ref: 12th new NCERT Macro, Page 62, Revenue Expenditure]

123. (c)

Royalty from onshore (on land) oilfields goes to the State Governments as tax on minerals is the right of States. From offshore (within sea) oilfields, royalty goes to Central Government. So, (iii) statement is not true.

124. (b)

There are certain capital receipts of the Central Government which does not create debt/liability on it.

When the government is selling its shares in PSUs it is not creating debt on Govt. rather it is decreasing its assets.

In the same way recovery of loans does not create debt.

But, if the Govt. issues securities (treasury bills) then it will be debt creating capital receipts.

Money received in Public Account are liabilities for Govt. of India and are debt creating capital receipts.

[Ref: Gol Receipts Budget 2016-17]

125. (a)

Most of the taxes in the country are imposed on value (Quantity X Price) and not on quantity. So tax revenue collection depends on the value of production i.e. Nominal GDP

126. (a)

[Refer Economic Survey 2014-15 Vol-I, Page 131, Under foot notes]

127. (c)

128. (d)

[Ref: Gol budget 2016-17, <http://indiabudget.nic.in/budget.asp>]

129. (a)

Public Debt of **Govt. of India** is Central Government's internal and external debt.

Treasury Bill is Govt. of India's debt because these are bonds issued by Gol.

ECB and FDI relates to companies and PSUs. And NRI deposits are in banks and it is not a debt of Govt. of India.

So, only (i) statement is correct.

130. (d)

India's external debt includes the debt of the Central Government, State Governments, companies, NRI deposits, debt investments in India etc. So, all the statements are true.

131. (c)

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 82, 3.5]

132. (a)

Fiscal Deficit is equal to total borrowing and the borrowing is part of capital receipts which create debt. So fiscal deficit is equal to debt creating capital receipts.

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 82, 3.5]

133. (d)

[Ref: Economic Survey 2015-16 Vol-I, Page 25, Medium Term Fiscal Framework]

134. (d)

[Ref: 12th new NCERT Macro, Page 72, Other Perspective on Deficits and Debt]

135. (c)

[Ref: 12th new NCERT Macro, Page 73, Box 5.1 FRBM Act 2003]

136. (a)

[Ref: <http://pib.nic.in/budget2015/book/Budgetary.pdf>]

137. (b)

138. (c)

139. (c)

140. (c)

141. (c)

142. (d)

143. (b)

144. (b)

145. (d)

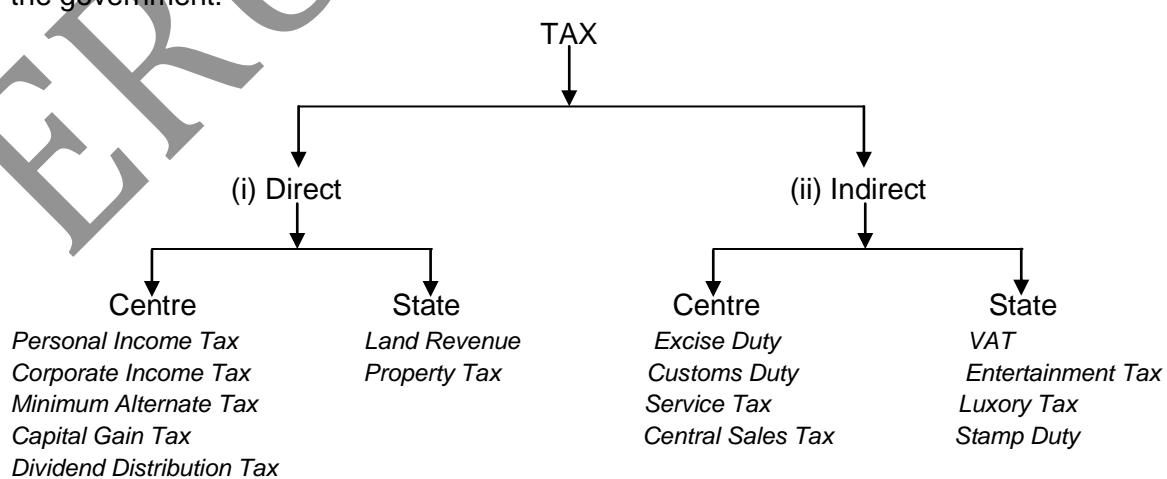
146. (c)

147. (d)

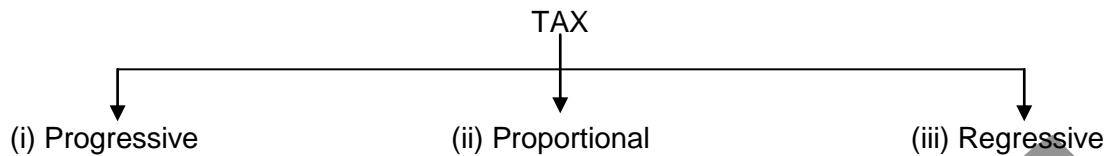
148. (a)

Taxes are levied as per the Constitution (either by Centre or State).

The following is the classification of Taxes with respect to who is responsible for payment to the government:



The following is the classification of taxes based on tax percentage with respect to income:



- (i) Progressive Tax: Percentage of tax increases with increase in income
- (ii) Proportional Tax: Percentage of tax remains same/constant irrespective of income
- (iii) Regressive Tax: Percentage of tax decreases with increase in income

- ❖ Direct taxes are those which are paid directly by an individual or organization to the imposing entity i.e. the government. For example, a taxpayer pays direct taxes to the government for different purposes like income tax, property tax etc.
- ❖ An indirect tax is a tax collected by an intermediary (such as a retail store) from the person who bears the ultimate economic burden of the tax (such as the consumer). For example taxes levied on goods and services.
- ❖ Personal income tax is imposed by combining all sources of the individual's income like salary, rental income, interest income etc.
- ❖ Corporate income tax is imposed on the profits of the corporates/ companies/ entities. All profit making companies need to pay a flat rate of corporate income tax.
- ❖ Minimum Alternate Tax (MAT): At times it may happen that a taxpayer, being a company, may have generated income during the year, but by taking the advantage of various provisions of exemptions under the Income tax law (like depreciation, etc.), it may have reduced its tax liability or may not have paid any tax at all (zero tax companies). Due to increase in the number of zero taxpaying companies, MAT was introduced by the Finance Act, 1987. The objective of introduction of MAT was to bring into the tax net "zero tax companies" which in spite of 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 i.e. (a) or (b):

- (a) Tax liability of the company computed as per the normal provisions of the Income tax Law, i.e., tax computed on the taxable income of the company by applying the tax rate applicable. Tax computed in above manner can be termed as normal tax liability.

(b) Tax computed @ 18.5% on book profit called the MAT.

Consider an example of a company named "XYZ Pvt. Ltd." for a particular year 2015-16:

Turnover/sales = Rs. 50,00,000/-

Costs = Rs. 31,60,000/-

(Booked) Profit = Rs. 18,40,000/-

Exemptions/Rebates = Rs. 10,00,000/-

Taxable Income = Rs. 8,40,000/-

The tax liability of the company XYZ will be higher of:

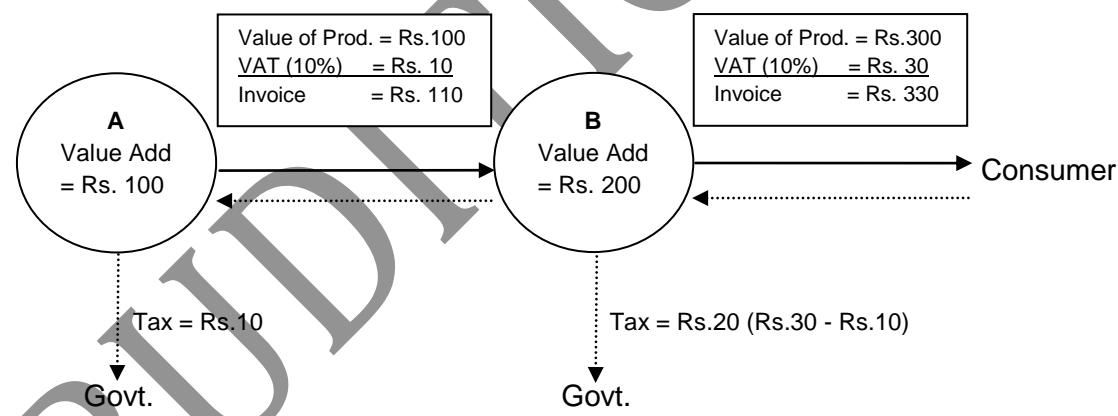
- (a) Normal tax liability = 30% of taxable income = 30% of Rs. 8,40,000/- = Rs. 2,52,000/-
- (b) MAT = 18.5% of Booked Profit = 18.5% of Rs. 18,40,000/- = Rs. 3,40,400/-

Thus the tax liability of the company will be Rs. 3,40,400/- i.e. the company will have to pay MAT rather than the normal tax liability

- ❖ Capital Gain Tax: Capital gains tax is a tax on capital gains i.e. the gain/profit realized on the sale of an asset that was purchased at a cost amount that was lower than the amount realized on the sale. The most common capital gains are realized from the sale of shares/stocks, bonds, precious metals and property.
- ❖ Dividend Distribution Tax (DDT): Dividend is the distribution of a portion of company's profits/earnings to its owners/ shareholders. When a company announces dividends, it is liable to pay tax on the amount that is paid as dividend. This tax is referred to as the dividend distribution tax (DDT) and is payable by the company announcing the dividends.
- ❖ Indirect taxes can be either origin based or destination based. Origin based tax (also known as production tax) is levied where goods or services are produced. Destination based tax (consumption tax) are levied where goods and services are consumed.
- ❖ All indirect taxes are regressive in nature. Let us consider an example:
Suppose a rich person (income 10 lacs) is purchasing a bread worth Rs. 25 (including Rs. 5 tax). Then he is paying tax Rs 5. But if the same bread is purchased by a poor person whose income is Rs. 1 lac then he is also paying the same tax of Rs. 5.
This means the poor person is paying higher tax percentage with respect to his income (.005%) and rich person is paying less tax percentage with respect to his income (.0005%).

- ❖ Excise duty is imposed on manufactured goods and is levied when the goods move out of the factory area.
- ❖ Customs duty is imposed on export and import of goods.
- ❖ Service Tax is imposed on sale of services.
- ❖ Central Sales Tax (CST) is levied by Centre on sale of goods from one state to another but the tax proceeds are collected and kept by the origin state, so it is also called origin based tax.
- ❖ Value Added Tax (VAT) is imposed on the sale of goods within the state (Central government cannot impose taxes on sale of goods within the state.) and it is imposed only on the value addition. In case of VAT, every entity in the value chain need to pay tax to the government according to their **value addition**. Since every entity in the value chain is paying tax, VAT is also called **Multipoint based tax**. VAT is also a **consumption and destination based tax** as it is levied where the goods are consumed i.e. in the destination of the product.

Consider an example to understand VAT in a better way:



In the above example, A is doing value addition of Rs. 100 and selling the product to B in Rs. 110 and paying Rs. 10 as VAT to the government and B is doing value addition of Rs. 200 and is paying Rs. 20 VAT to the government. *Practically, B first pays the total VAT of Rs. 30 to the government on the total value addition of the product and when B shows the tax receipt of Rs. 10 (which B has paid to A on the purchase of inputs and A in turn has paid to the government) then the government credits (pays back) the Rs. 10 amount tax already paid by B to A on the purchase of inputs from A.* This is called **Input Tax Credit Mechanism** and it prevents tax avoidance because every entity in the value chain would ask for the tax receipt from the previous entity in the value chain to get credits of the taxes paid on the purchase of inputs.

- ❖ Goods and Services Tax (GST) will be a kind of value added tax i.e. it will be imposed on only value addition and not on the total value of sale. So all the concepts of VAT will hold true for GST also i.e. GST is consumer based, destination based and multipoint tax and will have input tax credit mechanism. GST is a transaction tax (a tax paid when something is bought or sold)

Once GST gets implemented, most of the **indirect** taxes of Centre & States will go away (except customs) and there will be only one tax GST all across India and on all goods and services. So GST will help in creating the whole of India as a common market.

149. (b)

The Finance Commission recommends the percentage of taxes that the Centre needs to share with the states. It includes all the direct and indirect taxes imposed and collected by the Centre except Cess and Surcharge. Cess and Surcharge are not shared with the States i.e. it is not part of the divisible pool.

150. (b)

[Ref: *Economic Survey 2014-15 Vol-I, Page 131, Table 10.1*]

151. (b)

[Ref: *Economic Survey 2015-16 Vol-I, Page 9, The Indian Context*]

152. (d)

[Ref: *12th new NCERT Macro, Page 72, Other Perspectives on Deficits and Debt*]

[Ref: *Economic Survey 2014-15 Vol-I, Page 89, Introduction*]

153. (c)

[Ref: *Economic Survey 2014-15 Vol-I, Page 89, Introduction*]

[Ref: *Economic Survey 2015-16 Vol-II, Page 125, 6.6*]

154. (d)

When the import duty on raw materials is quite higher than the import duty on finished goods then it makes the domestic manufacturers less competitive because then traders start importing manufactured goods in the country rather than manufacturing the goods domestically.

India levies the highest duties on import of raw rubber and one of the lowest duties on import of finished rubber goods. This has created inverted duty structure.

155. (c)

156. (c)

When a factory is running at peak production, then its production cannot be increased even by adding more labourers. Marginal productivity of labour means how much extra production will increase by adding one more labour. So, marginal productivity of labour will be zero.

157. (c)

Consider an example:

If a country is exporting only apples and importing only oranges, then the terms of trade (TOT) are simply the ratio of price of apples to the price of oranges.

Suppose the price of apple is Rs. 120/kg and Oranges is Rs. 40/kg

So, TOT = $120/40 = 3$

Which means if India is exporting apples and importing oranges then for one kg of apples export we can import 3kg of oranges. In other words, how many oranges can we import for a unit of export of apples.

So, TOT is a measure of how much imports an economy can get for a unit of exported goods. Since economies typically export and import many goods, measuring the TOT requires defining price indices for exported and imported goods and comparing the two.

A rise in the prices of exported goods in international markets would increase the TOT, while a rise in the prices of imported goods would decrease it.

So, statements (i), (iii) & (iv) are true.

158. (d)

- Anti Dumping Duty are exporter specific and country specific and is imposed when the product is exported below the normal value (normal value is the price at which the product is sold in the domestic country)
- When a government gives export subsidy then such subsidies are actionable by way of levying Countervailing Duty. It is also exporter specific and country specific.
- Safeguards are applied when there is a surge in imports of a particular product irrespective of a particular country/ies. Safeguard measures are applied to all imports of the product in question irrespective of the countries in which it originates or from which it is exported.

[Ref: *Economic Survey 2015-16 Vol-I, Page 129, Conclusion: Policy Implications*]

[Ref: http://commerce.nic.in/traderemedies/ad_measures_4.asp]

159. (c)

Labour Force = Employed + Unemployed (not in job but actively looking for job)

$$\text{Unemployment} = \frac{\text{Unemployed people}}{\text{Labour Force}} \times 100\%$$

160. (c)

161. (b)

162. (b)

Structural unemployment occurs for a number of reasons - workers lacking the requisite job skills, change in government policy or change in technology, or they may live far from regions

where jobs are available but are unable to move there or simply unwilling to work because existing wage levels are too low. So while jobs are available, there is a serious mismatch between what companies need and what workers can offer.

Structural unemployment exists when there are jobs available and people willing to do work, but there are not sufficient number of people qualified to fill the vacant jobs.

[For detailed explanation, refer the Indian Economy Book of Erudition IAS, page 72, 2.22]

163. (c)

Frictional unemployment arises due to people moving between jobs, career or location or people entering and exiting the labour force or workers and employers having inconsistency or incomplete information. Actually people first leave job and then they try to find a new job according to their choice and this process takes some time to apply for new jobs and for employers to make a selection and hence they remain unemployed for this transition period. That is why frictional unemployment is also called as transitional unemployment and it is always present in the economy.

164. (b)

Disguised unemployment arises because more labourers work in the factory/land than are required. And hence productivity i.e. production per unit of labour will be quite less.

So, (ii) statement is correct.

In such case if we add more capital then production will increase but if we add more labour then production will not increase.

So, marginal productivity of capital = $\frac{\text{change in production}}{\text{change in capital}}$ will be positive

but marginal productivity of labour = $\frac{\text{change in production}}{\text{change in labour}}$ will be zero

165. (d)

When the economy slows down or in recession (due to reduced demand) then production in the economy decreases and employers lay off workers which causes cyclical unemployment.

It is a case of reduced demand, so it generally leads to deflation.

So, (ii) statement is true.

It can be tackled by increasing the demand in the economy. RBI can increase the demand through expansionary monetary policy i.e. reduction in repo rate. And government can also increase the demand in the economy by expansionary fiscal policy i.e. increase in government expenditure or reduction in taxes. Through both these policies, more money reaches to the people and demand in the economy increases.

So, (iii) & (iv) statements are true.

166. (d)

Underemployment is a situation in which a worker is employed , but not in the desired capacity, whether in terms of compensation, skill level, experience, education or their availability. While not technically unemployed, the underemployed are often competing for available jobs. Underemployment is a social problem that affects job growth, poverty level, economic growth and emotional health of underemployed workers.

167. (a)

Employment elasticity is a measure of the percentage change in employment associated with a 1 percentage point change in economic growth. The employment elasticity indicates the ability of an economy to generate employment opportunities for its population as per cent of its growth (development) process.

Hence, if the economy is facing jobless growth then employment elasticity will decrease.

168. (c)

169. (c)

[Ref: <http://censusindia.gov.in/2011-common/aboutus.html>]

170. (a)

[Ref: <https://openknowledge.worldbank.org/handle/10986/2124>]

171. (a)

The Reserve Bank has been conducting Consumer Confidence Survey (CCS) on a quarterly basis since June 2010. The survey captures qualitative responses on questions pertaining to economic conditions, household circumstances, income, spending, prices and employment prospects. The survey results are based on the views of the respondents and are not necessarily shared by the Reserve Bank of India.

[Ref: https://rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=15122]

172. (c)

173. (d)

Multidimensional Poverty Index (MPI) is published since 2010 by United Nations Development Programme (UNDP) and is captured in the Human Development Report (HDR) and the index identifies deprivations across the same three dimensions as the HDI.

174. (d)

[Ref: 12th new NCERT Macro, Page 61]

175. (d)

[Ref: Economic Survey 2015-16 Vol-II, Page 122, 128]

176. (b)

Government established NIIF in 2015 with the aim to attract investment from both domestic and international sources for funding commercially viable Greenfield, Brownfield and stalled projects in infrastructure sector. NIIF has been formed as a trust and is registered with SEBI under Category II of Alternative Investment Fund (*for tax benefit*). It is basically a quasi sovereign wealth fund as government holds only 49% ownership.

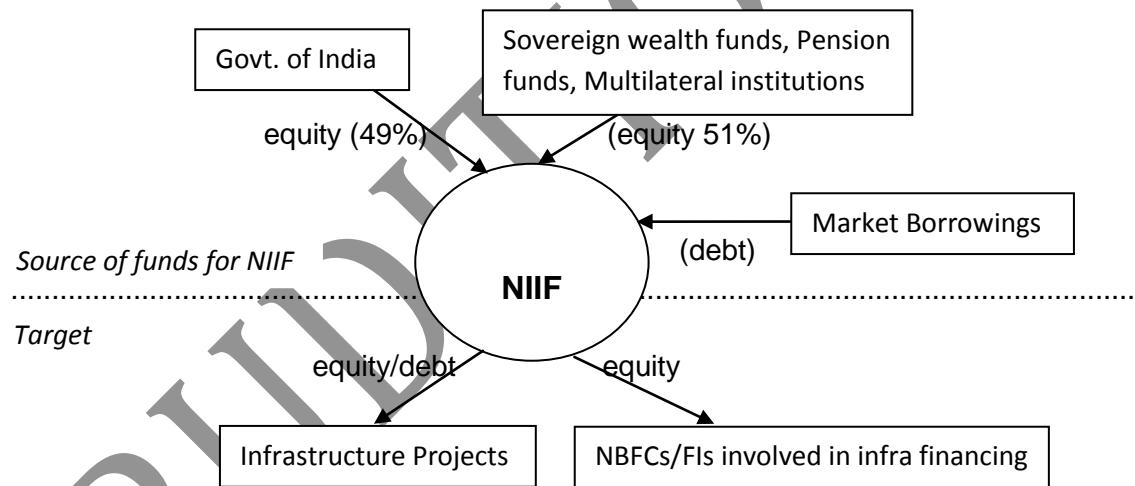
NIIF will get funds from:

- Overseas sovereign/quasi-sovereign/ multilateral/bilateral investors through equity. Cash rich central PSU, provident funds, insurance funds can also invest in NIIF over and above Govt. of India share.
- Market borrowings (debt).

NIIF will invest in:

- Infrastructure projects through equity and debt both; and
- Non Banking Financial Companies (NBFCs) and Financial Institutions (FIs) involved in infrastructure financing through equity.

Structure of NIIF



177. (a)

To safeguard the interests of the farming community, "Ministry of Agriculture and Farmer's Welfare" issued the Cotton Seed Price (Control) Order, 2015, under section 3 of the Essential Commodities Act, 1955, to regulate Bt cotton seed prices.

[Ref: <http://pib.nic.in/newsite/PrintRelease.aspx?relid=137599>]

178. (d)

[Ref: <http://pib.nic.in/newsite/PrintRelease.aspx?relid=118420>]

[Ref: <http://pib.nic.in/newsite/PrintRelease.aspx?relid=136980>]

179. (d)

Through this scheme, the households will be able to deposit their gold/ jewellery with the banks which will ultimately melt this gold/jewellery and convert into gold bars and could sell this gold bars to jewellers. The depositors of gold will earn fix interest rate (denominated in terms of gold) and they will get their gold back after the maturity period or cash whatever they want. Through this scheme government wants to mobilize the gold jewellery lying with the households for productive purpose. This will also help in reducing the gold imports and Current Account Deficit (CAD).

[Ref: <https://rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=10084>]

180. (a)

181. (b)

MUDRA would be responsible for refinancing all Last Mile Financiers such as Non-Banking Finance Companies, Societies, Trusts, Companies, Co-operative Societies, Small Banks, Scheduled Commercial Banks and Regional Rural Banks which are in the business of lending to micro/small business entities engaged in manufacturing, trading and services activities. Refinancing means MUDRA loans will be available through Banks/NBFCs/MFIs and not directly from MUDRA Bank.

MUDRA would also partner with State/Regional level financial intermediaries to provide finance to Last Mile Financier of small/micro business enterprises.

MUDRA loans are available in three categories. For small business, loans upto 50000/- is available under the 'Shishu' category, beyond 50,000 and up to 5 lakh under the 'Kishor' category and between 5 lakhs to 10 lakhs under the 'Tarun' category. These products have been designed to cater to customers operating at the lower end of the enterprise spectrum.

[Ref: <http://www.mudra.org.in/FAQ>]

182. (d)

183. (d)

RBI released guidelines for licensing of payment banks in Nov. 2014. The objectives of setting up of payments banks is to promote financial inclusion by providing small savings accounts and payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganized sector entities and other users.

The following will be the scope of activities for payment banks:

- Acceptance of demand deposits **but no lending activity**
- Issuance of ATM/debit cards but not credit cards
- Payments and remittance services through various channels
- Acting as Banking Correspondent (BC) of another bank
- Distribution of simple financial products like mutual funds & insurance products, etc.

Payment banks will be required to maintain Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR). The total deposits of the public must be invested in government securities and/ or deposited in other commercial banks (i.e. no lending is allowed). This makes the public deposit

in payment banks safe. Payment banks will be set up as differentiated (specialized/ specific and not universal banks like ICICI) banks for serving niche interests.

[Ref: https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=32615]

184. (d)

RBI released guidelines for licensing of "small finance banks" in Nov. 2014. The objectives of setting up of small finance banks are to promote financial inclusion by providing provision of savings vehicles and supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganized sector entities, through high technology-low cost operations. They are required to extend 75% of their loans to priority sectors and 50% of their loan portfolio shall constitute loans of up to 25 lacs.

The scope of activities for small finance banks will be basic banking activities of acceptance of deposits and lending to unserved and underserved sections including small business units, small and marginal farmers, micro and small industries and unorganized sector entities and there will not be any restriction in the area of operations. They will be required to maintain CRR and SLR. They will be set up as differentiated banks for serving niche interests (and not as universal banks like ICICI).

[Ref: https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=32614]

185. (b)

It is a small savings scheme and there is no upper limit on investment and anybody can purchase this instrument.

[Ref: <http://pib.nic.in/newsite/PrintRelease.aspx?relid=113819>]

186. (d)

The Prime Minister launched a nationwide 'Soil Health Card' Scheme on 19th Feb 2015 from Suratgarh in Rajasthan.

- It plans to distribute 14 crore cards in the next 3 years to the farmers in the country
- Central government will provide assistance to state governments for setting up soil testing laboratories for issuing soil health cards to farmers
- Soil testing will be done once in every three years
- It will give information about the quality and fertility status of the soil
- It will carry crop wise recommendations of nutrients/ fertilizers required for the farm
- It will help choose the right fertilizers in the right combination
- It will promote balanced fertilization leading to improved soil health

187. (d)

Under the National Agricultural Market (NAM) scheme, all the physical Agricultural Produce Marketing Committee (APMC) mandis will be linked through an online platform. So, NAM is basically an online platform with physical mandi at the backend. A farmer bringing his produce to the physical APMC mandi will have the option either to sell his produce in the physical APMC mandi or he can sell his produce through online portal across India to any trader. Because of the online portal, where anybody can see the rates of the agriculture commodities being traded, the prices will tend to converge and the farmer will get the best price.

NAM will be implemented through 'Agri-Tech Infrastructure Fund' (ATIF) to be set up by Dept. of Agriculture and Cooperation. Small Farmers Agribusiness Consortium (SFAC) will implement the NAM e-platform through ATIF to integrate 585 APMC Mandis. States willing to integrate their APMC mandis with NAM are required to make amendments in their state APMC Acts regarding the following:

- Single license to be valid across the state
- Single point levy of market fee
- Provision of electronic auction as a mode of price discovery

[Ref: <http://www.enam.gov.in/NAM/home/index.html>]

188. (c)

"Nutrient Based Subsidy" is applicable for Phosphatic and Potassic (P&K) fertilizers only and not for Urea which is a Nitrogenous fertilizer. Govt. fixes the subsidy annually based on the per kg of nutrient present in the fertilizer. As the subsidy given by the Govt. is fix, so the market price of the fertilizers vary with the change in international prices. So market prices are not regulated by the government rather it is decontrolled.

[Ref: <http://pib.nic.in/newsite/PrintRelease.aspx?relid=138322>]

189. (d)

[Ref: <http://pib.nic.in/newsite/PrintRelease.aspx?relid=133326>]

190. (d)

[Ref: *Economic Survey 2015-16 Vol-I, Page 132*]

191. (d)

Crowd funding or marketplace financing refers to a method of funding a project or new venture through small amounts of money raised from a large number of people, typically through a portal (internet/social media) acting as an intermediary. Crowd funding makes use of the easy accessibility of vast networks of people through social media and crowd funding websites to bring investors and entrepreneurs together. Crowd funding has the potential to increase entrepreneurship by expanding the pool of investors from whom funds can be raised beyond the traditional circle of owners.

192. (c)

Goods and Services Tax Network (GSTN) is a non-Government, private limited company. The Government of India and all States together hold 49%. Balance 51% shares is with non-Government financial institutions. The Company has been set up primarily to provide IT infrastructure and services to the Central and State Governments, tax payers and other stakeholders for implementation of the Goods and Services Tax (GST).

193. (b)

The International Fund for Agricultural Development (IFAD), a specialized agency of the United Nations, was established as an international financial institution in 1977 as one of the

major outcomes of the 1974 World Food Conference. The conference was organized in response to the food crises of the early 1970s that primarily affected the Sahelian countries of Africa. It resolved that "an International Fund for Agricultural Development should be established immediately to finance agricultural development projects primarily for food production in the developing countries." Through low interest loans and grants, IFAD works with governments to develop and finance programmes and projects that enable rural poor people to overcome poverty.

194. (d)

Under WTO agreements, countries cannot normally discriminate between their trading partners. In general MFN means that every time a country lowers a trade barrier (import duties) or opens up a market or gives some country a special favour, it has to do so for the same goods or services from all its trading partners - whether rich or poor, weak or strong. According to the WTO, though the term MFN "suggests special treatment, it actually means non-discrimination." However, exceptions allowed to this rule include free trade pacts and special benefits to poor nations.

India accorded the MFN status to Pakistan in 1996 as per India's commitments as a member of the WTO. After the attack in Uri, in which 18 Indian soldiers were killed, international trade experts said India could consider making use of a 'security exception' clause in the GATT to deny the MFN status to Pakistan or bring in certain trade restrictions.

This is because Article 21(b)(iii) of GATT states that "Nothing in this Agreement shall be construed to prevent any contracting party (including India in this case) from taking any action which it considers necessary for the protection of its essential security interests taken in time of war or other emergency in international relations."

195. (c)

The Public Finance Management System (PFMS) comes under the office of Controller General of Accounts, Ministry of Finance. It is an end-to-end online solution for processing payments, tracking, monitoring, accounting, reconciliation and reporting. The Centre has integrated the treasuries of almost all states into the PFMS to track fund utilization up to the last mile as well as transfer funds "just-in-time" for central schemes. Integration of State treasuries has virtually wiped out indefinite parking of central funds at the state level.

196. (b)

[Ref: *Economic Survey 2016-17, Page 129, 7.4*]

197. (a)

[Ref: <http://www.thehindu.com/business/Centre-shifts-disinvestment-advice-to-new-department/article17069491.ece>]

198. (d)

Angel investor 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.

Angel investors are also called informal investors, angel funders, private investors, seed investors or business angels. These are affluent individuals who inject capital for startups in exchange for ownership equity/share or convertible debt (debt which can be converted into shares/ownership) . Angel investors are focused on helping startups take their first steps, rather than the possible profit they may get from the business.

Angel Investment in India is regulated by Securities and Exchange Board of India (SEBI) under Category I of Alternative Investment Funds (AIF).

199. (d)

With a view to improve the Governance of Public Sector Banks (PSBs), the GoI appointed an autonomous Banks Board Bureau (BBB) which started functioning from 1st April, 2016. The Board has three ex-officio members and three expert members in addition to a Chairman. The following are the functions of the BBB

- It will be responsible for the selection and appointment of Board of Directors in PSBs and Financial Institutions (FIs)
- It will advise the Government on matters relating to appointments, confirmation or extension of tenure and termination of services of the Board of Directors
- It will help banks to develop a robust leadership succession plan for critical positions
- It will build a data bank containing data relating to the performance of PSBs/FIs and its officers
- It will advise the Government on the formulation and enforcement of a code of conduct and ethics for managerial personal in PSBs/FIs
- It will advise the Government on evolving suitable training and development programmes for management personnel in PSBs/FIs
- It will help banks in terms of developing business strategies and capital raising plan etc.

200. (d)

A Sovereign Wealth Fund (SWF) is a State (Government) owned investment fund or entity that is commonly established from export surpluses, fiscal surpluses, proceeds from privatization etc. Countries generally create SWFs to diversify their revenue streams to protect and stabilize the budget and economy from excess volatility. For ex., UAE relies on oil exports for its wealth. Hence, it devotes a portion of its reserves to an SWF that invests in diversified assets that can act as a shield against oil-related risks. SWFs typically invest in multiple asset classes including publicly listed shares, fixed income, private equity, private debt, real estate, infrastructure, natural resources and hedge funds.

201. (d)

Market Stabilization Scheme (MSS) is an instrument for monetary management and was introduced in 2004. Surplus liquidity of a more enduring nature arising from large capital inflows is absorbed through sale of short-dated government securities and treasury bills. The

cash so mobilized is held in a separate government account with the Reserve Bank of India and is part of Capital Receipts of Govt. of India.

When the RBI buys dollars, it releases rupee liquidity in the system, which is then mopped up by sale of MSS bonds/securities.

202. (c)

Directorate of Enforcement is a specialized financial investigation agency under the Department of Revenue, Ministry of Finance, Government of India, which enforces the following laws: -

- Foreign Exchange Management Act, 1999 (FEMA) - A Civil Law, with officers empowered to conduct investigations into suspected contraventions of the Foreign Exchange Laws and Regulations, adjudicate, contraventions, and impose penalties on those adjudged to have contravened the law.
- Prevention of Money Laundering Act, 2002 (PMLA) - A Criminal Law, with the officers empowered to conduct investigations to trace assets derived out of the proceeds of crime, to provisionally attach/ confiscate the same, and to arrest and prosecute the offenders found to be involved in Money Laundering.

203. (c)

Accommodative Monetary Policy: When a central bank attempts to expand the overall money supply to boost the economy when growth is slowing. This is done to encourage more spending from consumers and businesses by making money less expensive to borrow by lowering the interest rate.

A neutral monetary policy is also called "natural" or "equilibrium" rate where the policy (repo) rate is such that neither it stimulates nor restrains economic growth.

When RBI is changing its **stance** from "**accommodative**" to "**neutral**" that means RBI is expecting that in future it may be required to change the policy rate in any direction. When RBI is having an accommodative monetary policy stance that means in future it expects to lower the policy rate. But if it thinks that the inflation or demand in the economy is edging up then it may change its stance from accommodative to neutral so that it has the leeway to change the policy rate in even in the upward direction.

When consumer confidence in the economy is up it shows that in future the consumers will be willing to purchase more goods and services which may lead to an increase in inflation. But if the consumer confidence is down then it implies that consumers will be spending less in future.

204. (c)

Counter-cyclical fiscal policies are those which act in the opposite way to the conventional economic cycle. The government has two fiscal policy, countercyclical and procyclical policy. The terms are often used loosely to describe a government's approach to spending and taxation.

A 'procyclical fiscal policy' can be summarized simply as governments choosing to increase public spending and reduce taxes during an economic boom, but reduce spending and increase taxes during a recession. A 'countercyclical' fiscal policy refers to the opposite approach: reducing spending and raising taxes during a boom period, and increasing spending and cutting taxes during a recession. So a counter cyclical fiscal policy tends to cool down the economy when there is a boom and stimulate the economy when it is slow.

205. (c)

Foreign investment in India can broadly be classified into Foreign direct investment (FDI) and Foreign Portfolio Investment (investment made by foreign institutional investors (FIIs)). In both of these cases, foreign money enters the Indian markets and fuels growth of economy, industries and capital market. However, with the number of increasing regulations in India, it is not easy for foreign money to enter the markets. There are strict guidelines laid down by market regulator SEBI for seeking approvals and documentation for FDI. Also, there are several restrictions laid down on the exit of this money.

On the other hand, FIIs are mainly characterized as portfolio investment i.e. quick money entering the Indian capital market for short-term. Due to its short-term nature, the regulators have laid down fewer guidelines on FII than on FDI. But, the fact remains that foreign money cannot enter Indian markets without regulatory approvals.

So, what happens to all those overseas investors, who want to invest in the Indian stock markets without getting into the regulatory approval process and other hassles? Well, the answer is participatory notes.

Participatory notes (P-notes) are financial instruments which is used by foreign investors that are not registered with SEBI to invest in Indian securities through FIIs. And Investors save time, money and scrutiny associated with direct registration. Because of the anonymity, Indian regulators face difficulty determining a P-note's original and end owner. Therefore, much unaccounted money enters the country through P-notes. For this reason, the Special Investigation Team (SIT) wants stricter compliance measures put in place for trading P-notes. But since FIIs help fuel the growth of the Indian economy, industries and capital market, and because increasing regulations on P-notes would increase the difficulty of foreign money entering the market, the Indian government is reluctant to make the regulations more strict.

206. (d)

The concept of a mutual fund is that various investors/individuals put their money in a fund and this fund is used to purchase shares/bonds of various companies thus diversifying the risk of the investors. If the share price or bond price of the companies increase then the value of the fund also increases and investors gain. If some individual wants to put money into the mutual fund then it can be done only once after the market has closed for that given day.

Exchange Traded Funds (ETFs) are almost similar to that of mutual funds but they differ in the sense that ETFs are traded on the stock exchange throughout the day. So if any investor

wants to purchase an ETF, they can always purchase it from the stock exchange/market throughout the day like the shares of any company.

The Central government has announced in the budget that they will be creating an ETF of various central public sector companies so that to attract investors to purchase ETFs, and through which the disinvestment can be done.

207. (d)

Gini coefficient represents the income distribution of a country's residents. It was developed by the Italian statistician and sociologist Corrado Gini. It measures the inequality in income. The coefficient/index ranges from zero to one, with zero representing perfect equality of income and one showing perfect inequality. The higher the Gini Coefficient, more is the gap between rich and the poor in a country. If the value of Gini Coefficient is 1, it implies that all wealth of that country belongs to one person. The 0 value of Gini Coefficient implies that all people have exactly equal wealth.

208. (d)

Reflation: A fiscal or monetary policy, designed to expand a country's output and curb the effects of deflation. Reflation policies can include reducing taxes, increasing the money supply through lowering interest rates.

Overheating of economy is when prolonged period of good economic growth and activity causes high levels of inflation and the productive capacity of the economy is unable to keep pace with the growing aggregate demand.

209. (a)

When the US Federal Bank increases the interest rate, then the foreign investors sell their investments in India and move to US. In the process they convert the Rupee into dollars from RBI and the demand for dollar increases and rupee depreciates.

Money supply in the Indian economy will decrease in this case because foreign investors will pay RBI in Rupees and get dollars in return and move to US.

210. (b)

The WTO principle of National Treatment says that imported and locally produced goods should be treated equally. So when government is discriminating against the imported products and sourcing only from domestic companies then it is a violation of the principle of "National Treatment" which is a part of the WTO principle of "Trade without discrimination". This happened in the case of Jawaharlal Nehru National Solar Mission (JNNSM), in which only those Solar Power Developers (SDP) who source/procure certain types of solar cells and modules domestically were eligible to sell their electricity to the government and its distribution companies.

211. (a)

"Infrastructure and Energy Division" under the "Department of Economic Affairs", Ministry of Finance grants "Infrastructure Status" to the various sectors.

212. (b)

213. (d)

Islamic banking is a banking system that is based on the principles of Islamic law, also referred to as Shariah law, and guided by Islamic economics. Two basic principles behind Islamic banking are the sharing of profit and loss and the prohibition of the collection and payment of interest by lenders and investors.

In order to earn money without charging interest, Islamic banks use equity-participation systems. This means that if a bank loans money to a business, the business pays back the loan without interest, but it gives the bank a share in its profits. If the business defaults on the loan or does not earn any profits, the bank does not receive any profit either.

The depositors put their savings in Islamic bank and allow the bank to use this money, with the assurance that they would get the full amount back. The bank is not liable to pay interest to the savers. However, some banks do give a certain sum back to the account holder as profit accrued from their operations.

While an Islamic bank is a bank totally based on and run with Islamic principles in mind, an "Islamic window" in a bank refers to conventional banks offering Islamic banking services (in addition to conventional banking services) through dedicated windows.

The RBI has proposed the opening of "Islamic window" in conventional banks for gradual introduction of Sharia compliant banking in the country to ensure financial inclusion of those sections of society that remain excluded due to religious reasons.

214. (d)

The Foreign Contribution (Regulation) Act, 2010 has come into effect from May 1, 2011 and the Ministry of Home Affairs regulates the Act.

The Act regulates the foreign contribution (money donation) and foreign hospitality (e. g. free travel tickets and hotel lodging during videsh-yaatra) given to various NGOs, institutes, judges, journalists, public servants etc.

While the provisions of the repealed FCRA, 1976 have generally been retained, the FCRA, 2010 is an improvement over the repealed Act as more stringent provisions have been made in order to prevent misutilization of the foreign contribution received by the associations.

Any organization of a political nature and any association or company engaged in the production and broadcast of audio or audio visual news or current affairs programme have been placed in the category prohibited to accept foreign contribution.

While FCRA registration under the earlier law was permanent, under the new one, it expires after five years, and have to be renewed afresh. This instantly hands the State a whip with which to bring errant organizations to heel.

215. (a)

When China joined the WTO on 11 December, 2001 it was written into the terms of the deal that member states could treat it as a non-market economy, allowing them to impose heavy anti-dumping duties on the basis that its low prices did not reflect market reality. China was declared a "non-market economy" at that time as most of the goods prices in China were regulated by the government and not by the market forces of demand and supply. And in such a case it becomes easy for its trading partners to impose anti dumping duty against Chinese imports without much of justification and detailed proof.

China was told that it would change by the end of 2016 when it would be upgraded to market economy status. But the clause expired on 11th Dec 2016 and Beijing's hopes of being upgraded to market economy status have been overshadowed as a number of major Chinese trade partners like US, European Union and Japan are not honoring their WTO promises to Beijing.

International trade experts say China will have to start a lengthy legal battle at the WTO against its trade partners in order to get recognition of its new status.

216. (b)

National Small Savings Fund (NSF) was set up on 1st April, 1999 under Public Account of India. The objective of NSF was to account all the monetary transactions under small savings schemes of the Central Government under one umbrella.

Collections under various small saving schemes like Public Provident Fund, Kisan Vikas Patra etc., net of withdrawals, during the financial year, form the sources of fund for NSF. The net collection is invested in Central and State Government Securities, which forms the application of funds under NSF.

217. (d)

Micro Small and Medium Enterprises (MSMEs) sector is crucial for the economic progress of India and it must match global quality control standards. The Zero Defect, Zero Effect (ZED) scheme was launched in October 2016 to ensure that all the MSMEs are delivering top quality product and using clean technology. This means the public will now onwards be able to use clean technology products and they will also set parameters that are specific to each industry. The main purpose of the scheme is to match the global quality control standards.

The ZED scheme is the cornerstone of the Make in India project which aims to turn India into a manufacturing hub and generate jobs and increase incomes and boost the overall economy of the country.

218. (a)

The tax liability of a person can be reduced through Tax Planning, Tax avoidance and Tax Evasion. Although, in common parlance these terms are used interchangeably, these terms are technically different from each other and should not be used interchangeably. Although, the objective of all the three is to reduce the taxes, the method adopted by them is different.

Tax Planning is the art of reducing the tax liability of a person by making use of the various provisions of law. The government in many cases provides various deductions and exemptions which can be used by a person to reduce his tax liability. Tax planning is 100% legal and all tax payers are advised to make use of the same to reduce their tax burden.

Tax Avoidance basically means use of the loopholes in the tax law to one's own advantage to reduce the tax burden. Although tax avoidance is 100% legal, it is not advisable as the taxpayer has defeated the intention of the law maker and used this to his own advantage.

Although both tax planning and tax avoidance are legal ways to reduce tax, there is only a thin line of difference between tax planning and tax avoidance. In tax planning, a taxpayer is doing what the government wants him to do whereas in tax avoidance, a taxpayer is doing something which the government did not expect the taxpayer to do.

Tax evasion involves breaking the law, not paying one's taxes where the law clearly states that they must be paid. Tax evasion is the method by which a person illegally reduces his tax burden by either deflating their income or inflating their expenses.

General Anti Avoidance Rules (GAAR) refer to the rules that target any transaction or business arrangement that is entered into with the objective of avoiding tax.

Tax avoidance is legal; but now, large scale revenue loss is occurring due to aggressive tax planning by corporate using avoidance opportunities. Governments in many countries are introducing anti-avoidance rules to check this revenue loss from excessive avoidance. The Union Budget has proposed GAAR to be effective from 1st April 217.

After the implementation of GAAR, the Income-tax department will have powers to deny tax benefit if a transaction was carried out exclusively for the purpose of avoiding tax. For example, if an entity is set up in Mauritius with the sole intention of claiming exemption from capital gains tax, the tax authorities will have the right to deny the claim for exemption provided under the India-Mauritius tax treaty.

219. (c)

The budgetary support used to be provided (before the merger) to the Railways is basically the Centre's investment in Railways and treated as loan in perpetuity (and is also called as Capital-at-Charge) with a liability of dividend payment by the Railways to the Centre representing interest on this loan. Capital at charge of Railways currently stands at nearly Rs. 3 lakh crore and annual dividend liability is around Rs. 10,000 crore. With merger of the budget this liability was expected to vanish and Railways would have these resources for

investment (and this was one of the biggest arguments made in favour of scrapping the Railway Budget). Hence, with the merger of the Railway budget, the Railways was expected to get some fiscal benefits.

But after the presentation of the budget, the Finance ministry has asked the Railway ministry to still remit the annual dividends it receives from the 14 Central Public Sector Units (CPSUs) under its preview and it has become a bone of contention between the Finance Ministry and the Railway Ministry.

220. (d)

The concept of Common Services Centre (CSCs) was approved in 2006 as part of the National e -Governance Plan. CSCs are set up in a public-private partnership mode, with a designated state agency being a franchisor of sorts for village level entrepreneurs (VLEs) to set up centres. VLEs must meet a set of minimum requirements. They must have passed a matriculation-level examination by a recognized board, be fluent in reading and writing the local language, and make arrangements for infrastructure. Presently there are close to 2,00,000 CSCs across India.

CSCs help people apply online for a range of services — passport registration, PAN cards and Aadhaar cards, banking correspondents, and a whole host of other certificates, and without them people will have to visit a government office. CSC operators scan documents and upload them through a portal to the relevant government office that will then send back a completed certificate or card. They are like cybercafes, except they connect only to Digital India.

CSCs are a cornerstone of the Digital India programme. They are the access points for delivery of various electronic services to villages in India, thereby contributing to a digitally and financially inclusive society. CSCs are more than service delivery points in rural India. They are positioned as change agents, promoting rural entrepreneurship and building rural capacities and livelihoods. They are enablers of community participation and collective action for engendering social change through a bottom-up approach with key focus on the rural citizen.

CSCs enable the three vision areas of the Digital India programme:

- Digital Infrastructure as a core utility to every citizen
- Governance and services on demand
- Digital empowerment of citizens

Over the past two or three years, a huge number of these centres have added services like banking and insurance to their offerings. In a sense, they are an organic response to the growth in demand for digitized government services that a static State machinery cannot keep up with and the free market has seemingly ignored.

221. (a)

The Banking Ombudsman Scheme enables an expeditious and inexpensive forum to bank customers for resolution of complaints relating to certain services rendered by banks. The Banking Ombudsman Scheme is introduced under Section 35 A of the Banking Regulation Act, 1949 by RBI with effect from 1995. The Banking Ombudsman is a senior official appointed by the Reserve Bank of India to redress customer complaints against deficiency in certain banking services like non-payment or inordinate delay in the payment or collection of cheques, drafts, bills etc.

222. (d)

The Krishi Vigyan Kendras (KVKs) scheme is 100% financed by Govt. of India and the KVKs are sanctioned to Agricultural Universities, Indian Council of Agricultural Research (ICAR) institutes, related Government Departments and Non Government Organizations (NGOs) working in Agriculture.

KVK, is an integral part of the National Agricultural Research System (NARS), and aims at assessment of location specific technology modules in agriculture and allied enterprises, through technology assessment, refinement and demonstrations. KVKs have been functioning as Knowledge and Resource Centre of agricultural technology supporting initiatives of public, private and voluntary sector for improving the agricultural economy of the district and are linking the NARS with extension system and farmers. The mandate of KVK is Technology Assessment and Demonstration for its Application and Capacity Development.

KVKs also produce quality technological products (seed, planting material, bio-agents, livestock) and make it available to farmers, organize frontline extension activities, identify and document selected farm innovations and converge with ongoing schemes and programs within the mandate of KVK.

223. (b)

As per the department of investment and public asset management, Ministry of Finance, "**Strategic disinvestment** would imply the sale of substantial portion of the Government share holding of a central public sector enterprise (CPSE) of up to 50%, or such higher percentage as the competent authority may determine, along with transfer of management control."

In the strategic disinvestment of a PSU, the transaction has two elements:

- Transfer of a block of shares to a Strategic Partner, and
- Transfer of management control to the Strategic Partner

Thus, strategic disinvestment of a PSU is different from the ordinary disinvestment in which management of PSU is retained with Government.

224. (c)

The investment by Central Public Sector Undertakings (CPSUs) is financed through the following two modes:

- Budgetary support provided by the Central Government

- IEBR raised by CPSUs on their own.

Internal and Extra Budgetary Resources (IEBR) comprises of internal resources, and extra-budgetary resources. Broadly, the internal resources comprise of retained profits – net of dividend to Government and carry forward of reserves and surpluses. And extra-budgetary resources are the sum of domestic and foreign loans raised directly by the CPSUs.

225. (d)

The Reserve Bank of India Act permits the Reserve Bank to invest the reserves in the following types of instruments:

- Deposits with Bank for International Settlements
- Deposits with other central banks
- Deposits with foreign commercial banks
- Debt instruments representing sovereign or sovereign-guaranteed liability
- Other instruments/institutions as approved by the Central Board of the Reserve Bank

226. (b)

Property tax is levied by the State Governments/Urban local bodies like municipal boards/municipal corporations/ town area committees under the relevant State Government Acts. It is levied on urban land and buildings.

227. (a)

The demand for the GDP comes from the four sectors of the economy i.e. Private sector, government, household and external sector. In the past one year the fixed investment expenditure (capital goods) by private sector has been the biggest drag on the economic growth.

[Ref: *Economic Survey 2016-17, Page 9, GDP and inflation*]

228. (a)

[Ref: *Economic Survey 2016-17, Page 141, 8.5, Introduction*]

229. (d)

The GST act provides that the sale of land and sale of building (except the sale of under construction building) will neither be treated as a supply of goods nor a supply of services. Thus GST will not be levied in those supplies.

230. (c)

[Ref: *Economic Survey 2016-17, Page 145, 8.14*]

231. (b)

UDAN (Ude Desh ka Aam Naagrik) is an initiative by the government to connect the country's under-served and unserved airports. Under the Centre's Regional Connectivity Scheme (RCS), the operators will be extended viability gap funding (VGF) which will be operational for three years from the date of starting operations in a specific UDAN route. The selection of the

operators will be based on the bidder asking for the minimum VGF. Five airlines operators have won bids to operate on 128 routes which will be connecting 70 airports, out of which 31 are unserved and 12 under-served. There will be one operator operating the flights per route.

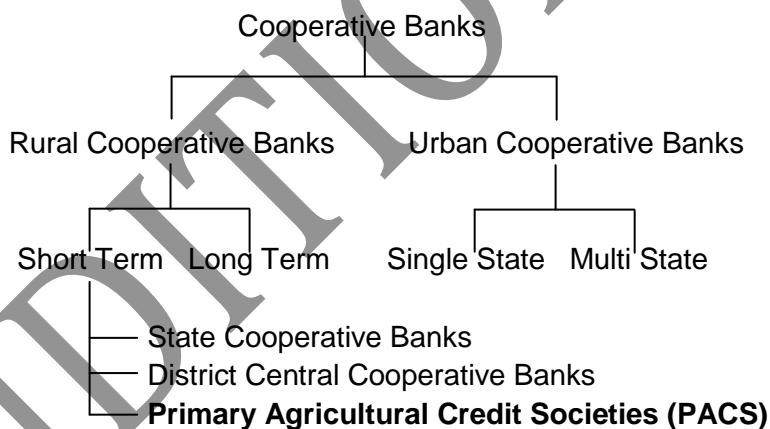
As per the scheme, the Centre will subsidize the losses incurred by airlines operating on RCS routes so that the airlines charge a maximum of Rs. 2500 for an hour's flight (around 500 km). 80% of the subsidy will be collected by charging a levy of up to Rs. 8500 on each departing flight of normal domestic airlines and the rest 20% will come from the respective State governments.

232. (b)

233. (b)

Foreign Currency Non Resident (FCNR) Account can be opened only by NRI's/PIO's. This account can be maintained in any freely convertible **foreign** currency but only in the form of term deposits. The interest and principal are non taxable and freely repatriable.

234. (c)



The rural co-operative credit system in India is primarily mandated to ensure flow of credit to the agriculture sector. It comprises short-term and long-term co-operative credit structures. The short-term co-operative credit structure operates with a three-tier system - Primary Agricultural Credit Societies (PACS) at the village level, Central Cooperative Banks (CCBs) at the district level and State Cooperative Banks (StCBs) at the State level.

A PACS is organized at the grass roots level of a village or a group of small villages. It is this basic unit which deals directly with the rural (agricultural) borrowers, gives them loans and collects repayments of loans given.

PACS are outside the purview of the Banking Regulation Act, 1949 and hence not regulated by the Reserve Bank of India. SCBs/DCCBs are registered under the provisions of State Cooperative Societies Act of the State concerned and are regulated by the Reserve Bank. Powers have been delegated to National Bank for Agricultural and Rural Development

(NABARD) under Sec 35 A of the Banking Regulation Act to conduct inspection of State and Central Cooperative Banks.

235. (c)

National Housing Bank (NHB) was set up in 1988 under the National Housing Bank Act, 1987. It operates as a principal agency to promote housing finance institutions both at local and regional levels and to provide financial and other support to such institutions. It regulates the activities of housing finance companies based on regulatory and supervisory authority derived under the NHB Act 1987. It does not extend direct credit at individual level but extends indirect financial assistance by way of refinance (*i.e. NHB finances those institutions which provide finance to individual borrowers, builders etc.*)

236. (b)

Skewflation is a state in which the economy shows the characteristics of both inflation and deflation. Some commodities exhibits inflationary trends while other commodities show that of deflation during the same period. When this occurs, we can neither term it inflation nor deflation, hence the term skewflation. Indian economy experienced skewflation during the year 2010–2011.

237. (a)

Non-bank entities incorporated in India under the Companies Act 1956/2013 are permitted to set up, own and operate their own ATMs in India. The non-bank entities setting up, owning and operating their ATMs, would be christened "White Label ATM Operators" (WLAO) and such ATMs would be called "White Label ATMs" (WLAs). They will provide the banking services to the customers of banks in India, based on the cards (debit/credit/prepaid) issued by banks.

White Label ATM Operators while owning and operating the ATMs are basically not doing 'outsourcing-contract' from any particular bank.

238. (d)

International Solar Alliance (ISA) is a coalition of solar resource rich countries lying fully or partially between the Tropic of Cancer and the Tropic of Capricorn to specifically address energy needs by tapping solar energy from the sun. ISA has been envisioned as a dedicated platform which will contribute towards the common goal of increasing utilization and promotion of solar energy and solar applications in its prospective member countries to help the world transition to a low-carbon and greener society.

ISA was launched at the United Nations Climate Change Conference in Paris on 30 November, 2015 by the Prime Minister of India Shri Narendra Modi and French President Mr. Francois Hollande.

239. (c)

The Baltic Dry Index is an economic indicator issued daily by the London based Baltic Exchange. It is considered a good proxy for the trade robustness as well as an indicator of demand for shipping services.

[Ref: Economic Survey 2016-17, Page 160, 8.63]

240. (c)

[Ref: Economic Survey 2016-17, Page 140, Table 1]

241. (d)

Employment Data (2014-15)

Total labour force = 50 crore

Formal = 4 crore

Informal = 46 crore (92% informal labour force)

Those firms which have ten or more workers using electricity and those with twenty or more workers, even if not using electricity belong to the formal sector else it is in the informal sector. In general, those firms/companies which do not have any kind of registration with the government belong to the informal sector.

242. (d)

The Markit PMI (Purchasing Managers' Index) series are among the most closely watched economic indicators in the world, tracking business conditions in over 30 countries. They provide advance insight into the private sector economy by tracking variables such as output, new orders, employment and prices across key sectors. Economic analysts, business decision makers, forecasters and policy makers leverage the PMI surveys to better understand business conditions in a given economy. Central banks in many countries use the data to help make interest rate decisions, and analysts in the financial markets use PMI data to forecast official economic data.

It is published for manufacturing and services both on monthly basis. A PMI of more than 50 represents expansion when compared to the previous month. A PMI reading under 50 represents a contraction, and a reading at 50 indicates no change.

243. (d)

The Kisan Credit Card (KCC) scheme is an innovative credit delivery mechanism to meet the production credit requirements of the farmers in a timely and hassle-free manner. The scheme is under implementation in the entire country by the vast institutional credit framework involving Commercial Banks, RRBs and Cooperatives and has received wide acceptability amongst bankers and farmers.

Kisan Credit Card Scheme aims at providing adequate and timely credit support from the banking system under a single window to the farmers for their following needs:

- To meet the short term credit requirements for cultivation of crops
- Post harvest expenses
- Produce Marketing loan
- Consumption requirements of farmer household
- Working capital for maintenance of farm assets and activities allied to agriculture, like dairy animals, inland fishery etc.
- Investment credit requirement for agriculture and allied activities like pump sets, sprayers, dairy animals etc.

The following people are eligible for this scheme

- All Farmers – Individuals / Joint borrowers who are owner cultivators
- Tenant Farmers, Oral Lessees & Share Croppers
- Self Help Groups or Joint Liability Groups of Farmers

[Ref: <https://rbidocs.rbi.org.in/rdocs/content/pdfs/CRB5100512AN.pdf>]

244. (a)

SIDBI Make in India Soft Loan Fund for Micro, Small & Medium Enterprises (SMILE) scheme:

The objective of the Scheme is to provide soft loan (mainly long term loan) on relatively soft terms to MSMEs to meet the required debt-equity ratio for establishment of an MSME as also for pursuing opportunities for growth for existing MSMEs. The focus is on all the identified 25 Make in India sectors or other sectors as may be added, in the Make In India Programme.

Emphasis will be on covering new enterprises in the manufacturing as well as services sector. Existing enterprises will also be covered which are undertaking expansion, to take advantage of new emerging opportunities, as also undertaking modernization, technology upgradation or other projects for growing their business.

245. (b)

The prime objective of the Sagarmala project is to promote port-led direct and indirect development and to provide infrastructure to transport goods to and from ports quickly, efficiently and cost-effectively. Therefore, the Sagarmala Project shall, inter alia, aim to develop access to new development regions with intermodal solutions and promotion of the optimum modal split, enhanced connectivity with main economic centres and beyond through expansion of rail, inland water, coastal and road services.

246. (d)

[Ref: Economic Survey 2016-17, Page 103, Appendix]

247. (b)

Government in March 2016 effected a new policy regime "Hydrocarbon Exploration and Licensing Policy (HELP)" for exploration licensing of new blocks.

Under HELP, contracts will be based on "revenue sharing" model. Bidders will be required to quote % of revenue share to the Govt. in their bids which will be a key parameter for selecting the winning bid. In this model the operator will have to share the revenue with the government from the first year of production notwithstanding the operator is making a profit or loss. This model does not require auditing of costs incurred by the operator but is more risky for investors as it requires sharing of the revenues with the government from the first year itself before the operators have recovered their costs and even if they are making losses.

248. (c)

Swiss Challenge method is one of the ways of awarding government contracts to private players. Without an invitation from the government, a private player can submit a proposal to government for development of an infrastructure project. That proposal is then made online and a second person can give suggestions to improve and beat that proposal. An expert committee selects the best proposal and the original proposer of the 'best proposal' gets a chance to accept it if it is an improvement on his proposal. In case the original proposer is not able to match the more attractive and competing counter proposal, the project will be awarded to the counter-proposal. The method provides an incentive to the private sector to bring innovation as various private parties compete to submit innovative proposals for the development of the infrastructure rather than government proposing a particular model.

249. (c)

A demerit good is defined as a good which can have a negative impact on the consumer – but these damaging effects may be unknown or ignored by the consumer. Demerit goods also usually have negative externalities – where consumption causes a harmful effect to a third party. Examples of demerit goods are alcohol, cigarettes, drugs, junk food, gambling etc.

250. (c)

Headcount ratio is the proportion of population that lives below the poverty line. Hence as per Rangarajan estimate, the poverty headcount ratio in 2011-12 was 29.5%