ForumIAS

Prelims Marathon

15th to 21st February, 2021

HISTORY
ECONOMICS
POLITY
SCIENCE AND TECHNOLOGY
GEOGRAPHY AND ENVIRONMENT

National Income Accounting

Q.1) The term "Invisible hand" in economics is related to which of the following?
a) Free market system
b) Command market system
c) Socialist market system
d) Both B and C

ANS: A
Explanation: Invisible hand.

- Scottish Enlightenment thinker Adam Smith introduced the concept Invisible hand in several of his writings, but it found this economic interpretation in his book **An Inquiry** into the Nature and Causes of the Wealth of Nations published in 1776.
- The invisible hand is part of laissez-faire, meaning "let do/let go," approach to the market. In other words, the approach holds that the market will find its equilibrium without government or other interventions forcing it into unnatural patterns.
- The invisible hand is a metaphor for the unseen forces that move the free market economy. Through individual self-interest and freedom of production as well as consumption, the best interest of society, as a whole, are fulfilled.
- The constant interplay of individual pressures on market supply and demand causes the natural movement of prices and the flow of trade.

Source: TMH Ramesh Singh

Q.2) Which of the following is/are characteristics of a Public good?
1. Non-excludability
2. Rival Consumption
3. Rejectable

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

ANS: A
Explanation: Public goods are goods that can be consumed simultaneously by a large number of people without the consumption by one imposing an opportunity cost on others.
The characteristics of a public good:

- Non excludability i.e., the citizens can enjoy its benefits at no explicit financial cost.
- Non rival consumption i.e., the marginal cost of supplying this public good to an extra citizen is zero.
- Non-Rejectable i.e., collective supply for all citizens means that it cannot be rejected.

Source: NCERT XII Macro Economics

Q.3) Consider the following statements regarding the Annual Survey of Industries (ASI):
1. Annual Survey of Industries (ASI) is conducted by Central Statistics Office.
2. It covers formal industries only.

Which of the statements given above is/are NOT correct?
a) 1 only

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

ANS: A
Explanation: Annual Survey of Industries (ASI) is conducted by National Sample Survey Office (NSSO). ASI is principal source of industrial statistics in India. It does not cover unorganized or unregistered or informal sector enterprises.

- ASI, an annual event, not only facilitates suitable data collection based on appropriate sampling techniques but also ensures timely dissemination of statistical information to asses and evaluates the dynamics in composition, growth and structure of organized manufacturing sector.
- The structure and function of the industrial sector is an important perspective of Indian Economy. It is imperative for industries to grow both qualitatively and quantitatively to boost the economy.
- The well-being of the industries depends truly on the formulation and promotion of industrial policies framed by the policy makers.
- To frame suitable industrial policies the policy makers need to be aware about the quantified aspect of the existing scenarios in the industries in the country.
- This is where the Annual Survey of Industries (ASI) is conducted by National Sample Survey Office, Government of India.

Source: TMH Ramesh Singh

Q.4) Which of the following statements is/are correct about "International Standards of Accounting and Reporting (ISAR)"?

1. ISAR is the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, the United Nations focal point on accounting and corporate governance matters.
2. It was established in 1982 by the United Nations Economic and Social Council (ECOSOC).
3. United Nations Conference on Trade and Development (UNCTAD) serves as ISAR's secretariat.

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

ANS: D
Explanation: ISAR is the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, the United Nations focal point on accounting and corporate governance matters.

- It was established in 1982 by the United Nations Economic and Social Council (ECOSOC).
- Through its Division on Investment and Enterprise, the United Nations Conference on Trade and Development (UNCTAD) serves as ISAR's secretariat, providing substantive and administrative inputs to its activities.

Source: The Hindu

Q.5) With reference to the Gross Domestic Product, which of the following statements is/are correct?

1. It is the value of the all final goods and services produced within the boundary of a nation during one year period.
2. It is calculated by adding national private consumption, gross investment, government spending and trade balance.

Select the correct answer using the codes given below:

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

ANS: C

Explanation: Gross Domestic Product (GDP) is the value of the all final goods and services produced within the boundary of a nation during one year period.
It is also calculated by adding national private consumption, gross investment, government spending and trade balance (exports-minus-imports).
Source: TMH Ramesh Singh

Q.6) Which of the following ministry in India decides the rate of depreciation of a good?

a) Ministry of Finance
b) Ministry of Commerce
c) Ministry of Home
d) Ministry of Defense

ANS: B

Explanation: Every asset (except human beings) go for depreciation in the process of their uses, which means they 'wear and tear'.
The governments of the economies decide and announce the rates by which assets depreciate (done in India by the Ministry of Commerce and Industry) and a list is published, which is used by different sections of the economy to determine the real levels of depreciations in different assets.
Source: TMH Ramesh Singh

Q.7) Gross National Product (GNP) is the GDP of a country added with its 'income from abroad'. Which of the following is/are part of income from abroad in India?

1. Private Remittances
2. Participation in international games by Indian Sports persons
3. Interest on External loans

Select the correct answer using the codes given below:

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

ANS: C

Explanation: Gross National Product (GNP) is the GDP of a country added with its 'income from abroad'. Here, the trans-boundary economic activities of an economy are also taken into account. The items which are counted in the segment 'Income from Abroad' is:

- Private Remittances
- Interest on external loans

- External grants

Source: TMH Ramesh Singh

Q.8) With reference to the base year for national income accounting, which of the following statements is/are correct?
1. It was revised from 2004–05 to 2014–15.
2. It was done in accordance with the recommendation of the National Statistical Commission (NSC).

Select the correct answer using the codes given below:
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

ANS: B

Explanation: The Central Statistics Office (CSO), in January 2015, released the new and revised data of National Accounts, effecting two changes:
- The Base Year was revised from 2004–05 to 2011–12. This was done in accordance with the recommendation of the National Statistical Commission (NSC), which had advised to revise the base year of all economic indices every five years.
- This time, the methodology of calculating the National Accounts has also been revised in line with the requirements of the System of National Accounts (SNA)-2008, an internationally accepted standard.

Source: TMH Ramesh Singh

Q.9) Consider the following statements:
1. 'Factor cost' is the 'input cost' the producer has to incur in the process of producing something.
2. 'Market cost' is derived after adding the indirect taxes to the factor cost of the product.

Which of the statements above given is/are correct?
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

ANS: C

Explanation: Basically, 'factor cost' is the 'input cost' the producer has to incur in the process of producing something (such as cost of capital, i.e., interest on loans, raw materials, labour, rent, power, etc.).
- This is also termed as 'factory price' or 'production cost/price'. This is nothing but 'price' of the commodity from the producer's side.
- While the 'market cost' is derived after adding the indirect taxes to the factor cost of the product, it means the cost at which the goods reach the market, i.e., showrooms (these are the cenvat/central excise and the CST which are paid by the producers to the central government in India).

Source: TMH Ramesh Singh

Q.10) Consider the following statements regarding the Directorate General of Commercial Intelligence and Statistics (DGCI&S):
1. It compiles and releases monthly export & import data on merchandise trade.
2. It comes under Ministry of Statistics and Programme Implementation.

Which of the statements given above is/are correct?
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

ANS: A
Explanation: The chequered history of evolution, developments, transformations and coming of age of the Directorate General of Commercial Intelligence And Statistics (Ministry of Commerce and Industry) has been a mammoth exercise spread over a span of one hundred and forty years and carried out under the stewardship of capable and pragmatic visionaries.

- The Organization traces its origin to a statistical branch established in the Finance Department of the Government of India way back in 1862. Sir William W. Hunter was the first DG of the DGCI & S or the Director General of Statistics as he was designated, back in 1871.
- The DGCI&S compiles and releases monthly export & import data on merchandise trade.
- It also compiles and releases yearly data on inter-state movement of goods in India by river, rail & air; customs & excise revenue collections of the Indian union, inland coasting trade consignments of India and foreign coastal cargo movements of India.

Source: The Hindu

Central Bank in India and its powers & Functions

Q.1) Which of the following "Monetary Aggregates of RBI" is compiled on weekly basis?
a) M1
b) M2
c) M4
d) M0

ANS: D
Explanation: The RBI has started publishing a set of new monetary aggregates following the recommendations of the Working Group on Money Supply: Analytics and Methodology of Compilation (Chairman: Dr. Y.V. Reddy) which submitted its report in June 1998.

- The Working Group recommended compilation of four monetary aggregates on the basis of the balance sheet of the banking sector in conformity with the norms of progressive liquidity: M0 (monetary base), M1 (narrow money), M2 and M3 (broad money).
- In addition to the monetary aggregates, the Working Group had recommended compilation of three liquidity aggregates namely, L1, L2 and L3, which include select items of financial liabilities of non-depository financial corporations such as development financial institutions and non-banking financial companies accepting deposits from the public, apart from post office savings banks.
- Weekly Compilation: M0= Currency in Circulation + Bankers' Deposits with RBI + 'Other' Deposits with RBI*.

Source: TMH Ramesh Singh

Q.2) Which of the following is/are covered under "Reserve Bank of India Act, 1934"?
1. Bank Rate
2. Statutory Liquidity Ratio
3. Cash Reserve Ratio
Select the correct answer using the codes given below:
a) 1 only
b) 1 and 3 only
c) 2 and 3 only
d) 2 only

ANS: B
Explanation:
Bank Rate: Under Section 49 of the Reserve Bank of India Act, 1934, the Bank Rate has been defined as "the standard rate at which the Reserve Bank is prepared to buy or re-discount bills of exchange or other commercial paper eligible for purchase under the Act.

- On introduction of LAF, discounting/rediscounting of bills of exchange by the Reserve Bank has been discontinued.
- As a result, the Bank Rate became dormant as an instrument of monetary management.
- It is now aligned to MSF rate and used for calculating penalty on default in the cash reserve ratio (CRR) and the statutory liquidity ratio (SLR).

Statutory Liquidity Ratio: In terms of Section 24 of the Banking Regulations Act, 1949, scheduled commercial banks have to invest in unencumbered government and approved securities certain minimum amount as statutory liquidity ratio (SLR) on a daily basis.
Cash Reserve Ratio: According to Section 42 of the Reserve Bank of India Act, 1934, each scheduled commercial bank has to maintain a minimum cash balance with the Reserve Bank as cash reserve ratio (CRR) which is prescribed by the Reserve Bank from time to time as certain percentage of its net demand and time liabilities (NDTL) relating to the second preceding fortnight.
Banks have to maintain minimum 95 per cent of the required CRR on a daily basis and 100 per cent on an average basis during the fortnight.
Source: RBI

Q.3) “LERMS” is related to which of the following?
a) Pension sector
b) Exchange rate
c) Banking reforms
d) Agriculture sector

ANS: B
Explanation: Liberalized Exchange Rate Management System (LERMS) was a new system of exchange rate management.

- According to this system, forty percent of the proceeds of exports and inward remittances were purchased at the official exchange rate by the (RBI) Reserve Bank of India for official use.
- Receipts and Payments on capital account continued to be subject to controls.

Source: TMH Ramesh Singh

Q.4) Which of the following “currencies” is/are considered for Reference rate of RBI?
1. US Dollar
2. Japan Yen
3. EURO
4. Britain Pound

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

ANS: C
Explanation: The Reserve Bank of India compiles on a daily basis and publishes reference rates for four major currencies i.e. USD, GBP, YEN and EUR.

- The rates are arrived at by averaging the mean of the bid/offer rates polled from a few select banks around 12 noon every week day (excluding Saturdays).
- The contributing banks are selected on the basis of their standing, market-share in the domestic foreign exchange market and representative character.
- The Reserve Bank periodically reviews the procedure for selecting the banks and the methodology of polling so as to ensure that the reference rate is a true reflection of the market activity.

Source: TMH Ramesh Singh

Q.5) Consider the following statements with respect to "National Payments Corporation of India (NPCI)":
1. It is an initiative of RBI and Indian Banks' Association (IBA).
2. It has launched RuPay, a card payment scheme.
Which of the statements given above is/are correct?
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

ANS: C
Explanation: National Payments Corporation of India (NPCI), an umbrella organisation for operating retail payments and settlement systems in India, is an initiative of Reserve Bank of India (RBI) and Indian Banks' Association (IBA) under the provisions of the Payment and Settlement Systems Act, 2007, for creating a robust Payment & Settlement Infrastructure in India.

- NPCI launched RuPay is an indigenously developed Payment System – designed to meet the expectation and needs of the Indian consumer, banks and merchant eco-system.
- RuPay supports the issuance of debit, credit and prepaid cards by banks in India and thereby supporting the growth of retail electronic payments in India.

Source: NPCI

Q.6) Which of the following statements is/are correct about "Flexible Inflation Targeting Framework" in India?
1. It was based on the recommendation of Urjit patel committee.
2. It was given statutory basis by amending the RBI ACT, 1934.
Select the correct answer using the codes given below:
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

ANS: C
Explanation: In his first speech as RBI Governor, Raghuram Rajan (Reserve Bank of India, 2013) emphasized on the importance of inflation targeting and set up an Expert Committee under Deputy Governor Urjit Patel to assess the current monetary policy and give recommendations to strengthen it.
The RBI Act was amended on May 14, 2016 to give the key provisions in the Monetary Policy Framework Agreement (MPFA) a statutory basis.
Source: RBI

Q.7) Which of the following is/are type/types of External Benchmark Rates?
1. Repo rate
2. Government of India 6-Months Treasury bill yield published by the Financial Benchmarks India Private Ltd (FBIL).
3. Government of India 9-Months Treasury bill yield published by the Financial Benchmarks India Private Ltd (FBIL).
Select the correct answer using the code given below:
a) 1 only
b) 1 and 2 only

c) 2 and 3 only
d) 1, 2 and 3

ANS: B
Explanation: The RBI has made it compulsory for banks to link their new floating rate home, auto and MSME loans to an external benchmark so that the borrowers can enjoy lower rate of interest.
All new floating rate personal or retail loans (housing, auto, etc.) and floating rate loans to Micro and Small Enterprises extended by banks from October 01, 2019 shall be benchmarked to one of the following:

- Reserve Bank of India policy repo rate
- Government of India 3-Months Treasury Bill yield published by the Financial Benchmarks India Private Ltd (FBIL)
- Government of India 6-Months Treasury Bill yield published by the FBIL
- Any other benchmark market interest rate published by the FBIL.

Source: RBI

Q.8) Which of the following are instruments of Monetary Policy of Reserve Bank of India (RBI)?
1. Repo rate
2. Marginal Standing Facility
3. Open Market Operations (OMOs)
4. Bank Rate

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

ANS: D
Explanation: There are several direct and indirect instruments that are used for implementing monetary policy.

- Repo Rate: The (fixed) interest rate at which the Reserve Bank provides overnight liquidity to banks against the collateral of government and other approved securities under the liquidity adjustment facility (LAF).
- Reverse Repo Rate: The (fixed) interest rate at which the Reserve Bank absorbs liquidity, on an overnight basis, from banks against the collateral of eligible government securities under the LAF.
- Marginal Standing Facility (MSF): A facility under which scheduled commercial banks can borrow additional amount of overnight money from the Reserve Bank by dipping into their Statutory Liquidity Ratio (SLR) portfolio up to a limit at a penal rate of interest. This provides a safety valve against unanticipated liquidity shocks to the banking system.
- Corridor: The MSF rate and reverse repo rate determine the corridor for the daily movement in the weighted average call money rate.
- Bank Rate: It is the rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers. The Bank Rate is published under Section 49 of the Reserve Bank of India Act, 1934. This rate has been aligned to the MSF rate and, therefore, changes automatically as and when the MSF rate changes alongside policy repo rate changes.

- Cash Reserve Ratio (CRR): The average daily balance that a bank is required to maintain with the Reserve Bank as a share of such per cent of its Net demand and time liabilities (NDTL) that the Reserve Bank may notify from time to time in the Gazette of India.
- Statutory Liquidity Ratio (SLR): The share of NDTL that a bank is required to maintain in safe and liquid assets, such as, unencumbered government securities, cash and gold. Changes in SLR often influence the availability of resources in the banking system for lending to the private sector.
- Open Market Operations (OMOs): These include both, outright purchase and sale of government securities, for injection and absorption of durable liquidity, respectively.
- Market Stabilization Scheme (MSS): This instrument for monetary management 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.

Source: RBI

Q.9) The market capitalization is the aggregate valuation of the company based on which of the following?

a) Current share price and outstanding stocks
b) Fixed share price and outstanding stocks
c) Current share price
d) B. None

ANS: A

Explanation: Market capitalization is the aggregate valuation of the company based on its current share price and the total number of outstanding stocks.

It is calculated by multiplying the current market price of the company's share with the total outstanding shares of the company.

Source: The Hindu

Q.10) Consider the following statements regarding the willful default in India:

1. The RBI defines willful defaulter as a firm that has defaulted in meeting its repayment obligations even though it has the capacity to honour these obligations.
2. The cut-off limit of willful default is fixed by Central government.
3. From 2009 to 2018 the money owed by willful defaulters has constantly decreased.

Which of the statements given above is/are correct?

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

ANS: A

Explanation: Simply, default means non-payment of a loan availed by a borrower. A willful defaulter is an entity or a person that has not paid the loan back despite the ability to repay it.

- Willful default occurs when firms take loans, divert the proceeds out of the firm for the personal benefit of owners, default on loans and declare bankruptcy, thereby expropriating a range of stakeholders – lenders, minority shareholders, employees, regulators and state coffers.

- While the penal measures would normally be attracted by all the borrowers identified as willful defaulters or the promoters involved in diversion / siphoning of funds, keeping in view the present limit of Rs.25 lakh fixed by the Central Vigilance Commission for reporting of cases of willful default by the banks / FIs to RBI, any willful defaulter with an outstanding balance of Rs.25 lakh or more, would attract the penal measures.
- From 2009 to 2018 the money owed by willful defaulters has constantly increased.

Source: Economic Survey

Money & Banking

Q.1) Consider the following statements regarding **"**Development Banks**"**:
1. It is established on the recommendation of Sukomay Chakravarthy committee.
2. IDBI is the first All India Development Bank.

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

ANS: C
Explanation: The era of economic reforms had given the same option to the PSUs to tap new capital.
- As the AIFIs had more or less fixed rate of interest as compared to the banks which could mobilise cheaper deposits to lend cheaper—the AIFIs seemed to become irrelevant.
- The AIFIs witnessed a sharp decline in recent years. At this juncture the government decided to convert them into Development Banks (suggested by the Narasimhan Committee-I) to be known as the All India Development Banks (AIDBs).
- In 2000, the government allowed ICICI to go for a reverse merger (when an elder enterprise is merged with a younger one) with the ICICI Bank—the first AIDB emerged with no obligation of project financing—such entities in coming times will be known as the universal banks.

Source: TMH Ramesh Singh

Q.2) Consider the following statements regarding **"**Local Area Banks (LABs)**"**:
1. The promoters of these banks were required to bring in the entire minimum share capital up-front.
2. The minimum start-up capital of a Local Area Bank was fixed at Rs.500crore.

Which of the statements above given is/are correct?
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

ANS: A
Explanation: In 1996 it was decided to allow the establishment of local banks in the private sector.
- These banks were expected to bridge the gaps in credit availability and enhance the institutional credit framework in the rural and semi-urban areas and provide efficient and competitive financial intermediation services in their area of operation.
- The minimum start-up capital of a LAB was fixed at Rs.5crore.
- The promoters of these banks were required to bring in the entire minimum share capital up-front.
- It was also decided that a family among the promoter group could hold equity not exceeding 40% of the capital.

- The NRI contributions to the equity of the bank were not to exceed 40% of the paid-up capital.

Source: TMH Ramesh Singh

Q.3) Which of the following statements is/are correct about "small finance banks"?
1. Small finance banks are not universal banks.
2. Small Finance Banks was recommended by the Nachiket Mor committee.

Select the correct answer using the codes given below:
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

ANS: C
Explanation: Differentiated Banks (niche banks) are banks that serve the needs of a certain demographic segment of the population.
- Small Finance Banks and Payment Banks are examples of differentiated banks in India.
- Small Finance Banks was recommended by the Nachiket Mor committee on financial inclusion.

Source: Sriram's Economy

Q.4) Which of the following committee recommended establishment of "Banks Board Bureau"?
a) Usha Thorat Committee
b) Nachiket Mor Committee
c) Urjit Patel Committee
d) None

ANS: D
Explanation: The Banks Board Bureau owes its genesis to the recommendations in the Report of The Committee set up by the Reserve Bank of India to Review Governance of Boards of Banks in India (Chair: Dr P J Nayak; May 2014), which envisaged the Bureau as a precursor to a Company which would eventually hold the Government's investments in PSBs.
Source: Sriram's Economy

Q.5) Consider the following statements regarding the Systematically Important Core Investment Companies (CICs-ND-SI):
1. CICs-ND-SIs are non-banking financial companies with asset size of ₹100crore and above.
2. CICs-ND-SIs is allowed to accept public funds.

Which of the statements given above is/are correct?
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

ANS: C
Explanation: A CICs-ND-SI is a Non-Banking Financial Company
- with asset size of Rs 100crore and above

- carrying on the business of acquisition of shares and securities and which satisfies the following conditions as on the date of the last audited balance sheet,
- it holds not less than 90% of its net assets in the form of investment in equity shares, preference shares, bonds, debentures, debt or loans in group companies;
- its investments in the equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies constitutes not less than 60% of its net assets as mentioned in clause (iii) above;
- it does not trade in its investments in shares, bonds, debentures, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment;
- it does not carry on any other financial activity referred to in Section 45I(c) and 45I(f) of the RBI act, 1934 except investment in bank deposits, money market instruments, government securities, loans to and investments in debt issuances of group companies or guarantees issued on behalf of group companies.
- it accepts public funds.

Source: RBI

Q.6) Which of the following are the pillars of the Basel Norms?
1. Capital adequacy requirements
2. Supervisory review
3. Market discipline

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

ANS: A

Explanation: Basel is a city in Switzerland. It is the headquarters of Bureau of International Settlement (BIS), which fosters co-operation among central banks with a common goal of financial stability and common standards of banking regulations.

- Basel guidelines refer to broad supervisory standards formulated by this group of central banks - called the Basel Committee on Banking Supervision (BCBS).
- The set of agreement by the BCBS, which mainly focuses on risks to banks and the financial system are called Basel accord.
- The purpose of the accord is to ensure that financial institutions have enough capital on account to meet obligations and absorb unexpected losses. India has accepted Basel accords for the banking system.

In June 2004, Basel II guidelines were published by BCBS. The guidelines were based on three parameters, which the committee calls it as pillars.

- Capital Adequacy Requirements: Banks should maintain a minimum capital adequacy requirement of 8% of risk assets
- Supervisory Review: According to this, banks were needed to develop and use better risk management techniques in monitoring and managing all the three types of risks that a bank faces, viz. credit, market and operational risks
- Market Discipline: This need increased disclosure requirements. Banks need to mandatorily disclose their CAR, risk exposure, etc to the central bank. Basel II norms in India and overseas are yet to be fully implemented.

Source: TMH Ramesh Singh

Q.7) The Utkarsh 2022**,** sometimes seen in news is related to which of the following?
a) Regulation and functions of Central Bank
b) Foreign Trade
c) Skill development
d) Doubling farmer's income

ANS: A
Explanation: The Reserve Bank of India (RBI) board finalized a three- year roadmap to improve regulation and supervision, among other functions of the central bank.
This medium term strategy — named Utkarsh 2022 — is in line with the global central banks' plan to strengthen the regulatory and supervisory mechanism.
Source: The Hindu

Q.8) With reference to the new Non Performing Assets (NPA) recognition norms, which of the following statements is/are correct?
1. The new norms replace all the earlier resolution plans except Joint Lenders Forum (JLF).
2. The lenders can initiate the process of a resolution plan (RP) even before a default.
3. The lenders shall undertake a prima facie review of the borrower account within 30 days from the day of default.

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

ANS: C
Explanation: The Reserve Bank of India (RBI) issued a new framework for resolution of bad loans, replacing the previous norms quashed by the Supreme Court in April, offering a 30-day gap for stress recognition instead of the one-day default earlier.

- The new norms replaces all the earlier resolution plans such as the framework for revitalising distressed assets, corporate debt restructuring scheme, flexible structuring of existing long-term project loans, strategic debt restructuring scheme (SDR), change in ownership outside SDR, and scheme for sustainable structuring of stressed assets (S4A), and the joint lenders' forum with immediate effect.
- The central bank said lenders shall recognise incipient stress in loan accounts, immediately on default, by classifying such assets as special mention accounts (SMA).
- Since default with any lender is a lagging indicator of financial stress faced by the borrower, it is expected that the lenders initiate the process of implementing a resolution plan (RP) even before a default.
- The central bank said once a borrower is reported to be in default by any lenders, financial institutions, small finance banks or NBFCs, the lenders shall undertake a prima facie review of the borrower account within 30 days from the day of default.

Source: Sriram's Economy

Q.9) Which of the following financial institutions/banks are covered under deposit insurance of Deposit Insurance and Credit Guarantee Corporation (DICGC)?
1. Commercial Banks
2. Regional Rural Banks
3. Co-operative Banks
4. Local Area Banks

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

ANS: D
Explanation: The functions of the DICGC are governed by the provisions of 'The Deposit Insurance and Credit Guarantee Corporation Act, 1961' (DICGC Act) and 'The Deposit Insurance and Credit Guarantee Corporation General Regulations, 1961' framed by the Reserve Bank of India in exercise of the powers conferred by sub-section (3) of Section 50 of the said Act.
Banks covered by Deposit Insurance Scheme are:

- All commercial banks including the branches of foreign banks functioning in India, Local Area Banks and Regional Rural Banks.
- Co-operative Banks - All eligible co-operative banks as defined in Section 2(gg) of the DICGC Act are covered by the Deposit Insurance Scheme.
- All State, Central and Primary co-operative banks functioning in the States/Union Territories which have amended their Co-operative Societies Act as required under the DICGC Act, 1961, empowering RBI to order the Registrar of Co-operative Societies of the respective States/Union Territories to wind up a co-operative bank or to supersede its committee of management and requiring the Registrar not to take any action for winding up, amalgamation or reconstruction of a co-operative bank without prior sanction in writing from the RBI, are treated as eligible banks.
- At present all Co-operative banks are covered by the Scheme. The Union Territories of Lakshadweep and Dadra and Nagar Haveli do not have Co-operative Banks.

Source: TMH Ramesh Singh

Q.10) The term Economic Capital Framework is related to which of the following?
a) Commercial Banks
b) Reserve Bank of India
c) New Development Bank
d) International Monetary Fund

ANS: B
Explanation: Bimal Jalan Committee was set up to review the economic capital framework of the RBI.

- Its mandate was to review global best practices followed by the central banks in making assessment and provisions.
- It has suggested that the framework may be periodically reviewed after every five years.
- The panel recommended aligning the central bank's accounting year with the financial year which could reduce the need for paying interim dividend.
- The panel also suggested a clearer distinction between the two components of economic capital — realized equity and revaluation balances — mainly because of the volatile nature of the revaluation balances.

Source: Sriram's Economy

Banking Reforms since Independence

Q.1) A high level committee on Financial System (CFS) was set up on 14 August, 1991 to examine all aspects relating to structure, organization, function and procedures of the financial system was headed by?
a) Chakravarthi Rangarajan
b) Sukomoy Chakraborthy
c) Narasimham
d) Parthasarathy shome

ANS: C
Explanation: The three decades after nationalization had seen a phenomenal expansion in the geographical coverage and financial spread of the banking system in the country.

- As certain weaknesses were found to have developed in the system during the late eighties, it was felt that these had to be addressed to enable the financial system to play its role ushering in a more efficient and competitive economy.
- Accordingly, a high level committee (Narasimham Committee) on Financial System (CFS) was set up on 14 August, 1991 to examine all aspects relating to structure, organization, function and procedures of the financial system—based on its recommendations, a comprehensive reform of the banking system was introduced in the fiscal 1992–93.

Source: TMH Ramesh Singh

Q.2) With reference to the Narasimham committee recommendations, which of the following statements is/are correct?
1. Cash Reserve Ratio (CRR) should be reduced from the level of 15 per cent to 3 to 5 per cent.
2. RBI should pay interest on the CRR of banks above the basic minimum at a rate of interest equal to the level of banks.

Select the correct answer using the codes given below:
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

ANS: C
Explanation: The RBI was advised not to use the CRR as a principal instrument of monetary and credit control, in place it should rely on open market operations (OMOs) increasingly. Two proposals advised regarding the CRR:

- CRR should be progressively reduced from the present high level of 15 per cent to 3 to 5 per cent; and
- RBI should pay interest on the CRR of banks above the basic minimum at a rate of interest equal to the level of banks, one year deposit.

Concerning the SLR it was advised to cut it to the minimum level (i.e., 25 per cent) from the present high level of 38.5 per cent in the next 5 years (it was cut down to 25 per cent in October 1997). The government was also suggested to progressively move towards market-based borrowing programme so that banks get economic benefits on their SLR investments.
Source: TMH Ramesh Singh

Q.3) With reference to the Narasimham committee recommendations on Priority Sector Lending (PSL), which of the following statements is/are NOT correct?
1. Directed credit programme should be increased gradually.
2. The redefined PSL should have 40 per cent fixed of the aggregate bank credit.
Select the correct answer using the codes given below:
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

ANS: C
Explanation: Under this sub-title the suggestions revolved around the compulsion of priority sector lending (PSL) by the banks:
- Directed credit programme should be phased out gradually. As per the committee, agriculture and small scale industries (SSIs) had already grown to a mature stage and they did not require any special support; two decades of interest subsidy were enough. Therefore, concessional rates of interest could be dispensed with.
- Directed credit should not be a regular programme—it should be a case of extraordinary support to certain weak sections—besides, it should be temporary, not a permanent one.
- Concept of PSL should be redefined to include only the weakest sections of the rural community such as marginal farmers, rural artisans, village and cottage industries, tiny sector, etc.
- The “redefined PSL” should have 10 per cent fixed of the aggregate bank credit.
- The composition of the PSL should be reviewed after every 3 years.

Source: TMH Ramesh Singh

Q.4) The differential rate of interest (DRI) is a lending programme launched by the government to lend 1 per cent of the total lending of the preceding year to ‘the poorest among the poor’ at an interest rate of 4 per cent per annum was launched in which five year plan?
a) Fourth five year plan
b) Fifth five year plan
c) Eight five year plan
d) Twelfth five year plan

ANS: A
Explanation: The differential rate of interest (DRI) is a lending programme launched by the government in April 1972 (Fourth five year plan) which makes it obligatory upon all the public sector banks in India to lend 1 per cent of the total lending of the preceding year to ‘the poorest among the poor’ at an interest rate of 4 per cent per annum.
Source: TMH Ramesh Singh

Q.5) The “sarfaesi act” often seen in news is related to which of the following?
a) Nonperforming assets
b) Credit risk worthiness
c) Priority sector lending
d) MSMEs

ANS: A

Explanation: The Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI) Act, 2002 allows banks and other financial institutions to seize and sell residential or commercial properties of the defaulters to recover loans.

Source: TMH Ramesh Singh

Q.6) "Asset Reconstruction Companies (ARCs)" is introduced by which of the following act?

a) Reserve Bank of India Act, 1934
b) The Banking Regulation Act, 1949
c) Recovery of Debts Due to Banks and Financial Institutions Act, 1993
d) Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002

ANS: D

Explanation: ARCs were introduced to India under the SARFAESI Act (2002), as specialists to resolve the burden of NPAs.

- But the ARCs (most are privately-owned) finding it difficult to resolve the NPAs they purchased, are today only willing to purchase such loans at low prices.
- As a result, banks have been unwilling to sell them loans on a large scale.

Source: TMH Ramesh Singh

Q.7) "BASEL NORMS**"** is often seen in news is related to which of the following?

a) Educational Reforms
b) Banking provisions
c) Waste Management
d) Nuclear Weapons control

ANS: B

Explanation: The Basel Accords/Norms (i.e., Basel I, II and now III) are a set of agreements set by the Basel Committee on Bank Supervision (BCBS), which provides recommendations on banking regulations in regards to capital risk, market risk and operational risk.

- The purpose of the accords is to ensure that financial institutions have enough capital on account to meet obligations and absorb unexpected losses.
- They are of paramount importance to the banking world and are presently implemented by over 100 countries across the world.

Source: The Hindu

Q.8) Consider the following statements regarding Repo and Reverse Repo rate:

1. RBI introduced both Repo and Reverse Repo rate at the same time.
2. Repo and Reverse Repo rate instruments used to raise long term funds.

Which of the statements above given is/are correct?

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

ANS: D

Explanation: Repos and Reverse Repos: In the era of economic reforms there developed two new instruments of money market-repo and reverse repo. Considered the most dynamic instruments of the Indian money market they have emerged the most favored route to raise short-term funds in India.

- 'Repo' is basically an acronym of the rate of repurchase. The RBI in a span of four years, introduced these instruments-repo in December 1992 and reverse repo in November 1996.
- Repo allows the banks and other financial institutions to borrow money from the RBI for short-term (by selling government securities to the RBI).
- In reverse repo, the banks and financial institutions purchase government securities from the RBI (basically here the RBI is borrowing from the banks and the financial institutions).
- All government securities are dated and the interest for the repo or reverse repo transactions is announced by the RBI from time to time.
- The provision of repo and the reverse repo have been able to serve the liquidity evenness in the economy as the banks are able to get the required amount of funds out of it, and they can park surplus idle funds through it.
- These instruments have emerged as important tools in the management of the monetary and credit policy in recent years.

Source: Sriram's Economy

Q.9) "CAMELS**"** is a technique for evaluating and rating the operations and performance of which of the following?

a) Banks
b) Trade Market
c) Capital Market
d) Insurance companies

ANS: A

Explanation: Acronym derived from the terms capital adequacy (C), asset quality (A), management (M), earnings (E), liquidity (L) and systems for control (S).

The acronym is used as a technique for evaluating and rating the operations and performance of banks all over the world.

Source: TMH Ramesh Singh

Q.10) Consider the following statements regarding **"**Debt Recovery Tribunal (DRT)**"**:

1. DRTs were created to facilitate the speedy recovery of debt payable to banks and other financial institutions by their customers.
2. DRTs were set up after the passing of the Insolvency and Bankruptcy Code, 2016.

Which of the statements above given is/are correct?

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

ANS: A

Explanation: Debt Recovery Tribunals also known as DRTs were created to facilitate the speedy recovery of debt payable to banks and other financial institutions by their customers.

- The banks and financial institutions had been facing problems in recovery of loans advanced by them to individual people or business entities.
- Due to this, the banks and financial institutions started restraining themselves from advancing out loans.
- There was a need to have an effective system to recover the money from the borrower.

- DRTs were set up after the passing of Recovery of Debts due to Banks and Financial Institutions Act (RDBBFI), 1993.

Source: Sriram's Economy

Capital Markets & Money Markets

Q.1) With reference to the capital and money markets, which of the following statements is/are correct?
1. The money market fulfils the requirements of long term funds.
2. The capital market fulfils the requirements of short term funds.
Select the correct answer using the codes given below:
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

ANS: D
Explanation: Financial markets in every economy are having two separate segments today, one catering to the requirements of short-term funds and the other to the requirements of long-term funds.

- The short-term financial market is known as the money market, while the long-term financial market is known as the capital market.
- The money market fulfils the requirements of funds for the period upto 364 days (i.e., short term) while the capital market does the same for the period above 364 days (i.e., long term).

Source: TMH Ramesh Singh

Q.2) In money market trading is done on a rate known as discount rate which is determined by?
a) Repo rate
b) Reverse repo rate
c) Cash reserve ratio
d) Statutory liquidity ratio

ANS: A
Explanation: Money market is the short-term financial market of an economy.

- In this market, money is traded between individuals or groups (i.e., financial institutions, banks, government, companies, etc.), who are either cash-surplus or cash-scarce.
- Trading is done on a rate known as discount rate which is determined by the market and guided by the availability of and demand for the cash in the day-to-day trading.
- The 'repo rate' of the time (announced by the RBI) works as the guiding rate for the current 'discount rate'.

Source: TMH Ramesh Singh

Q.3) The "Chakravarthy Committee and Vahul Committee" is related to which of the following?
a) Priority Sector Lending
b) Capital market
c) Money market
d) Infrastructure funding

ANS: C

Explanation: The organised form of money market in India is just close to three decades old.

- However, its presence has been there, but restricted to the government only.
- It was the Chakravarthy Committee (1985) which, for the first time, underlined the need of an organised money market in the country and the Vahul Committee (1987) laid the blue print for its development.

Source: TMH Ramesh Singh

Q.4) "Gujarati Shroffs and Shikarpuri Shroffs" terms are associated with which of the following?

a) Stock brokers
b) Indigenous bankers
c) Stock market protectors
d) Mint production agents

ANS: B

Explanation: Indigenous bankers receive deposits and lend money in the capacity of an individual or private firm. There are, basically, four such bankers in the country functioning as non-homogenous groups:

- Gujarati Shroffs: They operate in Mumbai, Kolkata as well as in industrial, trading and port cities in the region.
- Multani or Shikarpuri Shroffs: They operate in Mumbai, Kolkata, Assam tea gardens and North Eastern India.
- Marwari Kayas: They operate mainly in Gujarat with a little bit of presence in Mumbai and Kolkata.
- Chettiars: They are active in Chennai and at the ports of southern India.

Source: TMH Ramesh Singh

Q.5) Which of the following treasury bills is/are continuous in money market?

1. 14 day treasury bills
2. 91 day treasury bills
3. 182 day treasury bills

Select the correct answer using the codes given below:

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

ANS: B

Explanation: Treasury Bills (TBs): This instrument of the money market though present since Independence got organised only in 1986. They are used by the Central Government to fulfil its short-term liquidity requirement up-to the period of 364 days. There developed five types of the TBs in due course of time:

- 14-day (Intermediate TBs)
- 14-day (Auctionable TBs)
- 91-day TBs
- 182-day TBs
- 364-day TBs

Out of the above five variants of the TBs, at present only the 91-day TBs, 182-day TBs and the 364-day TBs are issued by the government. The other two variants were discontinued in 2001.
Source: TMH Ramesh Singh

Q.6) Which of the following statements is/are NOT correct about "Cash Management Bill (CMB)"?
1. It is a short-term instrument issued by banks to meet the temporary cash flow mismatches.
2. These are issued for maturities of 91 days, 182 days and 364 days.

Select the correct answer using the code given below:
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

ANS: C
Explanation: The Government of India, in consultation with the RBI, decided to issue a new short-term instrument, known as Cash Management Bills, since August 2009 to meet the temporary cash flow mismatches of the government.
- The Cash Management Bills are non-standard and discounted instruments issued for maturities less than 91 days.
- The CMBs have the generic character of Treasury Bills (issued at discount to the face value); are tradable and qualify for ready forward facility; investment in it is considered as an eligible investment in government securities by banks for SLR.

Source: TMH Ramesh Singh

Q.7) The Herfindahl-Hirschman Index (HHI) is associated with which of the following?
a) Market concentration
b) Bilateral trade
c) Conservational agriculture
d) Financial Institutions

ANS: A
Explanation: The Herfindahl-Hirschman Index (HHI) is a common measure of market concentration and is used to determine market competitiveness, often pre- and post-Merger & Acquisition transactions.
- It is calculated by squaring the market share of each firm competing in a market and then summing the resulting numbers. It can range from close to zero to 10,000.
- Regulators use the HHI Index using the 50 largest companies in a particular industry to determine if that industry should be considered competitive or as close to being a monopoly.

Source: Investopedia

Q.8) Consider the following statements regarding the Currency Swap Arrangement:
1. The exchange of currencies is determined by pre-determined exchange rate not on market rate.
2. The disputes (SWAP) are settled by third party intervention.

Which of the statements given above is/are correct?
a) 1 only
b) 2 only

c) Both 1 and 2
d) Neither 1 nor 2

ANS: A
Explanation: Currency Swap Arrangement is an arrangement, between two friendly countries, which have regular, substantial or increasing trade, to basically involve in trading in their own local currencies, where both pay for import and export trade, at the pre-determined rates of exchange, without bringing in third country currency like the US Dollar.

- In such arrangements no third country currency is involved, thereby eliminating the need to worry about exchange variations.
- The swap arrangement (in 2018) is an agreement between India and Japan to essentially exchange and re-exchange a maximum amount of USD 75 Billion for domestic currency, for the purpose of maintaining an appropriate level of balance of payments for meeting short-term deficiency in foreign exchange.

Source: The Hindu

Q.9) Reserve Bank of India (RBI) has slapped restrictions on withdrawal on Punjab and Maharashtra Cooperative Bank Ltd (PMC Bank), under which Act does the RBI has imposed restrictions?
a) Reserve Bank of India Act, 1934
b) Payment and Settlement Systems Act, 2007
c) Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (Sarfaesi) Act, 2002
d) Banking Regulation Act, 1949

ANS: D
Explanation: The RBI has slapped restrictions on Punjab and Maharashtra Cooperative Bank Ltd (PMC Bank).It has also appointed an administrator and superseded its board of directors.

- The PMC had been placed under 'directions' of the Reserve Bank of India (RBI) for six months, after irregularities had been found in lending.
- The RBI has issued directions in exercise of powers vested in it under sub section (1) of Section 35 A of the Banking Regulation Act, 1949, read with Section 56 of the Banking Regulation Act, 1949 (AACS).

Source: The Hindu

Q.10) Consider the following statements regarding the Market Stabilization Scheme (MSS):
1. It is a tool used by central bank (RBI) to reduce the liquidity and bringing the money market under control.
2. It was initiated by Rangarajan in 1993.

Which of the statements given above is/are correct?
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

ANS: A
Explanation: Market Stabilisation Scheme or MSS is a tool used by the Reserve Bank of India to suck out excess liquidity from the market through issue of securities like Treasury Bills, Dated Securities etc. on behalf of the government.

- The money raised under MSS is kept in a separate account called MSS Account and not parked in the government account or utilized to fund its expenditures.
- The Reserve Bank under Governor YV Reddy initiated the MSS scheme in 2004, to control the surge of US dollars in the Indian market; RBI started buying US dollars while pumping in rupee.
- This eventually led to over-supply of the domestic currency raising inflationary expectations. MSS was introduced to mop up this excess liquidity.

Source: TMH Ramesh Singh

Inflation & Unemployment

Q.1) “Lorenz Curve” is related to which of the following?
a) Inflation
b) Tax revenue
c) Income inequality
d) Public debt

ANS: C
Explanation: A graph showing the degree of inequality in income and wealth in a given population or an economy. It is a rigorous way to measure income inequality.

- In this method (for example), personal incomes in an economy are arranged in increasing order; the cumulative share of total income is then plotted against the cumulative share of the population.
- The curve’s slope is thus proportional to per capita income at each point of the population distribution.
- In the case of complete equality of income, the lorenz curve will be a straight line and with greater curvature the inequality rises proportionally–the Gini Coefficient measures this inequality.

Source: TMH Ramesh Singh

Q.2) Consider the following statements regarding the traits of “recession”:
1. General fall in demand.
2. Inflation remains higher and no signs of going down.
3. Unemployment rate grows.
Which of the statements above given is/are correct?
a) 1 only
b) 1 and 2 only
c) 1 and 3 only
d) 1, 2 and 3

ANS: C
Explanation: Recession is somewhat similar to the phase of ‘depression’ — we may call it a mild form of depression — fatal for economies as this may lead to depression if not handled with care and in time.

- The financial crises which followed the US ‘sub-prime crisis’ in almost the whole Euro-American economies has basically brought in ‘severe recessionary’ trends there.

Major traits of recession, to a great extent, are similar to that of depression - ‘may be summed up as follows:

- There is a general fall in demand as economic activities take a downturn;
- Inflation remains lower or/and shows further signs of falling down;
- employment rate falls/unemployment rate grows;
- Industries resort to ‘price cuts’ to sustain their business.

Source: TMH Ramesh singh

Q.3) "Fisher effect" is the relationship between which of the following variables?
a) Income & Inequality
b) Growth & Inflation
c) Trade & Development
d) Inflation & Interest rate

ANS: D
Explanation: A concept developed by Irving Fisher (1867–1947) which shows relationship between inflation and the interest rate, expressed by an equation popular as the fisher equation, i.e., the nominal interest rate on a loan is the sum of the real interest rate and the rate of inflation expected over the duration of the loan:
R = r + F; where R = nominal interest rate, r = real interest rate and F = rate of annual inflation.
Source: TMH Ramesh Singh

Q.4) "A graphic curve which advocates a relationship between inflation and unemployment in an economy"- describes which of the following?
a) Phillips curve
b) Laffer Curve
c) Lorrenz curve
d) Gini coefficient

ANS: A
Explanation: Phillips curve is a graphic curve which advocates a relationship between inflation and unemployment in an economy.
- As per the curve there is a 'trade off' between inflation and unemployment, i.e., an inverse relationship between them.
- The curve suggests that lower the inflation, higher the unemployment and higher the inflation, lower the unemployment.
- During the 1960s, this idea was among the most important theories of the modern economists.
- This concept is known after the economists who developed it—Alban William Housego Phillips (1914–75).

Source: TMH Ramesh Singh

Q.5) With reference to the "effects of inflation", which of the following statements is/are NOT correct?
1. Inflation redistributes wealth from creditors to debtors.
2. Rising inflation indicates rising aggregate demand.
Select the correct answer using the codes given below:
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

ANS: D
Explanation: There are multi-dimensional effects of inflation on an economy both at the micro and macro levels.
- It redistributes income, distorts relative prices, destabilizes employment, tax, saving and investment policies, and finally it may bring in recession and depression in an economy.

- Inflation redistributes wealth from creditors to debtors, i.e., lenders suffer and borrowers benefit out of inflation.
- Rising inflation indicates rising aggregate demand and indicates comparatively lower supply and higher purchasing capacity among the consumers.

Source: TMH Ramesh Singh

Q.6) Which of the following pair (s) is/are correctly matched?

Index	:	Base Year
1. Wholesale price index	:	2011-12
2. Consumer price index	:	2004-05
3. Gross Domestic Product	:	2011-12

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

ANS: C

Explanation: Consumer Price Index or CPI as it is commonly called is an index measuring retail inflation in the economy by collecting the change in prices of most common goods and services used by consumers. Base Year for CPI is 2012.

- Wholesale Price Index, or WPI, measures the changes in the prices of goods sold and traded in bulk by wholesale businesses to other businesses.
- With an aim to align the index with the base year of other important economic indicators such as GDP and IIP, the base year was updated to 2011-12 from 2004-05 for the new series of Wholesale Price Index (WPI), effective from April 2017.
- The present base year for gross domestic product is 2011-12.

Source: TMH Ramesh Singh

Q.7) The government of India in June 2019 set up a working group to revise the current series of Wholesale Price Index (WPI) and devise a new Producer Price Index (PPI). The group is headed by which of the following?
a) Ramesh Chand
b) B. N. Goldar
c) Bimal Jalan
d) Soumya Kanti Ghosh

ANS: A

Explanation: The government has set up a working group under Niti Aayog member Ramesh Chand to revise the current series of Wholesale Price Index (WPI) with base 2011-12 and devise a new Producer Price Index (PPI).

- The group will review the commodity basket of the current series of WPI, suggest changes in commodities in the light of structural changes in the economy witnessed since 2011-12 and decide on the computational methodology to be adopted for monthly WPI/PPI.
- The government had in 2014 constituted a committee under Professor BN Goldar to devise a PPI after the Reserve Bank of India began considering consumer price inflation as a better gauge of inflation than WPI.

Source: The Hindu

Q.8) Which one among the following items has maximum weight in wholesale price index (WPI)?
a) Raw materials
b) Fuel and electricity
c) Food Items
d) Manufactured products

ANS: D
Explanation: Wholesale Price Index (WPI) measures the average change in the prices of commodities for bulk sale at the level of early stage of transactions.

- The index basket of the WPI covers commodities falling under the three major groups namely Primary Articles, Fuel and Power and Manufactured products.
- The index basket of the present 2011-12 series has a total of 697items including 117 items for Primary Articles, 16 items for Fuel & Power and 564 items for Manufactured Products.

Source: TMH Ramesh Singh

Q.9) Which of the following organization conducts the "Periodic Labour Force Surveys (PLFS)"?
a) NITI Aayog
b) Central Statistical Office
c) National Sample Survey Office (NSSO)
d) Ministry of Labour

ANS: C
Explanation: PLFS is an initiative aimed at generating estimates of various labour force indicators.

- The National Sample Survey Office (NSSO) under the Ministry of Statistics and Programme Implementation conducts the survey.
- Quarterly survey (For urban areas only) – Captures only the current weekly status (CWS) data.

Source: The Hindu

Q.10) "Fiscal Stimulus" is provided to different sectors of an economy to promote the growth. Which of the following measure (s) is/are constitutes fiscal stimulus?
1. Decreasing taxes
2. Monetary incentives
3. Export subsidies
Select the correct answer using the code given below:
a) 1 only
b) 1 and 2 only
c) 2 and 3 only
d) 1, 2 and 3

ANS: C
Explanation: A stimulus package is a number of incentives and tax rebates offered by a government to boost spending in a bid to pull a country out of a recession or to prevent an economic slowdown.

- A stimulus package can either be in the form of a monetary stimulus or a fiscal stimulus.
- A monetary stimulus involves cutting interest rates to stimulate the economy.

- When interest rates are cut, there is more incentive for people to borrow as the cost of borrowing is reduced.
- An increase in borrowing means there'll be more money in circulation, less incentive to save, and more incentive to spend.
- Lowering interest rates could also weaken the exchange rate of a country, thereby leading to a boost in exports.
- When exports are increased, more money enters the economy, encouraging spending and stirring up the economy.

Source: TMH Ramesh Singh

Revision

Q.1) Consider the following statements regarding to tackle unemployment:
1. Adopting an employment-intensive sectoral planning.
2. Regulate technological change to protect and enhance employment.
3. Promote area planning for full unemployment.
Which of the statements given above is/are correct?
a) 1 only
b) 1 and 3 only
c) 2 and 3 only
d) 1, 2 and 3

ANS: D
Explanation: Economic development in the sense of rise in real GNP and per capita real income is by itself of not much significance in India unless we remove unemployment and underemployment also.
The employment strategy of planned development will have to be directed
- To adopt an employment intensive sectoral planning
- To regulate technological change to protect and enhance employment.
- To promote area planning for full employment.

The focus should be to expand employment through labour absorbing technologies.
The expansion of infrastructural and social services i.e. road construction, rural electrification, water supply, rural schools and community health schemes besides irrigation and housing programmes will help to generate massive employment opportunities.
Source: TMH Ramesh Singh

Q.2) National Income refers to
a) Current market value of all final goods and services produced in a year.
b) Current market value of all consumer goods and services produced in a year.
c) Current market value of all capital goods and services produced in a year.
d) Both B and C.

ANS: A
Explanation: National Income refers to the money value of all the goods and services produced in a country during a financial year.
In other words, the final outcome of all the economic activities of the nation during a period of one year, valued in terms of money is called as a National income.
Source: TMH Ramesh Singh

Q.3) Which of the following is/are used as inflation measuring indices in India?
1. Consumer price index
2. Wholesale price index
3. GDP deflator
Select the correct answer using the codes given below:
a) 1 only
b) 1 and 2 only
c) 1 and 3 only
d) 1, 2 and 3

ANS: D

Explanation: There are two main set of inflation indices for measuring price level changes in India – the Wholesale Price Index (WPI) and the Consumer Price Index (CPI).

- The WPI, where prices are quoted from wholesalers, is constructed by Office of Economic Affairs, Ministry of Commerce and Industries.
- In the case of CPI (prices quoted from retailers), there are several indices to measure it: CPI for industrial labourers (CPI-IL), agricultural labourers (CPI-AL) and rural labourers (CPI-RL) besides an all India CPI.
- In addition, Gross Domestic Product (GDP) deflator and Private Final Consumption Expenditure (PFCE) deflator from the National Accounts Statistics (NAS) provide an implicit economy-wide inflation estimate.

Source: TMH Ramesh Singh

Q.4) Which of the following is/are inflation controlling measures?
1. Supply side measures
2. Cost side measures
3. Easy monetary policy measures

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

ANS: B

Explanation: The governments resort to the following options to check rising inflation:

- As a supply side measure, the government may go for import of goods which are in short-supply. As a long-term measure, governments go on to increase the production to matching the level of demand. Storage, transportation, distribution, hoarding are the other aspects of price management of this category.
- As a cost side measure, governments may try to cool down the price by cutting down the production cost of goods showing price rise with the help of tax breaks—cuts in the excise and custom duties.
- The governments may take recourse to tighter monetary policy to cool down either the demand-pull or the cost-push inflations. This is basically intended to cut down the money supply in the economy by siphoning out the extra money.

Source: TMH Ramesh Singh

Q.5) Which of the following given below committee recommended organized money market in India for the first time?
a) Narsimham Committee
b) Vahul Committee
c) Chakravorthy Committee
d) Rangarajan Committee

ANS: C

Explanation: The organised form of money market in India is just close to three decades old. However, its presence has been there, but restricted to the government only.

It was the Chakravarthy Committee (1985) which, for the first time, underlined the need of an organised money market in the country and the Vahul Committee (1987) laid the blue print for its development.

Source: TMH Ramesh Singh

Q.6) Consider the following statements regarding nationalization of banks in India:
1. 14 banks with deposits were more than Rs. 50crore of nationalized in July 1969.
2. 6 banks with deposits were more than Rs. 100crore of nationalized in April 1980.
Which of the statements given above is/are NOT correct?
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

ANS: B
Explanation: After successful experimentation in the partial nationalizations the government decided to go for complete nationalization.
- With the help of the Banking Nationalization Act, 1969, the government nationalized a total number of 20 private banks:
- 14 banks with deposits were more than Rs. 50 crore of nationalised in July 1969, and
- 6 banks with deposits were more than Rs. 200 crore of nationalised in April 1980.
- After the merger of the loss-making New Bank of India with the Punjab National Bank (PNB) in September 1993, the total number of nationalized banks came down to 19.
- Today, there are 27 public sector banks in India out of which 19 are nationalized (though none of the so-called nationalized banks have 100 per cent ownership of the Government of India).

Source: TMH Ramesh Singh

Q.7) The word “monetary transmission” often seen in news is related to which of the following?
a) To contain growing Non-Performing Assets (NPA’s) of commercial banks.
b) Providing timely credit for agriculture and other economically weaker sections.
c) Smooth transmission of tax devolution to states from centre.
d) The pass-through of the RBI’s rate actions to the economy at large.

ANS: D
Explanation: Monetary transmission is the pass-through of the RBI’s rate actions to the economy at large.
- As you know, the RBI’s most important task is to keep tabs on inflation by adjusting money supply.
- It also monitors the exchange rate. To control all this, the RBI uses many monetary tools.
- The repo rate, reverse repo rate and cash reserve requirement are being the key instruments.
- Let us take the repo rate, for instance. This is the rate at which the RBI lends short-term funds to banks to manage their day-to-day operations.
- When the RBI wants to stimulate growth, it cuts the repo rate to reduce the cost of borrowings.
- Banks get money at a cheaper rate. If this is passed on to borrowers, then monetary transmission is said to have happened smoothly.

Source: The Hindu

Q.8) Consider the following statements regarding the "Priority Sector Lending (PSL)":
1. All Indian banks have to follow the compulsory target of priority sector lending (PSL).
2. Indian and Foreign Banks need to lend 40 per cent to the priority sector every year of their total lending.

Which of the statements given above is/are correct?
a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

ANS: A
Explanation: All Indian banks have to follow the compulsory target of priority sector lending (PSL).
The priority sector in India are at present the sectors-agriculture, small and medium enterprises (SMEs), road and water transport, retail trade, small business, small housing loans (not more than Rs. 10lakhs), software industries, self help groups (SHGs), agro-processing, small and marginal farmers, artisans, distressed urban poor and indebted non-institutional debtors besides the SCs, STs and other weaker sections of society.
The PSL target must be met by the banks operating in India in the following way:
- Indian Banks need to lend 40 per cent to the priority sector every year (public sector as well as private sector banks, both) of their total lending.
- Foreign Banks (having less than 20 branches) have to fulfill only 32 per cent PSL target which has sub-targets for the exports (12 per cent) and small and medium enterprises (10 per cent).

Source: TMH Ramesh Singh

Q.9) Consider the following statements "Service Area Approach (SAA)":
1. It is introduced in April 1989 for planned and orderly development of rural and semi-urban areas.
2. It is applicable to Scheduled Commercial Banks only.

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

ANS: B
Explanation: The Service Area Approach (SAA) introduced in April 1989 for planned and orderly development of rural and semi-urban areas was applicable to all scheduled commercial banks including Regional Rural Banks.
- Under SAA, each bank branch in rural and semi-urban area was designated to serve an area of 15 to 25 villages and the branch was responsible for meeting the needs of bank credit of its service area.
- The primary objective of SAA was to increase productive lending and forge effective linkages between bank credit, production, productivity and increase in income levels.
- The SAA scheme was reviewed from time to time and appropriate changes were made in the scheme to make it more effective.

Source: TMH Ramesh Singh

Q.10) The term "Ind AS" is often seen in news is related to which of the following?
a) It is a new domestic rating agency of India.
b) It is a sub-committee representing South Asia of International Solar Alliance (ISA).
c) It is a new accounting norms.
d) It is a bad bank created to control the growing Non Performing Assets (NPA).

ANS: C
Explanation: Indian Accounting Standard (abbreviated as Ind-AS) is the Accounting standard adopted by companies in India and issued under the supervision of Accounting Standards Board (ASB) which was constituted as a body in the year 1977.
Presently, the Institute of Chartered Accountants of India (ICAI) has issued 39 Indian Accounting Standards (Ind AS) which have been notified under the Companies (Indian Accounting Standards) Rules, 2015 ('Ind AS Rules'), of the Companies Act, 2013.
Source: The Hindu