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## Prelims Marathon

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*HISTORY  
ECONOMICS  
POLITY  
SCIENCE AND TECHNOLOGY  
GEOGRAPHY AND ENVIRONMENT*

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## *Economy – Banking in India*

**Q.1) Indian banking system consist/s of which of the following?**

1. 12 public sector banks
2. 46 foreign banks
3. 43 regional rural banks

**How many of the statements given above are correct?**

- a) Only one
- b) Only two
- c) Only three
- d) None

**ANS: C**

**Explanation:** The Indian Banking System consists of 12 Public Sector Banks, 22 Private Sector Banks, 46 Foreign Banks, 43 Regional Rural Banks, 1485 Urban Cooperative Banks and 96,000 Rural Cooperative Banks in addition to cooperative credit institutions.

The banks are the lifelines of the economy and play a catalytic role in activating and sustaining economic growth.

**Source: FORUMIAS**

**Q.2) Which of the following benefit/s is/are provided by banking system?**

1. Facilitation of Trade and Commerce
2. Financial Security to the People
3. Priority Sector Lending

**How many of the statements given above are correct?**

- a) Only one
- b) Only two
- c) Only three
- d) None

**ANS: C**

**Explanation:** IMPORTANCE OF BANKING SECTOR FOR THE ECONOMY:

- **Facilitation of Trade and Commerce:** Indian banks facilitate trade and commerce by providing payment facilities to various local and international business houses.
- **Financial Security to the People:** The Indian banking system ensures financial security through competitive loans, reliable remittance services, and opportunities for savings and investment in various financial instruments.
- **Priority Sector Lending:** Banking Sector advances loans to individuals and institutions and plays an important role in providing funds to different priority sectors (vulnerable as well) like Agriculture, Small scale industries, trading enterprises, real estate, etc.
- **Helps Manage Money Transfers:** Indian banks provide quick cash and money transfer. Thus, helps in managing money transfers carried out by various business houses and a large number of industrial units.

**Source: FORUMIAS**

**Q.3) Which of the following is/are challenge/s facing by banking sector?**

1. Poor Asset Quality
2. Poor Capital Adequacy
3. Unhedged Forex Exposure

**How many of the statements given above are correct?**

- a) Only one
- b) Only two
- c) Only three
- d) None

**ANS: C**

**Explanation:** Challenges faced by the Banking Sector in India:

- **Poor Asset Quality:** These are loans which are not repaid back by the borrower and prone to become Bad loans or NPA.
- **Poor Capital Adequacy:** The Capital Adequacy Ratio measures how much capital a bank has to meet its obligations. Capital Adequacy is helpful in protecting depositors and promoting stability and efficiency.
- **Unhedged Forex Exposure:** Sharp fluctuations in the forex market can cause significant strain on Indian companies with substantial foreign borrowings, potentially impacting their ability to repay debts to domestic banks.
- **Employee and Technology:** Public sector banks especially government-owned banks have yet to fully embrace technology to offer better products and services.
- **Balance Sheet Management:** Many banks have tried to delay setting aside money as provisions and tried to restructure loans off-record. This is even more problematic considering the poor capital adequacy in Indian banks.

**Source: FORUMIAS**

**Q.4) The “Narsimhan committee” is often seen in news related to?**

- a) Banking sector
- b) Public private partnership
- c) Special economic zones
- d) Foreign exchange reserves

**ANS: A**

**Explanation:** The Narasimham Committee Report (1991), emphasised that India should have three or four large commercial banks, with domestic and international presence, along with foreign banks.

**Source: FORUMIAS**

**Q.5) The “Global Financial Stability Report” is published by?**

- a) World Bank
- b) World Economic Forum
- c) International Monetary Fund
- d) AIIB

**ANS: C**

**Explanation:** The Global Financial Stability Report provides an assessment of the global financial system and markets, and addresses emerging market financing in a global context.

- It focuses on current market conditions, highlighting systemic issues that could pose a risk to financial stability and sustained market access by emerging market borrowers.

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- The Report draws out the financial ramifications of economic imbalances highlighted by the IMF's World Economic Outlook.
- It contains, as special features, analytical chapters or essays on structural or systemic issues relevant to international financial stability.

**Source: FORUMIAS**

**Q.6) Consider the following statements regarding “Cash Reserve Ratio”:**

1. It is fixed by the central government.
2. It is the ratio of the total deposits of a bank in India which is kept with the RBI in the form of cash.

**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 cash reserve ratio (CRR) is the ratio (fixed by the RBI) of the total deposits of a bank in India which is kept with the RBI in the form of cash. This was fixed to be in the range of 3 to 15 per cent.

**Source: Ramesh Singh**

**Q.7) The interest rate which the RBI charges on its long-term lending's known as?**

- a) Repo rate
- b) Bank rate
- c) Reverse repo rate
- d) Marginal standing facility rate

**ANS: B**

**Explanation:** The interest rate which the RBI charges on its long-term lending's known as the Bank Rate.

- The clients who borrow through this route are the Government of India, state governments, banks, financial institutions, co-operative banks, NBFCs, etc.
- The rate has direct impact on long-term lending activities of the concerned lending bodies operating in the Indian financial system.

**Source: FORUMIAS**

**Q.8) Consider the following statements regarding marginal standing facility rate:**

1. It was come into effect in May 2011.
2. Under this scheme, banks can borrow overnight up to 1 per cent of their net demand and time liabilities (NDTL) from the 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: C**

**Explanation:** MSF is a new scheme announced by the RBI in its Monetary Policy, 2011–12 which came into effect from May, 2011.

- Under this scheme, banks can borrow overnight up to 1 per cent of their net demand and time liabilities (NDTL) from the RBI, at the interest rate 1 per cent (100 basis points) higher than the current repo rate.
- In an attempt to strengthen rupee and checking its falling exchange rate, the RBI increased the gap between 'repo' and MSF to 3 per cent (late July 2013).

**Source: FORUMIAS**

**Q.9) Consider the following statements regarding open market operations (OMOs):**

1. OMOs are conducted by the RBI via the sale/purchase of government securities (G-Sec) to/from the market.
2. It done with the primary aim of modulating rupee liquidity conditions in the 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:** Open Market Operations (OMOs): OMOs are conducted by the RBI via the sale/purchase of government securities (G-Sec) to/from the market with the primary aim of modulating rupee liquidity conditions in the market.

OMOs are an effective quantitative policy tool in the armory of the RBI, but are constrained by the stock of government securities available with it at a point in time.

**Source: FORUMIAS**

**Q.10) The market stabilization scheme was introduced in which of the following year?**

- a) 1994
- b) 1999
- c) 2004
- d) 2008

**ANS: C**

**Explanation:** 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 mobilized cash is held in a separate government account with the Reserve Bank. The instrument thus has features of both, SLR and CRR.

**Source: FORUMIAS**



## *Economy – Capital Market*

### **Q.1) Consider the following statements:**

1. The market in which the instruments of security market are traded directly between the capital-raiser and the instrument purchaser is known as the primary market.
2. The market where the instruments of security market are traded among the primary instrument holders is known as the secondary 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:** Every security market has two complementary markets—primary and the secondary.

- The market in which the instruments of security market are traded (procured) directly between the capital-raiser and the instrument purchaser is known as the primary market.
- As for example, a share being directly purchased by anybody from the issuer which may be the company itself. The person is known as the primary shareholder.
- The market where the instruments of security market are traded among the primary instrument holders is known as the secondary market.
- Such transactions need an institutionalized floor for their trading which is made available by the stock exchanges.

**Source: Ramesh Singh**

### **Q.2) Which of the following is/are the function/s of stock exchange?**

1. Makes a floor available to the buyers and sellers of stocks and liquidity comes to the stocks.
2. Makes available the prices of trading as an important piece of information to the investors.
3. By publishing its 'Index', it fulfills the purpose of projecting the moods of the stock market.

### **How many of the statements given above are correct?**

- a) Only one
- b) Only two
- c) Only three
- d) None

### **ANS: C**

**Explanation:** A physically existing institutionalized set-up where instruments of security stock market (shares, bonds, debentures, securities, etc.) are traded. It serves the following major functions:

- (i) Makes a floor available to the buyers and sellers of stocks and liquidity comes to the stocks. It is the single most important institution in the secondary market for securities.
- (ii) Makes available the prices of trading as an important piece of information to the investors.

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- (iii) By following institutionalized rules and procedures, it ensures that the participants in the stock market live up to their commitments.
- (iv) Passes updated information's to the enlisted companies about their present stockholders (so that they can pass on dividends etc., to them).
- (v) By publishing its 'Index', it fulfills the purpose of projecting the moods of the stock market.

**Source: Ramesh Singh**

**Q.3) Which country established the first stock exchange in the world?**

- a) United States of America
- b) Belgium
- c) London
- d) Japan

**ANS: B**

**Explanation:** World's first stock exchange was established in Antwerp, Belgium (then part of the Netherlands) in 1631, the London Stock Exchange opened in 1773 and then Philadelphia Stock Exchange (the first in the New World) opened in 1790.

**Source: Ramesh Singh**

**Q.4) The National Stock Exchange of India Ltd. (NSE) has which of the following share index/s?**

- 1. 50 share
- 2. 100 share
- 3. 500 share

**How many of the statements given above are correct?**

- a) Only one
- b) Only two
- c) Only three
- d) None

**ANS: B**

**Explanation:** The National Stock Exchange of India Ltd. (NSE) was set up in 1992 and became operationalised in 1994.

- The sponsors of the exchange are financial institutions, including IDBI, LIC and GIC with IDBI as its promotor.
- It has a 50 share index and a 500 share index known as S&P CNX-50 (Nifty Fifty) and S&P CNX-500, respectively.

**Source: Ramesh Singh**

**Q.5) Which of the following index/s is/are connected with the Bombay Stock Exchange Ltd. (BSE)?**

1. Sensex
2. BSE – 200
3. BSE – 500

**How many of the statements given above are correct?**

- a) Only one
- b) Only two
- c) Only three
- d) None

**ANS: C**

**Explanation:** The Bombay Stock Exchange Ltd. (BSE), earlier a regional stock exchange, converted into a national one in 2002. The biggest in India, it accounts for almost 75 per cent of total stocks traded in India and is the fifth largest in the world (on the basis of market capitalisation). There are at present four indices connected with the BSE:

- (i) **Sensex:** The sensitive index (i.e., Sensex) is a 30 stocks index of the BSE which was enlarged to include 50 stocks in 2000 but soon was cut down to the original level. This index represents the Indian stock market.
- (ii) **BSE-200:** This is a 200 stock share index of the BSE (including the 30 stocks of the Sensex) which has its Dollar version too—the Dollex.
- (iii) **BSE-500:** In mid-1999, the BSE came up with a 500-stock index representing major industries and many sub-sectors of the economy with information technology getting a significant weightage.
- (iv) **National Index:** An index of 100 stocks being quoted nationwide (Bombay, Delhi, Kolkata, etc.) was developed to give broader/wider representation of the stock market since the Sensex consists of only 30 stocks. The 30 stocks of the sensex are included in the National Index.

**Source: Ramesh Singh**

**Q.6) The term “Taravaniwallah” is associated with which of the following?**

- a) Jobber
- b) Broker
- c) Market – maker
- d) Bell boy

**ANS: B**

**Explanation:** A jobber is a broker’s broker or one who specialises in specific securities catering to the need of other brokers—in India also known as ‘Taravaniwallah’ (in the BSE).

ANS: B

**Source: Ramesh Singh**



**Q.7) In which of the following year the Security and Exchange Board of India Act enacted?**

- a) 1988
- b) 1992
- c) 1994
- d) 1999

**ANS: B**

**Explanation:** The regulator of Indian stock market, set up under the Security and Exchange Board of India Act, 1992 (as a non-statutory body set on 12 April, 1988 through a government resolution in an effort to give the Indian stock market an organised structure) with its head office in Mumbai.

**Source: Ramesh Singh**

**Q.8) Which of the following is/are function/s of SEBI?**

1. Registering of merchant banks, mutual funds and underwriters.
2. Promoting investor education.
3. Inspection and audit of stock exchanges and various intermediaries.

**How many of the statements given above are correct?**

- a) Only one
- b) Only two
- c) Only three
- d) None

**ANS: C**

**Explanation:** Main functions/powers of the Board as per the SEBI Act, 1992 are:

- (i) Registering and stock exchanges, merchant banks, mutual funds, underwriters, registrars to the issues, brokers, sub-brokers, transfer agents and others.
- (ii) (ii) Levying various fees and other charges (as 1 per cent of the issue amount of every company issuing shares is kept by it as caution money in the concerned stock exchange where the company is enlisted).
- (iii) Promoting investor education.
- (iv) Inspection and audit of stock exchanges and various intermediaries.

**Source: Ramesh Singh**

**Q.9) In which of the following year Forward Contracts (Regulation) Act enacted?**

- a) 1948
- b) 1952
- c) 1956
- d) 1958

**ANS: B**

**Explanation:** The Forward Markets Commission is a statutory body set up under the Forward Contracts (Regulation) Act, 1952.

- It functions under the administrative control of the Department of Consumer Affairs, Ministry of Consumer Affairs, Food & Public Distribution.
- In 2014, the commission was transferred to the Ministry of Finance.

**Source: Ramesh Singh**

**Q.10) It is an event of share issuing when a company comes up with its share/securities issued for the first time?**

- a) FII
- b) FPO
- c) IPO
- d) FDI

**ANS: C**

**Explanation:** Initial Public Offer (IPO) is an event of share issuing when a company comes up with its share/securities issued for the first time.

**Source: Ramesh Singh**

## *Economy – External Sector*

**Q.1) Which of the following operation/s is/are come/s under external sector?**

1. Exports
2. Foreign investments
3. Balance of payments

**How many of the statements given above are correct?**

- a) Only one
- b) Only two
- c) Only three
- d) None

**ANS: C**

**Explanation:** Export, import, foreign investment, external debt, current account, capital account, balance of payment, and other economic operations that take place in foreign currency fall within the external sector.

**Source: FORUMIAS**

**Q.2) Consider the following statements:**

1. India is 7th Largest service exporter in the world.
2. Ratio of External Debt to GDP of India is more than 50 percent.

**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:** India's services export stood at US\$ 254.5 billion in FY'22 recording a growth of 23.5 % over FY '21'. India is 7th Largest service exporter in the world. Ratio of External Debt to GDP is at a comfortable level of 19.2 per cent as of end-September 2022.

**Source: FORUMIAS**

**Q.3) It is growth strategy where a country seeks economic development by opening itself up to international trade – describes?**

- a) Import led growth strategy
- b) Export led growth strategy
- c) Closed economy strategy
- d) Circle economy strategy

**ANS: B**

**Explanation:** An export-led growth strategy is one where a country seeks economic development by opening itself up to international trade.

**Source: FORUMIAS**

**Q.4) Which of the following is/are the difficulty/difficulties facing by India in promoting the export/s?**

1. Low Market Penetration in High-Income Countries.
2. Rising Protectionist Policies in importing countries.
3. Lack of Market Intelligence.

**How many of the statements given above are correct?**

- a) Only one
- b) Only two
- c) Only three
- d) None

**ANS: C**

**Explanation:** DIFFICULTIES IN PROMOTING EXPORTS:

- Low Market Penetration in High-Income Countries: India's exports shifted disproportionately from traditional rich-country markets to new destinations, such as Africa.
- Specialization vs. Diversification: Indian exports are characterized by a high degree of diversification and a low level of specialization.
- Protectionism: Rising Protectionist Policies in importing countries.
- Regional Disparities: As 70% of India's exports are dominated by five states - Maharashtra, Gujarat, Karnataka, Tamil Nadu, and Telangana.
- Various Factors: Apart from these factors, Higher Logistics Cost, Poor Innovation, Dominance of Dwarf Firms in MSME Sector and Lack of Market Intelligence hindering the growth of export in India.

**Source: FORUMIAS**

**Q.5) Which of the following is/are pillar/s of Indian Foreign Trade Policy 2023?**

1. Incentive to Remission.
2. Export promotion through collaboration.
3. Ease of doing business.

**How many of the statements given above are correct?**

- a) Only one
- b) Only two
- c) Only three
- d) None

**ANS: C**

**Explanation:** Based on 4 Pillars:

- Incentive to Remission,
- Export promotion through collaboration - Exporters, States, Districts, Indian Missions,
- Ease of doing business, reduction in transaction cost and e-initiatives and
- Emerging Areas – E-Commerce Developing Districts as Export Hubs and streamlining SCOMET policy.

**Source: FORUMIAS**

**Q.6) The “SCOMET” policy is recently seen in news related to?**

- a) Foreign policy
- b) Nuclear doctrine
- c) Cyber security
- d) Diaspora

**ANS: A**

**Explanation:** In Foreign Trade Policy, dual-use items have been given the nomenclature of Special Chemicals, Organisms, Materials, Equipment and Technologies (SCOMET).

Export of dual-use items and technologies under India's Foreign Trade Policy is regulated.

**Source: FORUMIAS**

**Q.7) Consider the following statements regarding foreign trade agreements:**

1. It is a pact between two or more nations/groups of nations to reduce barriers to imports and exports among them.
2. It is opposite to trade protectionism.

**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 Free Trade Agreement is a pact between two or more nations/groups of nations to reduce barriers to imports and exports among them.

- It is opposite to trade protectionism or economic isolationism.
- Experts say the government's reassessment of FTAs is a positive step that would assure India's inclusion into the global economy and provide Atma-Nirbhar Bharat a boost.

**Source: FORUMIAS**

**Q.8) Which of the following is/are the reason/s for depreciation of rupee?**

1. Capital outflows.
2. Rise in crude oil prices.
3. Tight monetary policy by developed countries.

**How many of the statements given above are correct?**

- a) Only one
- b) Only two
- c) Only three
- d) None

**ANS: C**

**Explanation:** REASONS FOR DEPRECIATION OF RUPEE:

- Crude Oil Prices: The crude oil prices have increased in the recent past due to geopolitical reasons such as RussiaUkraine war and has impacted Indian rupee negatively as India imports around 85% of its crude oil demand.



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- Monetary Policy Tightening: After easing liquidity post COVID-19, the central banks, especially US Federal Reserves, around the world are going for tight monetary policy which is increasing demand for dollars.
- Capital Outflows: The increasing interest rates in the developed countries has led to outflow of FPIs (Rs. 1.34 lakh crores in 2022). This increased the supply of rupees.
- Domestic Factors in the Economy: The Indian economy has been suffering from high inflation (above 6% for three quarters), widening current account deficit due to rising trade deficit.

**Source: FORUMIAS**

### **Q.9) Consider the following statements regarding Special Rupee Vostro Account System:**

1. It is a bank account held by a domestic bank for a foreign bank, denominated in the domestic currency of the former.
2. It specifically holds the foreign entity's deposits in Indian rupees at the Indian bank.

**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:** Special Rupee Vostro Account System: During the India-Russia Business Dialogue, discussions were held for International Trade Settlement in Indian Rupees through the Special Rupee Vostro Account System.

- A Vostro Account is a bank account held by a domestic bank for a foreign bank, denominated in the domestic currency of the former.
- The Rupee Vostro Account specifically holds the foreign entity's deposits in Indian rupees at the Indian bank.

**Source: FORUMIAS**

### **Q.10) The “Sariska Tiger Reserve” is recently seen in news located at?**

- a) Gujarat
- b) Maharashtra
- c) Madhya Pradesh
- d) Rajasthan

**ANS: D**

**Explanation:** Sariska Tiger Reserve is a tiger reserve in Alwar district, Rajasthan, India.

- It stretches over an area of 881 km<sup>2</sup> comprising scrub-thorn arid forests, dry deciduous forests, grasslands, and rocky hills.
- This area was a hunting preserve of the Alwar state and was declared a wildlife sanctuary in 1958.

**Source: FORUMIAS**

## *Economy – Tax Structure*

### **Q.1) Consider the following statements:**

1. The event of tax being imposed is referred to as Incidence of Tax.
2. Tax is compulsory payment and not voluntary.

#### **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:** Tax is defined as a means of income redistribution. The event of tax being imposed is referred to as Incidence of Tax and the effect of tax being imposed is known as Impact of Tax. Tax is the money paid by the taxpayers to the government. Tax is compulsory payment and not voluntary payment or donation made by the taxpayers.

**Source: FORUMIAS**

### **Q.2) Consider the following statements regarding taxation in India:**

1. Taxes in India is levied and extracted by the government through legislation.
2. The tax system in India is a three-tier system which is divided between the Central, State Governments and the Local 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: C**

**Explanation:** Taxes in India is levied and extracted by the government through legislation. If taxpayers fail to pay the taxes or evade taxes, it is punishable by law. The tax system in India is mainly a three-tier system which is divided between the Central, State Governments and the Local Government (such as Municipality and Panchayats).

**Source: FORUMIAS**

### **Q.3) Which of the following is/are the significance/s of taxation in an economy?**

1. It helps in resource mobilization
2. It achieves distributive justice
3. It tries to maintain price stability

#### **How many of the statements given above are correct?**

- a) Only one
- b) Only two
- c) Only three
- d) None

#### **ANS: C**

**Explanation:** IMPORTANCE OF TAXATION: Resource Mobilization: Resource mobilization is important for economic development and around 58% of revenue of the Government is collected from various types of taxes.

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- Distributive Justice: Taxes are an important part of distributive justice and to reduce inequalities in the economy with efforts such as PM Garib Kalyan Anna Yojana.
- Investment in the Economy: With effective taxation policy the government can improve the investment in the economy, e.g. recent reduction in corporate taxes by the government.
- Price Stability: Taxes are effective means of controlling inflation. By raising income taxes, personal disposable income of an individual can be reduced.
- Administration: Taxes are used by the government to provide for salaries, pension and other expenditure of various administrative departments.
- Allowance: Government can promote any particular sector, initiative with taxation policy. E.g. promotion of exports with the RoDTEP (Remission of Duties and Taxes on Exported Products) scheme.

**Source: FORUMIAS**

**Q.4) Which article of Indian constitution is says “No tax shall be levied or collected except by authority of law”?**

- a) Article 112
- b) Article 117
- c) Article 265
- d) Article 275

**ANS: C**

**Explanation:** Article 265 of the Constitution of India says that "No tax shall be levied or collected except by authority of law".

**Source: FORUMIAS**

**Q.5) Which of the following is/are merit/s of direct taxation?**

1. Progressive
2. Non – elasticity
3. Non – equity

**How many of the statements given above are correct?**

- a) Only one
- b) Only two
- c) Only three
- d) None

**ANS: A**

**Explanation:** MERITS OF DIRECT TAXATION: Progressive in Nature: It is based on the ability to Pay Principle. So, an important tool to reduce inequalities of income and wealth.

- Elasticity: A direct tax can be varied according to the needs of the government as well as according to the changes in the income of the people. For example – if the income of the people rises, the government may increase the direct tax and vice versa.
- Certainty: A person liable to pay direct tax knows with certainty how much he has to pay and when he has to pay.
- Equity: It is generally progressive (based on ability to pay principle). Through its rich people can be made to pay more taxes than poor. Similarly, in case of necessity, low-

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income group people can be given relaxation and the superrich can be made to pay more. Thus, an important tool to reduce income inequalities.

- Important Tool in Fiscal Policy: Taxes can be used to control inflation by increasing direct taxes during high inflation rate to reduce money in the hands of people to reduce demand. Similarly, taxes can be reduced during recession periods to boost demand.

**Source: FORUMIAS**

**Q.6) The term “Tobin Tax” is often seen in news related to?**

- a) Tax on foreign exchange transactions
- b) Tax on dividend distribution
- c) Tax on crude oil exports
- d) Tax on defense equipments

**ANS: A**

**Explanation:** The Tobin tax is a tax on international financial transactions, specifically short-term foreign exchange transactions. It is also called the Financial Transactions Tax (FTT) or Robin Hood tax.

**Source: FORUMIAS**

**Q.7) The Foreign Account Tax Compliance Act (FATCA) is often seen in news related to?**

- a) European Union
- b) United Kingdom
- c) China
- d) United States of America

**ANS: D**

**Explanation:** India has also entered into an information sharing agreement with the USA under Foreign Account Tax Compliance Act (FATCA) of USA.

**Source: FORUMIAS**

**Q.8) Which of the following tax/taxes is/are subsumed under the Goods & Services Tax?**

1. Sales tax
2. Octroi
3. Luxury tax

**How many of the statements given above are correct?**

- a) Only one
- b) Only two
- c) Only three
- d) None

**ANS: C**

**Explanation:**

<b>Central Taxes</b>		
Central excise duty	Excise duty levied under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955	Service tax
Additional excise duties		Additional customs duty, commonly known as countervailing duty
Special additional duty of customs	Central surcharges and cesses that relate to the supply of goods & services	
<b>State Taxes</b>		
Value added tax/sales tax	Entertainment tax, excluding such taxes levied by local bodies	Central sales tax
Taxes on lotteries, betting & gambling		Octroi and entry tax
		Purchase tax
		Luxury tax
State cesses & surcharges that relate to supply of goods & services		

**Source: The Hindu**

**Q.9) Which of the following is/are reason/s for low tax to GDP ratio?**

1. Black economy
2. Tax evasion
3. Large informal sector

**How many of the statements given above are correct?**

- a) Only one
- b) Only two
- c) Only three
- d) None

**ANS: C**

**Explanation:** REASONS FOR LOW TAX TO GDP RATIO:

- Parallel and Black Economy: Huge flow of unaccounted income and expenditures exists which goes untaxed in various parts of the parallel economy.
- Tax Evasion: Because of complex tax structure, bribery and corruption, high taxation rate and lack of proper implementation of tax laws, people find ways to evade taxes.
- Large Informal Sector: In India has a relatively large informal/unorganised sector, and tax evasion is more rampant in the informal sector compared to organised sector.
- Indirect Tax Ratio: Budget 2023-24 has estimated the Direct and Indirect taxes contribution in Gross Tax Revenue (GTR) to be 54.4% and 45.6% respectively. This is in contrast to most OECD economies where the contribution of direct taxes is close to 70%.
- Tax Exemption: High tax exemption systems in India have benefited the richer private sector.

**Source: FORUMIAS**



**Q.10) The “Tadoba Andhari Tiger Reserve” is recently seen in news located at?**

- a) Maharashtra
- b) Madhya Pradesh
- c) Uttar Pradesh
- d) Himachal Pradesh

**ANS: A**

**Explanation:** The Tadoba Andhari Tiger Reserve is a wildlife sanctuary in Chandrapur district of Maharashtra state in India.

It is Maharashtra's oldest and largest national park. Created in 1955, the reserve includes the Tadoba National Park and the Andhari Wildlife Sanctuary.

**Source: FORUMIAS**

## *Economy – Public Finance*

**Q.1) Consider the following statements regarding budgeting:**

1. It refers to the estimation of receipts and expenses of the government over a specific period.
2. It involves estimation of availability of resources and their allocation to various activities based on predetermined priorities.

**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:** Budgeting refers to the estimation of receipts and expenses of the government over a specific future period that is usually compiled and re-evaluated on a periodic basis.

It involves estimation of availability of resources and their allocation to various activities based on predetermined priorities.

**Source: FORUMIAS**

**Q.2) Who is the nodal agency responsible for preparing the Budget?**

- a) Department of Revenue Affairs
- b) Department of Expenditure
- c) Department of Financial Services
- d) Department of Economic Affairs

**ANS: D**

**Explanation:** The Budget division of the Department of Economic Affairs is the nodal agency responsible for preparing the Budget.

**Source: FORUMIAS**

**Q.3) Which of the following article is related to Annual Financial Statement?**

- a) 110
- b) 112
- c) 117
- d) 121

**ANS: B**

**Explanation:** Article 112 of the constitution provides for the Union Budget and it has been referred to as Annual Financial Statement.

**Source: FORUMIAS**

**Q.4) Which of the following is/are part of Budget?**

1. Projections of revenue and capital receipts
2. Strategies for Generating revenue
3. Projections of expenditure

**How many of the statements given above are correct?**

- a) Only one
- b) Only two
- c) Only three
- d) None

**ANS: C**

**Explanation:** The Budget Includes:

Projections of revenue and capital receipts, Strategies for Generating revenue, Projections of expenditure,

- Information on the actual receipts and expenditure from the previous financial year and explanations for any deficit or surplus,
- The economic and financial policies for the upcoming year, such as taxation proposals, revenue prospects, spending programs, and the introduction of new schemes/projects.

**Source: FORUMIAS**

**Q.5) Which of the following is/are part of Non-Tax Receipts?**

1. Profits and dividends from the Public Sector Undertakings
2. Interests received by the government out of all loans forwarded
3. Grants received by the government

**How many of the statements given above are correct?**

- a) Only one
- b) Only two
- c) Only three
- d) None

**ANS: C**

**Explanation:** Non-Tax Receipts: This includes all money earned by the government through the sources that are other than taxes.

Such as Profits and dividends from the Public Sector Undertakings, Interests received by the government out of all loans forwarded inside and outside of the country, Grants received by the government etc.

**Source: FORUMIAS**

**Q.6) Which of the following is/are part of revenue expenditure?**

1. Interest payments
2. Salaries and pensions
3. Subsidies

**How many of the statements given above are correct?**

- a) Only one
- b) Only two
- c) Only three
- d) None

**ANS: C**

**Explanation:** Revenue Expenditure refers to all expenditures incurred by the government that do not create any asset or impact its liabilities. It is synonymous with maintenance and consumption expenditure.

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It includes Interest payment by the government on all internal and external loans, Salaries, pension and provident fund paid to the government employees, Subsidies forwarded to all sectors by the government, Grants given by the government to Indian states and foreign Nations etc.

**Source: FORUMIAS**

**Q.7) Consider the following statements fiscal deficit:**

1. It refers to the gap between the government's expenditure requirements and its receipts.
2. It is an indicator of how well the government is managing its finances.

**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:** Fiscal Deficit refers to the gap between the government's expenditure requirements and its receipts.

It can also be put as the amount that the government needs to borrow to meet all its expenses. It is an indicator of how well the government is managing its finances.

**Source: FORUMIAS**

**Q.8) “It is calculated by excluding the interest liabilities for the year from the fiscal deficit” referred as?**

- a) Budget deficit
- b) Revenue deficit
- c) Primary deficit
- d) Effective revenue deficit

**ANS: C**

**Explanation:** Primary deficit is calculated by excluding the interest liabilities for the year from the fiscal deficit (because the loan was taken in the earlier years).

**Source: FORUMIAS**

**Q.9) Who among the following was headed the FRBM 2.0 committee?**

- a) Vijay Kelkar
- b) Narasimhan
- c) N K Singh
- d) Rangarajan

**ANS: C**

**Explanation:** The FRBM review committee, also known as NK Singh Committee was formed in 2016 under the Chairmanship of NK Singh, former revenue and expenditure secretary.

Its mandate was to review the Fiscal Responsibility and Budget Management Act (FRBM).

**Source: FORUMIAS**

**Q.10) “It is a method of budgeting in which all expenses are evaluated each time a Budget is made and expenses must be justified for each new period” refers to?**

- a) Zero Based Budget
- b) Outcome Budget
- c) Gender Budget
- d) Normal Budget

**ANS: A**

**Explanation:** Zero Based Budget:

It is a method of budgeting in which all expenses are evaluated each time a Budget is made and expenses must be justified for each new period.

It starts from the zero base and every function of the government is analyzed for its needs and cost. Budget is then made based on the needs.

**Source: FORUMIAS**



## *Economy – International Economic Organizations*

**Q.1) Which of the following institution/s is/are come/s under Bretton wood's twins?**

1. World Trade Organization
2. International Monetary Fund
3. World Bank

**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:** The International Monetary Fund (IMF) and the World Bank (with its first group-institution IBRD) were set up together—popularly called as the Bretton Woods' twins—both having their headquarters in Washington DC, USA.

**Source: Ramesh Singh**

**Q.2) Which of the following s/are function/s of the IMF?**

1. To facilitate international monetary cooperation.
2. To facilitate international trade.
3. To promote exchange rate stability.

**How many of the statements given above are correct?**

- a) Only one
- b) Only two
- c) Only three
- d) None

**ANS: B**

**Explanation:** The main functions of the IMF are as given below:

- (i) to facilitate international monetary cooperation;
- (ii) to promote exchange rate stability and orderly exchange arrangements;
- (iii) to assist in the establishment of a multilateral system of payments and the elimination of foreign exchange restrictions; and
- (iv) To assist member countries by temporarily providing financial resources to correct mal-adjustment in their balance of payments (BoPs).

**Source: Ramesh Singh**

**Q.3) The “extended fund facility” is often seen in news related to?**

- a) IMF
- b) AIIB
- c) Asian Development Bank
- d) World Bank

**ANS: A**

**Explanation:** Once a member nation has signed the EFF (Extended Fund Facility) agreement with the IMF, borrowing can be done by the member nation— India signed this agreement in the fiscal 1981–82.

**Source: Ramesh Singh**

**Q.4) The “triffin dilemma” is related to which of the following?**

- a) Inflation & Unemployment
- b) Unemployment & Growth
- c) Monetary policy goals & Reserve currency
- d) Reserve currency & Growth

**ANS: C**

**Explanation:** The Triffin dilemma—the difficulty faced by reserve currency issuers in trying to simultaneously achieve their domestic monetary policy goals and meet other countries’ demand for reserve currency.

**Source: Ramesh Singh**

**Q.5) Which of the following is not part of World Bank Group?**

- a) International Bank for Reconstruction and Development
- b) International Development Association
- c) International Finance Corporation
- d) International Fund for Agriculture Development

**ANS: D**

**Explanation:** The World Bank Group (WBG) is a family of 5 international organizations that make leveraged loans to developing countries. The organizations are

1. International Bank for Reconstruction and Development (IBRD),
2. International Development Association (IDA),
3. International Finance Corporation (IFC),
4. Multilateral Investment Guarantee Agency (MIGA) and
5. International Centre for Settlement of Investment Disputes (ICSID).

**Source: Ramesh Singh**

**Q.6) Which of the following organization of World Bank group provides soft window loans?**

- a) International Bank for Reconstruction and Development
- b) International Development Association
- c) International Finance Corporation
- d) Multilateral Investment Guarantee Agency

**ANS: B**

**Explanation:** The International Development Agency (IDA) which is also known as the soft window of the WB was set up in 1960 with the basic aim of developing infrastructural support among the member nations, long-term lending for the development of economic services.

**Source:** Ramesh Singh

**Q.7) Which of the following institution is known as private arm of World Bank Group?**

- a) International Bank for Reconstruction and Development
- b) International Development Association
- c) International Finance Corporation
- d) Multilateral Investment Guarantee Agency

**ANS: C**

**Explanation:** The International Finance Corporation (IFC) was set up in 1956 which is also known as the private arm of the WB.

- It lends money to private sector companies of its member nations.
- The interest rate charged is commercial but comparatively low.

**Source: Ramesh Singh**

**Q.8) The “Ordinary Capital Resources” funding mechanism is related to?**

- a) IMF
- b) AIIB
- c) Asian Development Bank
- d) World Bank

**ANS: C**

**Explanation:** India started borrowing from ADB’s Ordinary Capital Resources (OCR) in 1986. The Bank’s lending has been mainly in the energy, transport and communications, finance, industry and social infrastructure sectors.

**Source: Ramesh Singh**

**Q.9) Which of the following organization headquarters is located in Paris?**

- a) OECD
- b) IMF
- c) ADB
- d) AIIB

**ANS: A**

**Explanation:** The roots of the Organization for Economic Co-operation and Development (OECD), Paris, go back to the rubble of Europe after World War II.

- Determined to avoid the mistakes of their predecessors in the wake of World War I, European leaders realized that the best way to ensure lasting peace was to encourage co-operation and reconstruction, rather than punish the defeated.
- The Organization for European Economic Cooperation (OEEC) was established in 1947 to run the US-financed Marshall Plan for reconstruction of a continent ravaged by war.

**Source:** Ramesh Singh

**Q.10) The “Most Favoured Nation (MFN)” related to which of the following?**

- a) OECD
- b) IMF
- c) ADB
- d) WTO

**ANS: D**

**Explanation:** The WTO provides a rule based transparent and predictable multilateral trading system.

The WTO rules envisage non-discrimination in the form of National Treatment and Most Favoured Nation (MFN) treatment to India’s exports in the markets of other WTO Members.

**Source: Ramesh Singh**

## *Economy – Revision*

### **Q.1) The famous “Uruguay Round negotiations” related to?**

- a) ADB
- b) WTO
- c) IMF
- d) AIIB

**ANS: B**

**Explanation:** The World Trade Organization (WTO) came into being as a result of the evolution of the multilateral trading system starting with the establishment of the General Agreement on Tariffs and Trade (GATT) in 1947.

The protracted Uruguay Round negotiations spanning the period 1986–1994, which resulted in the establishment of the WTO.

**Source: Ramesh Singh**

### **Q.2) The “Contingent Reserve Arrangement” mechanism is related to?**

- a) BRICKS bank
- b) AIIB
- c) ADB
- d) World Bank

**ANS: A**

**Explanation:** Together with the process of globalisation world regional forces have also been asserting their power through different short of alignments—the Fortaleza Declaration of heads of state (late July 2014) from Brazil, Russia, India, China, and South Africa (the BRICS countries) is another such attempt —creation of a BRICS Bank i.e., New Development Bank (NDB).

A Contingent Reserve Arrangement (CRA) of \$100 billion is to be also created to provide additional liquidity protection to member-nations during balance of payments problems.

**Source: Ramesh Singh**

### **Q.3) Consider the following statements:**

1. Indirect taxes are those in which the incidence and impact of tax falls on different persons/points.
2. In India around 58% of revenue of the Government is collected from various types of taxes.

**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:** Indirect taxes are those in which the incidence and impact of tax falls on different persons/points. E.g. GST, Service tax etc.

Resource mobilization is important for economic development and around 58% of revenue of the Government is collected from various types of taxes.

**Source: FORUMIAS**



**Q.4) The famous “Raja Chelliah Committee” is related to?**

- a) Tax reforms
- b) Agriculture subsidies
- c) Solar energy
- d) Forex reserves

**ANS: A**

**Explanation:** The Government of India set up a high-powered committee in August 1991, under the chairmanship of Dr Raja J Chelliah.

- The committee made recommendations for a comprehensive reform of the system of central taxes.
- Tax Reform Committee is also known as the Raja Chelliah Committee.
- It was primarily established to reform direct and indirect taxes prevailing in India.
- Dr Chelliah was awarded Padma Vibushan in 2007 and is often referred to as ‘The Father of Tax Reforms’.

**Source: FORUMIAS**

**Q.5) Which of the following is/are the issue/s of indirect tax/taxes?**

- 1. Regressive in nature
- 2. High in tax rate
- 3. Promotes civic consciousness

**How many of the statements given above are correct?**

- a) Only one
- b) Only two
- c) Only three
- d) None

**ANS: B**

**Explanation:** ISSUES IN INDIRECT TAX:

- Regressive Nature: Both rich and poor are subjected to the same rate of taxation.
- Civic Consciousness: Unlike direct taxation, indirect taxation doesn't promote much civic awareness of performing one's duty of paying taxes as taxes are hidden in the price in indirect taxation.
- High Tax Rate: On automobiles and building & construction material at a time when demand conditions are compressed has caused further slowdown in these sectors.

**Source: FORUMIAS**

**Q.6) Consider the following statements:**

- 1. GST was introduced from 1<sup>st</sup> January, 2018.
- 2. GST is imposed on the supply of goods and services, right from the manufacturer to the consumer.

**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:** Goods and Services Tax (GST) is a comprehensive indirect tax system introduced on July 1, 2017.

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- It replaced multiple indirect taxes levied by the central and state governments, such as excise duty, service tax, value-added tax (VAT), and others.
- GST is a consumption-based tax levied on the supply of goods and services across the country.
- GST is one indirect tax for the whole nation, which will make India one unified common market.
- It is imposed on the supply of goods and services, right from the manufacturer to the consumer.

**Source: FORUMIAS**

**Q.7) Consider the following statements regarding equalization Levy:**

1. It is introduced in 2016.
2. It is a type of direct tax on business-to-business transactions.

**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:** Equalization Levy is a type of direct tax introduced in 2016 to tax business-to-business transactions.

- In India, it was implemented to tax the income generated by foreign e-commerce companies through digital transactions.
- Initially, it covered online advertising and other provisions related to digital advertising space.

**Source: FORUMIAS**

**Q.8) Which of the following is/are liquidity management instrument/s?**

1. Open market operations
2. Forex swaps
3. Market stabilization scheme

**How many of the statements given above are correct?**

- a) Only one
- b) Only two
- c) Only three
- d) None

**ANS: C**

**Explanation:** Liquidity Adjustment Facility (LAF): The LAF refers to the Reserve Bank's operations through which it injects/absorbs liquidity into/from the banking system.

- It consists of overnight as well as term repo/reverse repos (fixed as well as variable rates), SDF and MSF.
- Apart from LAF, instruments of liquidity management include outright open market operations (OMOs), forex swaps and market stabilization scheme (MSS).

**Source: FORUMIAS**

**Q.9) Consider the following statements regarding Cash Reserve Ratio (CRR):**

1. It is the proportion of a bank's total deposits that must be maintained as cash reserves with the RBI.
2. The central bank has the authority to adjust this ratio within certain limits.

**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:** CRR is the proportion of a bank's total deposits that must be maintained as cash reserves with the RBI. The central bank has the authority to adjust this ratio within certain limits.

A higher percentage indicates that banks have a smaller amount available for lending, which restricts liquidity. Conversely, a lower CRR has the opposite effect.

**Source: FORUMIAS**

**Q.10) In which of the following year the "SARFAESI Act" was enacted?**

- a) 1998
- b) 2000
- c) 2002
- d) 2005

**ANS: C**

**Explanation:** SARFAESI Act or Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 was formulated with an intent to empower banks to recover Non-Performing Assets (NPAs) without the intervention of a court. SARFAESI Act 2002 is a milestone in the recovery of NPAs.

**Source: FORUMIAS**