ForumIAS

Prelims Marathon

24th to 30th October, 2022

HISTORY
ECONOMICS
POLITY
SCIENCE AND TECHNOLOGY
GEOGRAPHY AND ENVIRONMENT

Economy

Q.1) In an economy, the production and the employment are related to which of the following "variable/variables"?

1. Prices
2. Rate of interest
3. Wage rates

Choose the correct answer from below given codes:

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

ANS: D

Explanation: In macroeconomics we usually simplify the analysis of how the country's total production and the level of employment are related to attributes (called 'variables') like prices, rate of interest, wage rates, profits.

Source: NCERT – Macro economics

Q.2) Which of the following is/are come/s under the definition of economic agents?

1. Consumers
2. Producers
3. Entities

Choose the correct answer from below given codes:

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

ANS: D

Explanation: By economic units or economic agents, we mean those individuals or institutions which take economic decisions.

- They can be consumers who decide what and how much to consume.
- They may be producers of goods and services who decide what and how much to produce.
- They may be entities like the government, corporation, banks which also take different economic decisions like how much to spend, what interest rate to charge on the credits, how much to tax, etc.

Source: NCERT – Macro economics

Q.3) Who among the following called as founding father of modern economics?
a) Adam Smith
b) David Ricardo
c) James Mill
d) Aristotle

ANS: A
Explanation: Adam Smith is regarded as the founding father of modern economics (it was known as political economy at that time). He was a Scotsman and a professor at the University of Glasgow.
Philosopher by training, his well known work An Enquiry into the Nature and Cause of the Wealth of Nations (1776) is regarded as the first major comprehensive book on the subject.
Source: NCERT – Macro economics

Q.4) Which of the following is/are pursue the macroeconomic policies in India?
1. The State or Government
2. The Reserve Bank of India
3. The Securities and Exchange Board of India

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

ANS: D
Explanation: Who are the macroeconomic decision makers (or 'players')? Macroeconomic policies are pursued by the State itself or statutory bodies like the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI) and similar institutions.
Source: NCERT – Macro economics

Q.5) "The General Theory of Employment, Interest and Money" book was written by which of the following?
a) Adam Smith
b) David Ricardo
c) John Maynard Keynes
d) James Mill

ANS: C
Explanation: Macroeconomics, as a separate branch of economics, emerged after the British economist John Maynard Keynes published his celebrated book The General Theory of Employment, Interest and Money in 1936.
Source: NCERT – Macro economics

Q.6) Which of the following are the characteristics of a capitalist economy?
1. Private ownership of means of production
2. Production takes place for selling the output in the market
3. There is sale and purchase of labour services

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

ANS: D
Explanation: A capitalist economy can be defined as an economy in which most of the economic activities have the following characteristics
1. There is private ownership of means of production
2. Production takes place for selling the output in the market
3. There is sale and purchase of labour services at a price which is called the wage rate (the labour which is sold and purchased against wages is referred to as wage labour).

Source: NCERT – Macro economics

Q.7) "A reduction in the value of an asset over time, due in particular to wear and tear" is called as?
a) Depreciation
b) Inflation
c) Appreciation
d) Gross Capital Formation

ANS: A
Explanation: A significant part of current output of capital goods goes in maintaining or replacing part of the existing stock of capital goods.
- This is because the already existing capital stock suffers wear and tear and needs maintenance and replacement.
- A part of the capital goods produced this year goes for replacement of existing capital goods and is not an addition to the stock of capital goods already existing and its value needs to be subtracted from gross investment for arriving at the measure for net investment.
- This deletion, which is made from the value of gross investment in order to accommodate regular wear and tear of capital, is called depreciation.

Source: NCERT – Macro economics

Q.8) Which of the following are factors of production?
1. Labour
2. Capital
3. Land
4. Entrepreneurship

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

ANS: D
Explanation: Four kinds of contributions that can be made during the production of goods and services
1. Contribution made by human labour, remuneration for which is called wage
2. Contribution made by capital, remuneration for which is called interest
3. Contribution made by entrepreneurship, remuneration of which is profit
4. Contribution made by fixed natural resources (called 'land'), remuneration for which is called rent.

Source: NCERT – Macro economics

Q.9) Consider the following statements:
1. The reporting authority of Gross Domestic Product (GDP) in India is Central Statistics Office (CSO).
2. From January 2011 the CSO replaced GDP at factor cost with the GVA at basic prices for reporting the GDP.

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: In India, the most highlighted measure of national income has been the GDP at factor cost.
- The Central Statistics Office (CSO) of the Government of India has been reporting the GDP at factor cost and at market prices.
- In its revision in January 2015 the CSO replaced GDP at factor cost with the GVA at basic prices, and the GDP at market prices, which is now called only GDP, is now the most highlighted measure.

Source: NCERT – Macro economics

Q.10) "GDP = C + I + G + X – M" equation is related to which of the following?
a) Gross Domestic Product at Market Prices
b) GDP at Factor Cost
c) Net Domestic Product at Market Prices
d) NDP at Factor Cost

ANS: A
Explanation:

1.	**Gross Domestic Product at Market Prices (GDP_{MP})**	• GDP is the market value of all final goods and services produced within a domestic territory of a country measured in a year. • All production done by the national residents or the non-residents in a country gets included, regardless of whether that production is owned by a local company or a foreign entity. • Everything is valued at market prices. $GDP_{MP} = C + I + G + X - M$
2.	**GDP at Factor Cost (GDP_{FC})**	• GDP at factor cost is gross domestic product at market prices, less net product taxes. • Market prices are the prices as paid by the consumers Market prices also include product taxes and subsides. The term factor cost refers to the prices of products as received by the producers. Thus, factor cost is equal to market prices, minus net indirect taxes. GDP at factor cost measures money value of output produced by the firms within the domestic boundaries of a country in a year. $GDP_{FC} = GDP_{MP} - NIT$
3.	**Net Domestic Product at Market Prices (NDP_{MP})**	• This measure allows policy-makers to estimate how much the country has to spend just to maintain their current GDP. If the country is not able to replace the capital stock lost through depreciation, then GDP will fall. $NDP_{MP} = GDP_{MP} - Dep.$
4.	**NDP at Factor Cost (NDP_{FC})**	• NDP at factor cost is the income earned by the factors in the form of wages, profits, rent, interest, etc., within the domestic territory of a country. $NDP_{FC} = NDP_{MP}$ - Net Product Taxes - Net Production Taxes

Source: NCERT – Macro economics

Economy - Central Bank in India and its powers and Contribution

Q.1) Which of the following initiative/initiatives taken by the government to promote cashless transactions?

1. e –Wallets
2. Aadhar enabled payment systems
3. National financial Switch

Choose the correct answer from below given codes:

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

ANS: D

Explanation: During the last few years' initiatives such as Jan Dhan accounts, Aadhar enabled payment systems; e –Wallets, National financial Switch (NFS) and others have strengthened the government resolve to go cashless.

Source: NCERT – Macro economics

Q.2) Consider the following statements regarding Non-Banking Financial Companies (NBFC's):

1. It is a heterogeneous group of institutions performing financial intermediation.
2. They can do activities like agricultural, industrial, sale & purchase and construction of immovable property.

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: NBFCs (Non-Banking Financial Companies) are fast emerging as an important segment of Indian financial system.

- It is an heterogeneous group of institutions (other than commercial and co-operative banks) performing financial intermediation in a variety of ways, like accepting deposits, making loans and advances, leasing, hire purchase, etc.
- They cannot have certain activities as their principal business—agricultural, industrial and salepurchase or construction of immovable property.

Source: TMH – Ramesh Singh

Q.3) Consider the following statements:
1. NBFC's raise money from public.
2. NBFC's advance loans to the various wholesale and retail traders, small-scale industries and self-employed persons.
3. NBFC's are regulated by NABARD.

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

ANS: B
Explanation: NBFC's raise funds from the public, directly or indirectly, and lend them to ultimate spenders.
- They advance loans to the various wholesale and retail traders, small-scale industries and self-employed persons.
- Thus, they have broadened and diversified the range of products and services offered by a financial sector.
- RBI, the regulator of the NBFCs, has gives a very wide definition of such companies (a kind of 'umbrella' definition)—"a financial institution formed as a company involved in receiving deposits or lending in any manner."

Source: TMH – Ramesh Singh

Q.4) Under which of the following act, Reserve Bank of India was formed?
a) Government of India act, 1919
b) Government of India act, 1935
c) Reserve Bank of India Act, 1934
d) The Banking Regulation Act, 1949

ANS: C
Explanation: The Reserve Bank of India (RBI) was set up in 1935 (by the RBI Act, 1934) as a private bank with two extra functions—regulation and control of the banks in India and being the banker of the government.
After nationalization in 1949, it emerged as the central banking body of India and it did not remain a 'bank' in the technical sense.
Source: TMH – Ramesh Singh

Q.5) Which of the following function/functions of Reserve Bank of India?
1. Issuing agency of all types of denominations of currency and coins.
2. Distributing agent for currency and coins issued by the Government of India.
3. Banker of the government.

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

ANS: C

Explanation: After nationalization in 1949, it emerged as the central banking body of India and it did not remain a 'bank' in the technical sense.

Since then, the governments have been handing over different functions 4 to the RBI, which stand today as given below:

(i) It is the issuing agency of the currency and coins other than rupee one currency and coin (which are issued by Ministry of Finance itself with the signature of the Finance Secretary on the note).

(ii) Distributing agent for currency and coins issued by the Government of India.

(iii) Banker of the government.

(iv)Bank of the banks/Bank of last resort.

Source: TMH – Ramesh Singh

Q.6) Consider the following statements regarding demand for money:
1. A rise in income will lead to rise in demand for money.
2. Higher the interest rate, higher the demand for money.

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 demand for money tells us what makes people desire a certain amount of money.

- Since money is required to conduct transactions, the value of transactions will determine the money people will want to keep: the larger is the quantum of transactions to be made, the larger is the quantity of money demanded.
- Since the quantum of transactions to be made depends on income, it should be clear that a rise in income will lead to rise in demand for money.
- Also, when people keep their savings in the form of money rather than putting it in a bank which gives them interest, how much money people keep also depends on rate of interest.
- Specifically, when interest rates go up, people become less interested in holding money since holding money amounts to holding less of interest-earning deposits, and thus less interest received.
- Therefore, at higher interest rates, money demanded comes down.

Source: TMH – Ramesh Singh

Q.7) Money supply in the economy is controlled by which of the following measure/measures?

1. Bank rate
2. Open market operations
3. Variations in reserve ratios

Choose the correct answer from below given codes:

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

ANS: D

Explanation: Central Bank is a very important institution in a modern economy. Almost every country has one central bank.

- India got its central bank in 1935. Its name is the 'Reserve Bank of India'. Central bank has several important functions. It issues the currency of the country.
- It controls money supply of the country through various methods, like bank rate, open market operations and variations in reserve ratios.

Source: NCERT – Macro economics

Q.8) Which of the following is the custodian of the foreign exchange reserves of the economy in India?

a) Reserve Bank of India (RBI)
b) Director General of Foreign Trade (DGFT)
c) Foreign Exchange Management Agency
d) Department of Economic Affairs

ANS: A

Explanation: RBI is the custodian of the foreign exchange reserves of the economy.

Source: NCERT – Macro economics

Q.9) Consider the following statements:

1. Currency issued by the central bank, held by the public or by the commercial banks, is called high-powered money.
2. RBI performs a variety of developmental and promotional functions.

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: From the point of view of money supply, we need to focus on its function of issuing currency.

- This currency issued by the central bank can be held by the public or by the commercial banks, and is called the 'high-powered money' or 'reserve money' or 'monetary base' as it acts as a basis for credit creation.

- RBI Performs a variety of developmental and promotional functions under which it did set up institutions like IDBI, SIDBI, NABARD, NHB, etc.

Source: NCERT – Macro economics

Q.10) "Percentage of deposits which a bank must keep as cash reserves with the bank" is called as?

a) Cash Reserve Ratio
b) Open Market Operations
c) Bank Rate
d) Statutory Liquidity Ratio

ANS: A

Explanation: The RBI decides a certain percentage of deposits which every bank must keep as reserves.

- This is done to ensure that no bank is 'over lending'. This is a legal requirement and is binding on the banks.
- This is called the 'Required Reserve Ratio' or the 'Reserve Ratio' or 'Cash Reserve Ratio' (CRR).
- Cash Reserve Ratio (CRR) = Percentage of deposits which a bank must keep as cash reserves with the bank.

Source: NCERT – Macro economics

Economy

Q.1) "It refer to the benefits (or harms) a firm or an individual causes to another for which they are not paid (or penalized)" is related to which of the following?

a) Depreciation
b) Externalities
c) Appreciation
d) Circular flow of income

ANS: B

Explanation: Externalities refer to the benefits (or harms) a firm or an individual causes to another for which they are not paid (or penalized).

- Externalities do not have any market in which they can be bought and sold. For example, let us suppose there is an oil refinery which refines crude petroleum and sells it in the market.
- The output of the refinery is the amount of oil it refines. We can estimate the value added of the refinery by deducting the value of intermediate goods used by the refinery (crude oil in this case) from the value of its output.
- The value added of the refinery will be counted as part of the GDP of the economy. But in carrying out the production the refinery may also be polluting the nearby river. This may cause harm to the people who use the water of the river.
- Hence their well being will fall. Pollution may also kill fish or other organisms of the river on which fish survive.
- As a result, the fishermen of the river may be losing their livelihood. Such harmful effects that the refinery is inflicting on others, for which it will not bear any cost, are called externalities.

Source: NCERT – Macro economics

Q.2) Consider the following statements:

1. Real GDP evaluates the value of goods and services at market prices.
2. Nominal GDP evaluates the value of goods and services at constant prices.

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: D

Explanation: In order to compare the GDP figures (and other macroeconomic variables) of different countries or to compare the GDP figures of the same country at different points of time, we cannot rely on GDPs evaluated at current market prices. For comparison we take the help of real GDP.

- Real GDP is calculated in a way such that the goods and services are evaluated at some constant set of prices (or constant prices).
- Since these prices remain fixed, if the Real GDP changes we can be sure that it is the volume of production which is undergoing changes.
- Nominal GDP, on the other hand, is simply the value of GDP at the current prevailing prices.

Source: NCERT – Macro economics

Q.3) The GDP Deflator is a ration between which of the following?
a) Real GDP and Nominal GDP
b) Real GDP and Inflation
c) Nominal GDP and Inflation
d) Real GDP and Base year

ANS: A
Explanation: The ratio of nominal to real GDP is a well known index of prices. This is called GDP Deflator. Thus if GDP stands for nominal GDP and gdp stands for real GDP then, GDP deflator = GDP /gdp.
Source: NCERT – Macro economics

Q.4) In what ways GDP deflator is different from Consumer/Wholesale price Index?
1. It takes into account all such goods and services.
2. It includes prices of imported goods.
3. The weights are differs according to production level of each good in GDP deflator.

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

ANS: C
Explanation: Notice CPI (and analogously WPI) may differ from GDP deflator because
1. The goods purchased by consumers do not represent all the goods which are produced in a country. GDP deflator takes into account all such goods and services.
2. CPI includes prices of goods consumed by the representative consumer; hence it includes prices of imported goods. GDP deflator does not include prices of imported goods.
3. The weights are constant in CPI – but they differ according to production level of each good in GDP deflator.

Source: NCERT – Macro economics

Q.5) Which of the following is/are quantitative method of control of money supply in the economy by Reserve Bank of India?
1. Bank Rate
2. Moral suasion
3. Margin requirement

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

ANS: A
Explanation: The RBI controls the money supply in the economy in various ways. The tools used by the Central bank to control money supply can be quantitative or qualitative.
- Quantitative tools control the extent of money supply by changing the CRR, or bank rate or open market operations.

- Qualitative tools include persuasion by the Central bank in order to make commercial banks discourage or encourage lending which is done through moral suasion, margin requirement, etc.

Source: NCERT – Macro economics

Q.6) Which of the following types of money supply comes under the definition of narrow money?

a) M1 and M3
b) M1 and M2
c) M2 and M3
d) M3 and M4

ANS: B

Explanation: RBI publishes figures for four alternative measures of money supply, viz. M1, M2, M3 and M4.

They are defined as follows

- M1 = CU + DD
- M2 = M1 + Savings deposits with Post Office savings banks
- M3 = M1 + Net time deposits of commercial banks
- M4 = M3 + Total deposits with Post Office savings organizations (excluding National Savings Certificates)

Where, CU is currency (notes plus coins) held by the public and DD is net demand deposits held by commercial banks.

- The word 'net' implies that only deposits of the public held by the banks are to be included in money supply.
- The interbank deposits, which a commercial bank holds in other commercial banks, are not to be regarded as part of money supply.
- M1 and M2 are known as narrow money.
- M3 and M4 are known as broad money.

Source: NCERT – Macro economics

Q.7) Consider the following statements regarding Statutory Liquidity Ratio (SLR):

1. It is the ratio of the total deposits of a bank which is to be maintained by the bank with itself in cash and non cash form.
2. The ratio is fixed by Reserve Bank of India.

Which of the statements given above is/are correct?

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

ANS: C

Explanation: The statutory liquidity ratio (SLR) is the ratio (fixed by the RBI) of the total deposits of a bank which is to be maintained by the bank with itself in cash and non-cash form prescribed by the government to be in the range of 25 to 40 per cent.

Source: TMH Ramesh Singh and RBI website

Q.8) "The interest rate which the RBI charges on its long-term lending's known as"?
a) Bank rate
b) Repo rate
c) Reverse Repo rate
d) Open Market Operations

ANS: A
Explanation: The interest rate which the RBI charges on its long-term lending's is known as the Bank Rate.
- The clients who borrow through this route are the Government of India, state governments, banks, financial institutions, cooperative banks, NBFCs, etc.
- The rate has direct impact on long-term lending activities of the concerned lending bodies operating in the Indian financial system.
- The rate was realigned with the MSF (Marginal Standing Facility) by the RBI in February 2012.

Source: TMH Ramesh Singh

Q.9) Consider the following statements regarding Liquidity Adjustment Facility (LAF):
1. It is introduced as key element of fiscal policy to control money supply in the economy.
2. It is introduced in 2013 to face rupee exchange crisis.

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 LAF is the key element in the monetary policy operating framework of the RBI (introduced in June 2000).
- On daily basis, the RBI stands ready to lend to or borrow money from the banking system, as per the need of the time, at fixed interest rates (repo and reverse repo rates).
- Together with moderating the fundmismatches of the banks, LAF operations help the RBI to effectively transmit interest rate signals to the market.
- The recent changes regarding a cap on the repo borrowing and provision of the term repo have changed the very dynamics of this facility after 2013.

Source: TMH Ramesh Singh

Q.10) "It is a monetary policy intervention by the RBI to withdraw excess liquidity by selling government securities in the economy" is known as?
a) Repo rate
b) Cash Reserve Ratio
c) Reverse Repo rate
d) Market Stabilization Scheme

ANS: D
Explanation: Market Stabilization scheme (MSS) is a monetary policy intervention by the RBI to withdraw excess liquidity (or money supply) by selling government securities in the economy. The MSS was introduced in April 2004. Main thing about MSS is that it is used to withdraw excess liquidity or money from the system by selling government bonds.
Source: TMH Ramesh Singh

Economy

Q.1) Consider the following statements:

1. The scheduled commercial banks cannot lend the money below Base Rate.
2. The Base Rate came into effect by replacing benchmark prime lending rate.

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: Base Rate is the interest rate below which Scheduled Commercial Banks (SCBs) will lend no loans to its customers—its means it is like prime lending rate (PLR) and the benchmark prime lending Rate (BPLR) of the past and is basically a floor rate of interest.
It replaced the existing idea of BPLR on 1 July, 2010.

Source: TMH Ramesh Singh

Q.2) Which of the following is/are the features of Marginal Cost of funds based Lending Rate (MCLR)?

1. It will be a tenor linked internal benchmark, to be reset on quarterly basis.
2. It will be reviewed every month on a pre-announced date.
3. Existing borrowers will have the option to move to it.

Choose the correct answer from below given codes:

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

ANS: C

Explanation: From the financial year 2016-17 (i.e., from 1st April, 2016), banks in the country have shifted to a new methodology to compute their lending rate.

The new methodology—MCLR (Marginal Cost of funds based Lending Rate) — which was articulated by the RBI in December 2015. The main features of the MCLR are—

- It will be a tenor linked internal benchmark, to be reset on annual basis.
- Actual lending rates will be fixed by adding a spread to the MCLR.
- To be reviewed every month on a pre-announced date.
- Existing borrowers will have the option to move to it.
- Banks will continue to review and publish 'Base Rate' as hitherto

Source: TMH Ramesh Singh

Q.3) The Reserve Bank of India was nationalized in which of the following year?
a) 1947
b) 1949
c) 1951
d) 1955

ANS: B
Explanation: The Reserve Bank of India was nationalized with effect from 1st January, 1949 on the basis of the Reserve Bank of India (Transfer to Public Ownership) Act, 1948.
All shares in the capital of the Bank were deemed transferred to the Central Government on payment of a suitable compensation.
Source: https://rbi.org.in/history/Brief_RBI_Nationalisation.html

Q.4) Which of the following is/are reason/reasons for nationalization of banks?
1. Low access to banking system by masses.
2. Government needed to direct the resources for greater public benefit.
3. Needed capital for implementing planned development (5 year plans).

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

ANS: D
Explanation: The development of banking industry in India has been intertwined with the story of its nationalization.
Once the Reserve Bank of India (RBI) was nationalized in 1949 and a central banking was in place, the government considered the nationalizing of selected private banks in the country due to the following major reasons:
(i) As the banks were owned and managed by the private sector the services of the banking were having a narrow reach—the masses had no access to the banking service;
(ii) The government needed to direct the resources in such a way that greater public benefit could take place;
(iii) The planned development of the economy required a certain degree of government control on the capital generated by the economy.
Source: TMH Ramesh Singh

Q.5) Which of the following presidency banks is/are amalgamated to form Imperial Bank of India?
1. Presidency bank of Madras
2. Presidency bank of Awadh
3. Presidency bank of Punjab

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

ANS: A
Explanation: The Imperial Bank was formed as a joint-stock bank in January 1921 by amalgamating the Presidency Banks of Bombay, Calcutta, and Madras.

This amalgamation was a response both to the felt need for a bank which would hold government balances and use them to deepen the country's financial structure, and to the threat which the Presidency Banks felt was likely to emanate from the inroads the London clearing banks were planning to make in India.
Source: TMH Ramesh Singh

Q.6) Consider the following statements regarding nationalization of private banks in India:
1. 14 banks with deposits were more than Rs. 50crore of nationalized in July 1959.
2. 6 banks with deposits were more than Rs. 200crore of nationalized in April 1980.

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: 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:
(i) 14 banks with deposits were more than Rs. 50crore of nationalized in July 1969, and
(ii) 6 banks with deposits were more than Rs. 200crore of nationalized in April 1980.
Source: TMH Ramesh Singh

Q.7) Consider the following statements regarding Regional Rural Banks (RRB's):
1. RRB's were formed in 1975.
2. RRB's were providing credit to the weaker sections of the society at concessional rate of interest.

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: The Regional Rural Banks (RRBs) were first set up on 2 October, 1975 (only 5 in numbers) with the aim to take banking services to the doorsteps of the rural masses specially in the remote areas with no access to banking services with twin duties to fulfill
(i) To provide credit to the weaker sections of the society at concessional rate of interest who previously depended on private money lending, and
(ii) To mobilize rural savings and channelize them for supporting productive activities in the rural areas.
Source: TMH Ramesh Singh

Q.8) "Kelkar Committee, Bhandari Committee and Basu Committee" are related to which of the following?

a) Inflation control
b) Restructuring of regional rural banks
c) Nationalization of banks
d) Promotion of MSMEs

ANS: B

Explanation: Following the suggestions of the Kelkar Committee, the government stopped opening new RRBs in 1987—by that time their total number stood at 196.

- Due to excessive leanings towards social banking and catering to the highly economically weaker sections, these banks started incurring huge losses by early 1980s.
- For restructuring and strengthening of the banks, the governments set up two committees—the Bhandari Committee (1994–95) and the Basu Committee (1995–96).

Source: TMH Ramesh Singh

Q.9) Consider the following statements regarding cooperative banks:

1. Co-operative banks have a three tier structure of banking system.
2. At present District cooperative banks are supervised by RBI.

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: Co-operative banks have a three tier structure—
(i) Primary Credit Societies-PCSs (agriculture or urban),
(ii) District Central Co-Operative Banks-DCCBs, and
(iii) State Co-Operative Banks-SCBc (at the apex level).
DCCBs & SCBs: As their names suggest, they operate at the district and state levels. One district can have no more than one DCCB with a number of DCCBs reporting to the SCB. They were under supervision of the RBI—later on this function was delegated to the NABARD.
Source: TMH Ramesh Singh

Q.10) Which of the following committee is related to banking sector reforms?

a) Narasimhan committee
b) XAXA committee
c) Chidambaram pillai committee
d) Chellai committee

ANS: A

Explanation: Narasimham is the most powerful banker of India post-independence.

- The way his reports – Narasimham Committee on Financial System (1991) and the Narasimham Committee on Banking Sector Reforms (1998) transformed the functionality of the Indian Banking sector is commendable.
- He is also known for pioneering historical events such as bank mergers, asset reconstruction firms and the emergence of new-generation private banks.

Source: TMH Ramesh singh

Economy

Q.1) Consider the following statements regarding financial market:
1. The short-term financial market is known as the money market.
2. The long-term financial market is known as the capital market.

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: 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 up-to 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) Which of the following way/ways long term loan/loans can be raised?
1. Bank loans
2. Corporate bonds
3. Debentures

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

ANS: D
Explanation: Long-term capital can be raised either through bank loans, corporate bonds, debentures or shares (i.e., from the capital market).
Source: TMH Ramesh Singh

Q.3) Who among the following laid down the blue print for development of money market?
a) Chakravarthy Committee
b) Vahul Committee
c) Narasimhan Committee
d) Kelkar Committee

ANS: B
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, Shikarpuri Shroffs and Chettiars" are related to which of the following?
a) Indigenous bankers
b) Village policeman
c) Village revenue officials
d) Agricultural market middleman

ANS: A
Explanation: Indigenous Bankers: Indigenous bankers receive deposits and lend money in the capacity of individual or private firms.
There are, basically, four such bankers in the country functioning as nonhomogenous groups:
(a) Gujarati Shroffs: They operate in Mumbai, Kolkata as well as in industrial, trading and port cities in the region.
(b) Multani or Shikarpuri Shroffs: They operate in Mumbai, Kolkata, Assam tea gardens and North Eastern India.
(c) Marwari Kayas: They operate mainly in Gujarat with a little bit of presence in Mumbai and Kolkata.
(d) Chettiars: They are active in Chennai and at the ports of southern India.
Source: TMH Ramesh Singh

Q.5) Which of the following Treasury bill is discontinued in India?
a) 14 – day Treasury bill
b) 91 – day Treasury bill
c) 182 – day Treasury bill
d) 364 – day Treasury bill

ANS: A
Explanation: Treasury Bills (TBs): This instrument of the money market though present since Independence got organized only in 1986.
- They are used by the Central Government to fulfill its short-term liquidity requirement up-to the period of 364 days.
- There developed five types of the TBs in due course of time: (a) 14-day (Intermediate TBs) (b) 14-day (Actionable TBs) (c) 91-day TBs (d) 182-day TBs (e) 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 institution/s is/are issue/s the commercial bill?
1. All India Financial Institutions
2. Non-Banking Finance Companies
3. Scheduled Commercial Banks

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

ANS: D
Explanation: Commercial Bill (CB): Organized in 1990, a CB is issued by the All India Financial Institutions (AIFIs), Non-Banking Finance Companies (NBFCs), Scheduled Commercial Banks, Merchant Banks, Co-operative Banks and the Mutual Funds. It replaced the old Bill Market available since 1952 in the country.
Source: TMH Ramesh Singh

Q.7) Consider the following statements:
1. Repo and Reverse Repo introduced in 1992 for raising short term funds.
2. All government securities are dated and the interests for the repo or reverse repo transactions are announced by the finance ministry from time to time.

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: D
Explanation: 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 favoured 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 interests for the repo or reverse repo transactions are announced by the RBI from time to time.

Source: TMH Ramesh Singh

Q.8) "It is a fund that is created when a large number of investors put in their money, and is managed by professionally qualified persons with experience in investing in different asset classes" is related to which of the following?

a) Mutual fund
b) Venture capital fund
c) Statutory fund
d) Reserve fund

ANS: A

Explanation: A mutual fund is a fund that is created when a large number of investors put in their money, and is managed by professionally qualified persons with experience in investing in different asset classes—shares, bonds, money market instruments like call money, and other assets such as gold and property.

- Their names usually give a good idea about what type of asset class a fund, also called a scheme, will invest in.
- For example, a diversified equity fund will invest in a large number of stocks, while a gilt fund will invest in government securities, while a pharma fund will mainly invest in stocks of companies from the pharmaceutical and related industries.

Source: TMH Ramesh Singh

Q.9) Which of the following scheme/schemes is/are offered by mutual funds?

1. Open ended schemes
2. Closed ended schemes
3. Exchange traded funds

Choose the correct answer from below given codes:

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

ANS: D

Explanation: There are three types of schemes offered by MFs:

(i) Open-ended Schemes: An open-ended fund is one which is usually available from an MF on an ongoing basis, that is, an investor can buy or sell as and when they intend to at a NAV-based price.

(ii) Closed-ended Schemes: A close-ended fund usually issue units to investors only once, when they launch an offer, called new fund offer (NFO) in India. Thereafter, these units are listed on the stock exchanges where they are traded on a daily basis.

(iii) Exchange-Traded Funds (ETFs): ETFs are a mix of open-ended and close-ended schemes. ETFs, like close-ended schemes, are listed and traded on a stock exchange on a daily basis, but the price is usually very close to its NAV, or the underlying assets, like gold ETFs.

Source: TMH Ramesh Singh

Q.10) Which of the following is NOT a regulatory agency?

a) NITI Aayog
b) Reserve Bank of India
c) Securities and Exchange Board of India
d) Insurance Regulatory and Development Authority

ANS: A

Explanation: India has product-wise regulators—Reserve Bank of India (RBI) regulates credit products, savings and remittances;

- the Securities and Exchange Board of India (SEBI) regulates investment products;
- the Insurance Regulatory and Development Authority (IRDA) regulates insurance products;
- and the Pension Fund Regulatory and Development Authority (PFRDA) regulates pension products.
- The Forward Markets Commission (FMC) regulates commodity-based exchange-traded futures (which was merged with the SEBI by late 2015).

Source: TMH Ramesh Singh

Economy – Inflation and Unemployment

Q.1) Which of the following is/are comes under the definition of Inflation?

1. A rise in the general level of prices
2. A sustained rise in the general level of prices
3. The general level of prices is falling over a period of time

Choose the correct answer from below given codes:

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

ANS: B

Explanation: A rise in the general level of prices; a sustained rise in the general level of prices; persistent increases in the general level of prices; an increase in the general level of prices in an economy that is sustained over time; rising prices across the board —is inflation.

- These are some of the most common academic definitions of inflation.
- If the price of one good has gone up, it is not inflation; it is inflation only if the prices of most goods have gone up.
- When the general level of prices is falling over a period of time this is deflation, the opposite situation of inflation. It is also known as disinflation.

Source: TMH Ramesh Singh

Q.2) Which of the following is/are NOT measure/measures to control deflation?

1. Increasing bank reserve limits
2. Quantitative easing
3. Cutting tax rates

Choose the correct answer from below given codes:

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

ANS: A

Explanation: Deflation is a serious economic issue that can exacerbate a crisis and turn a recession into a full-blown depression. When prices fall and are expected to drop in the future, businesses and individuals choose to hold on to money rather than spend or invest. This leads to a drop in demand, which in turn forces businesses to cut production and sell off inventories at even lower prices. Here are some ways that governments fight deflation.

Monetary Policy Tools:

- **Lowering bank reserve limits**: In a fractional reserve banking system, as in the U.S. and other developed nations, banks use deposits to create new loans. By regulation, they are only allowed to do so to the extent of the reserve limit. That limit has typically been set at around 5-10% in the U.S., meaning that for every $100 deposited with a bank, it can loan out $90 and keep $10 as reserves. Of that new $90, $81 can be turned into new loans and $9 kept as

reserves, and so on, until the original deposit creates $1000 worth of new credit money: $100 / 0.10 multiplier. If the reserve limit is relaxed to 5%, twice as much credit would be generated, incentivizing new loans for investment and consumption.
- **Quantitative easing**: When nominal interest rates are lowered all the way to zero, central banks must resort to unconventional monetary tools. Quantitative easing (QE) is when private securities are purchased on the open market, beyond just treasuries. Not only does this pump more money into the financial system, but it also bids up the price of financial assets, keeping them from declining further.

Fiscal Policy Tools:
- **Increasing government spending**: Keynesian economists advocate using fiscal policy to spur aggregate demand and pull an economy out of a deflationary period. If individuals and businesses stop spending, there is no incentive for firms to produce and employ people. The government can step in as a spender of last resort with hopes of keeping production going along with employment. The government can even borrow money to spend by incurring a fiscal deficit. Businesses and their employees will use that government money to spend and invest until prices begin to rise again with demand.
- **Cutting tax rates**: If governments cut taxes, more income will stay in the pockets of businesses and their employees, who will feel a wealth effect and spend money that was previously earmarked for taxes. One risk of lowering taxes during a recessionary period is that overall tax revenues will drop, which may force the government to curtail spending and even cease operations of basic services. There has been conflicting evidence as to whether or not general and specific tax cuts actually stimulate the real economy.

Source: TMH Ramesh Singh

Q.3) Which of the following is/are measure/measures to control rising inflation?
1. The government may go for import of goods.
2. The government may try cutting down the production cost of goods.
3. The government may take recourse to tighter monetary policy.

Choose the correct answer from below given codes:

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

ANS: D

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

(i) As a supply side measure, the **government may go for import of goods** which are in short-supply—as a short-term measure (as happened in India in the case of 'onion' and meeting the buffer stock norm of wheat). 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.

(ii) 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 (as happened in June 2003 in India in the case of crude oil and steel). This helps as a short-term measure. In the long-term, better production process, technological innovations etc., are helpful. Increasing income of the people is the monetary measure to avoid the heat of such inflation.

(iii) 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 (as RBI increases the Cash Reserve Ratio of banks in India) from the economy and by making money costlier (as RBI increases the Bank Rate or Repo Rate in India). This is a short-term measure. In the long-run, the best way is to increase production with the help of the best production practices.

Source: TMH Ramesh Singh

Q.4) Which of the following is/are type/types of inflation?

1. Low inflation
2. Galloping inflation
3. Hyper inflation

Choose the correct answer from below given codes:

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

ANS: D

Explanation: Depending upon the range of increase, and its severity, inflation may be classified into three broad categories.

- **Low Inflation**: Such inflation is slow and on predictable lines, which might be called small or gradual. This is a comparative term which puts it opposite to the faster, bigger and unpredictable inflations. Low inflation takes place in a longer period and the range of increase is usually in 'single digit'. Such inflation has also been called as 'creeping inflation'. We may take an example of the monthly inflation rate of a country for six months being 2.3 per cent, 2.6 per cent, 2.7 per cent, 2.9 per cent, 3.1 per cent and 3.4 per cent. Here the range of change is of 1.1 per cent and over a period of six months.
- **Galloping Inflation**: This is a 'very high inflation' running in the range of double-digit or triple digit (i.e., 20 per cent, 100 per cent or 200 per cent in a year). In the decades of 1970s and 1980s, many Latin American countries such as Argentina, Chile and Brazil had such rates of inflation—in the range of 50 to 700 per cent. The Russian economy did show such inflation after the disintegration of the ex-USSR in the late 1980s. Contemporary journalism has given some other names to this inflation —hopping inflation, jumping inflation and running or runaway inflation.
- **Hyperinflation**: This form of inflation is 'large and accelerating' which might have the annual rates in million or even trillion. In such inflation not only the range of increase is very large, but the increase takes place in a very short span of time, prices shoot up overnight. The best example of hyperinflation that economists cite is of Germany after the First World War—in early 1920s. At the end of 1923, prices were 36 billion times higher than two years earlier. This inflation was so severe that paper German currencies (the Deutsche Mark) were more valuable as stove fuel than as actual money. Some recent examples of hyperinflation had been the Bolivian inflation of mid-1985 (24,000 per cent per annum) and the Yugoslavian inflation of 1993 (20 per cent per day).

Source: TMH Ramesh Singh

Q.5) "Inflation takes place when the supply falls drastically and the demand remains at the same level" – is related to which of the following?
a) Core Inflation
b) Bottleneck Inflation
c) Cost – push Inflation
d) Galloping Inflation

ANS: B
Explanation: Bottleneck Inflation takes place when the supply falls drastically and the demand remains at the same level. Such situations arise due to supply-side accidents, hazards or mismanagement which is also known as 'structural inflation'. This could be put in the 'demand-pull inflation' category.
Source: TMH Ramesh Singh

Q.6) "The excess of total government spending above the national income is known as"?
a) Inflationary gap
b) Deflationary gap
c) GDP deflator
d) Quantitative easing

ANS: A
Explanation: The excess of total government spending above the national income (i.e., fiscal deficit) is known as inflationary gap. This is intended to increase the production level, which ultimately pushes the prices up due to extra-creation of money during the process.
Source: TMH Ramesh Singh

Q.7) The term "seigniorage" is associated with which of the following?
a) Inflation tax
b) Tax on gold imports
c) Tax on elite goods
d) Deflation tax

ANS: A
Explanation: Inflation erodes the value of money and the people who hold currency suffer in this process.
- As the governments have authority of printing currency and circulating it into the economy (as they do in the case of deficit financing), this act functions as an income to the governments.
- This is a situation of sustaining government expenditure at the cost of people's income.
- This looks as if inflation is working as a tax. That is how the term inflation tax is also known as seigniorage.
- It means, inflation is always the level to which the government may go for deficit financing—level of deficit financing is directly reflected by the rate of inflation.

Source: TMH ramesh Singh

Q.8) Which of the following is associated with "Inflation and Unemployment"?
a) Gini coefficient
b) Kuznets curve
c) Laffer curve
d) Phillips curve

ANS: D
Explanation: It 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).
- Bill Phillips (popular name) was an electrical engineer from New Zealand and was an economist at the London School of Economics when propounded the idea.

Source: TMH Ramesh Singh

Q.9) "Periodic Labour Force Survey" launched by which of the following?
a) NITI Aayog
b) National Statistical Office
c) Director General of Employment
d) Labour bureau

ANS: B
Explanation: Considering the importance of availability of labour force data at more frequent time intervals, National Statistical Office (NSO) launched Periodic Labour Force Survey (PLFS) in April 2017.
The objective of PLFS is primarily twofold:
- to estimate the key employment and unemployment indicators (viz. Worker Population Ratio, Labour Force Participation Rate, Unemployment Rate) in the short time interval of three months for the urban areas only in the 'Current Weekly Status' (CWS).
- to estimate employment and unemployment indicators in both 'Usual Status' (ps+ss) and CWS in both rural and urban areas annually.

On the basis of the data collected in PLFS, four Annual Reports of PLFS corresponding to the periods July 2017 - June 2018, July 2018 - June 2019, July 2019 - June 2020 and July 2020 - June 2021 covering both rural and urban areas giving estimates of all important parameters of employment and unemployment in both usual status (ps+ss) and current weekly status (CWS) have been released.
- Besides these Annual Reports, fourteen Quarterly Bulletins of PLFS corresponding to the quarter ending December 2018 to quarter ending March 2022 have already been released.
- In these quarterly bulletins estimates of labour force indicators, viz., Labour Force Participation Rate (LFPR), Worker population ratio (WPR), Unemployment Rate (UR),

distribution of workers by broad status in employment and industry of work in the Current Weekly Status (CWS) for urban areas have been presented.

Source: https://pib.gov.in/

Q.10) Consider the following statements Pradhan Mantri Kaushal Vikas Yojana (PMKVY):

1. It is a flagship scheme launched by Ministry of Labour, Employment and Training.
2. Under this Scheme, Training and Assessment fees are completely paid by the Government.

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: B

Explanation: Pradhan Mantri Kaushal Vikas Yojana (PMKVY) is the flagship scheme of the Ministry of Skill Development & Entrepreneurship (MSDE) implemented by National Skill Development Corporation.

- The objective of this Skill Certification Scheme is to enable a large number of Indian youth to take up industry-relevant skill training that will help them in securing a better livelihood.
- Individuals with prior learning experience or skills will also be assessed and certified under Recognition of Prior Learning (RPL).
- Under this Scheme, Training and Assessment fees are completely paid by the Government.
- Skill training would be done based on the National Skill Qualification Framework (NSQF) and industry led standards.

Source: http://www.pmkvyofficial.org/

Economy - Revision

Q.1) Gross National Product (GNP) is the GDP of a country added with its income from abroad. Which of the following is/are come/comes under income from abroad?
1. Private remittances
2. Interest on external loans
3. External grants

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

ANS: D
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 are:
(i) **Private Remittances**: the net outcome of the money which inflows and outflows on account of the 'private transfers' by Indian nationals working outside of India (to India) and the foreign nationals working in India (to their home countries). On this front India has always been a gainer- till the early 1990s from the Gulf region (which fell down afterwards in the wake of the heavy country-bound movements of Indians working there due to the Gulf War) and afterwards from the USA and other European nations.
(ii) **Interest on External Loans**: the net outcome on the front of the interest payments, i.e., balance of inflow (on the money lend out by the economy) and outflow (on the money borrowed by the economy) of external interests. In India's case it has always been negative as the economy has been a 'net borrower' from the world economies.
(iii) **External Grants**: the net outcome of the external grants i.e., the balance of such grants which flow to and from India. Today, India offers more such grants than it receives. India receives grants (grants or loan-grant mix) from few countries as well as UN bodies (like the UNDP) and offers several developmental and humanitarian grants to foreign nations.
Source: TMH Ramesh Singh

Q.2) Which of the following is the purest form of the income of the nation?
a) Gross Domestic Product
b) Net Domestic Product
c) Gross National Product
d) Net National Product

ANS: D
Explanation: Net National Product (NNP) of an economy is the GNP after deducting the loss due to depreciation.
The formula to derive it may be written like: NNP = GNP – Depreciation or, NNP = GDP + Income from Abroad – Depreciation.

The different uses of the concept of NNP are as given below:
(i) This is the National Income (NI) of an economy. Though, the GDP, NDP and GNP, all are national income they are not written with capitalized 'N' and 'I'.
(ii) This is the **purest form of the income of a nation**.
(iii) When we divide NNP by the total population of a nation we get the 'per capita income' (PCI) of that nation, i.e., 'income per head per year'.

A very basic point should be noted here that this is the point where the rates of depreciation followed by different nations make a difference.

- Higher the rates of depreciation lower the PCI of the nation (whatever be the reason for it logical or artificial as in the case of depreciation being used as a tool of policymaking).
- Though, economies are free to fix any rate of depreciation for different assets, the rates fixed by them make difference when the NI of the nations are compared by the international financial institutions like the IMF, WB, ADB, etc.

Source: TMH Ramesh Singh

Q.3) Which of the following is/are production taxes?
1. Tax on profession
2. Land revenues
3. Stamps and registration fees

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

ANS: D
Explanation: Production taxes or production subsidies are paid or received with relation to production and are independent of the volume of actual production.

- Some examples of production taxes are land revenues, stamps and registration fees and tax on profession.
- Some production subsidies are subsidies to Railways, input subsidies to farmers, subsidies to village and small industries, administrative subsidies to corporations or cooperatives, etc.
- Product taxes or subsidies are paid or received on per unit of the product.

Source: TMH Ramesh Singh

Q.4) "It is a situation in an economy when inflation and unemployment both are at higher levels" is related to which of the following?
a) Bottleneck Inflation
b) Reflation
c) Core Inflation
d) Stagflation

ANS: D
Explanation: Stagflation is a situation in an economy when inflation and unemployment both are at higher levels, contrary to conventional belief.

- Such a situation first arose in the 1970s in the US economy (average unemployment rate above 6 per cent and the average rate of inflation above 7 per cent) and in many Euro-American economies.
- This took place as a result of oil price increases of 1973 and 1979 and anticipation of higher inflation. The stagflationary situation continued till the early 1980s.
- Conventional thinking that a trade-off existed between inflation and unemployment (i.e., Phillips Curve) was falsified and several economies switched over to alternative ways of economic policies, such as monetarist and supply-side economics.
- When the economy is passing through the cycle of stagnation (i.e., long period of low aggregate demand in relation to its productive capacity) and the government shuffles with the economic policy, a sudden and temporary price rise is seen in some of the goods—such inflation is also known as stagflation.
- Stagflation is basically a combination of high inflation and low growth.

Source: TMH Ramesh Singh

Q.5) "It is a price rise of one or a small group of commodities over a sustained period of time, without a traditional designation" is related to which of the following?

a) Skewflation
b) Inflation
c) Stagflation
d) Hyper Inflation

ANS: A

Explanation: Economists usually distinguish between inflation and a relative price increase.

- 'Inflation' refers to a sustained, across-the-board price increase, whereas 'a relative price increase' is a reference to an episodic price rise pertaining to one or a small group of commodities.
- This leaves a third phenomenon, namely one in which there is a price rise of one or a small group of commodities over a sustained period of time, without a traditional designation.
- 'Skewflation' is a relatively new term to describe this third category of price rise.

Source: TMH Ramesh Singh

Q.6) Consider the following statements:

1. Inflation redistributes wealth from creditors to debtors.
2. Rising inflation indicates rising aggregate demand.

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: 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.

A brief and objective overview of the effects of inflation is given below:

- **On Creditors and Debtors**: Inflation redistributes wealth from creditors to debtors, i.e., lenders suffer and borrowers benefit out of inflation. The opposite effect takes place when inflation falls (i.e., deflation).
- **On lending**: With the rise in inflation, lending institutions feel the pressure of higher lending. Institutions don't revise the nominal rate of interest as the 'real cost of borrowing' (i.e., nominal rate of interest minus inflation) falls by the same percentage with which inflation rises.
- **On Aggregate Demand**: Rising inflation indicates rising aggregate demand and indicates comparatively lower supply and higher purchasing capacity among the consumers. Usually, higher inflation suggests the producers to increase their production level as it is generally considered as an indication of higher demand in the economy.

Source: TMH Ramesh Singh

Q.7) Which of the following is NOT a phase/stage of business cycle of an economy?

a) Depression
b) Boom
c) Recovery
d) Inflation

ANS: D

Explanation: Economists have pointed out that the business cycle is characterized by four phases or stages in which economies alternate:

(i) Depression
(ii) Recovery
(iii) Boom
(iv) Recession

Source: TMH Ramesh Singh

Q.8) "(SARFAESI) Act" is often seen in news is related to which of the following?

a) Wilful Defaulters
b) Agricultural loans
c) Self Help Group loans
d) Foreign Exchange Reserves

ANS: A

Explanation: Government of India finally cracked down on the wilful defaulters by passing the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002.

The Act gives far reaching powers to the banks/FIs concerning NPAs:

1. Banks/FIs having 75 per cent of the dues owed by the borrower can collectively proceed on the following in the event of the account becoming NPA:

- Issue notice of default to borrowers asking to clear dues within 60 days.
- On the borrower's failure to repay: (a) Take possession of security and/or (b) take over the management of the borrowing concern and/or (c) appoint a person to manage the concern.
- If the case is already before the BIFR, the proceedings can be stalled if banks/FIs having 75 per cent share in the dues have taken any steps to recover the dues under the provisions of the ordinance.

The banks/FIs can also sell the security to a securitization or Asset Reconstruction Company (ARC), established under the provisions of the Ordinance.
Source: TMH Ramesh Singh

Q.9) "Basel Accords" is often seen in news is related to which of the following?
a) Capital adequacy ratio
b) MSME's loans
c) Priority Sector Lending
d) External grants

ANS: A
Explanation: The capital adequacy ratio (CAR) norm has been the last provision to emerge in the area of regulating the banks in such a way that they can sustain the probable risks and uncertainties of lending.
- It was in 1988 that the central banking bodies of the developed economies agreed upon such a provision, the CAR—also known as the Basel Accord.
- The accord was agreed upon at Basel, Switzerland at a meeting of the Bank for International Settlements (BIS).

Source: TMH Ramesh Singh

Q.10) Which of the following money component is least liquid of all money components?
a) M1
b) M1 and M2
c) M3
d) M4

ANS: D
Explanation: M1 and M2 are known as narrow money. M3 and M4 are known as broad money.
- These measures are in decreasing order of liquidity.
- M1 is most liquid and easiest for transactions whereas M4 is least liquid of all.
- M3 is the most commonly used measure of money supply. It is also known as aggregate monetary resources.

Source: NCERT – Indian Economy