ForumIAS

Prelims Marathon

4th Week July, 2025

HISTORY
ECONOMICS
POLITY
SCIENCE AND TECHNOLOGY
GEOGRAPHY AND ENVIRONMENT

INDEX

Banking in India

1. Consider the following statements:
1. Both banks and non-bank financial institutions can accept deposits and provide loans.
2. Non-bank financial institutions allow depositors to withdraw funds using cheques.

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

Answer: A) 1 only
Explanation:
- Both banks and non-bank institutions may accept deposits and lend money.
- Only banks allow depositors to withdraw funds using cheques; non-bank institutions do not offer this facility.

Source: Indian Economy (Ramesh Singh)

2. Consider the following statements regarding Non-Banking Financial Companies (NBFCs):
1. NBFCs are allowed to accept demand deposits from the public.
2. NBFCs cannot issue cheques drawn on themselves as they do not form part of the payment and settlement system.

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

Answer: B) 2 only
Explanation:
- NBFCs **are not allowed** to accept **demand deposits** (i.e., deposits withdrawable by cheque like savings or current accounts).
- Since NBFCs **are not part of the payment and settlement system**, they **cannot issue cheques drawn on themselves**, unlike banks.

Source: Indian Economy (Ramesh Singh)

3. Consider the following statements:
1. NBFCs with asset size of ₹500 crore or more are classified as systemically important.
2. All NBFCs are covered under the deposit insurance scheme of DICGC, like scheduled commercial banks.

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

Answer: A) 1 only
Explanation:

- NBFCs having an asset size of **₹500 crore or more** are considered **systemically important** as they can impact financial stability.
- **NBFCs are not covered** under the **Deposit Insurance and Credit Guarantee Corporation (DICGC)** insurance scheme, unlike banks.

Source: Indian Economy (Ramesh Singh)

4**.** Consider the following statements regarding the Reserve Bank of India (RBI):
1. The RBI was originally established as a private bank under the RBI Act, 1934.
2. After nationalisation in 1949, the RBI became a technical commercial bank with limited regulatory 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

Answer: A) 1 only
Explanation:
- The RBI was set up in **1935** as a **private bank** under the **Reserve Bank of India Act, 1934**.
- After **nationalisation in 1949**, RBI became the **central banking authority** of India, not a commercial bank. It gained **extensive regulatory and monetary control functions**, not limited ones.

Source: Indian Economy (Ramesh Singh)

5**.** Consider the following statements:
1. The Reserve Bank of India issues all denominations of Indian currency notes, including Re. 1.
2. The RBI acts as an agent of the Government of India in the International Monetary Fund (IMF).

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

Answer: B) 2 only
Explanation:
- RBI **does not issue Re. 1 notes or coins**; those are issued by the **Ministry of Finance** and signed by the **Finance Secretary**.
- RBI functions as the **official agent of the Government of India** in dealings with the **IMF**.

Source: Indian Economy (Ramesh Singh)

6. Consider the following statements about Cash Reserve Ratio (CRR):
1. CRR is the percentage of total deposits of a bank that must be maintained in cash with the Reserve Bank of India.
2. The RBI pays interest on the amount maintained by banks as CRR.

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

Answer: A) 1 only
Explanation:
- CRR is the **cash percentage of a bank's total deposits** that must be kept with the **RBI**.
- The **RBI does not pay any interest** on the CRR balances maintained by banks.

Source: Indian Economy (Ramesh Singh)

7. Consider the following statements:
Statement I: Cash Reserve Ratio (CRR) helps the RBI control inflation in the economy.
Statement II: By increasing CRR, the RBI increases the lending capacity of banks to stimulate economic growth.
Which one of the following is correct?
A) Both Statement I and Statement II are correct, and Statement II is the correct explanation of Statement I.
B) Both Statement I and Statement II are correct, but Statement II is not the correct explanation of Statement I.
C) Statement I is correct, but Statement II is incorrect.
D) Statement I is incorrect, but Statement II is correct.

Answer: C) Statement I is correct, but Statement II is incorrect.
Explanation:
- CRR is a monetary policy tool used by the RBI to **control inflation**. By increasing CRR, RBI **reduces the money supply** in the economy, thereby helping control inflation.
- Increasing CRR **reduces**, not increases, the **lending capacity** of banks. It absorbs liquidity, hence not used to stimulate growth but to curb excess money supply.

Source: Indian Economy (Ramesh Singh)

8. Consider the following statements:
Statement I: The Bank Rate influences the long-term lending activities of banks and financial institutions in India.
Statement II: Bank Rate is the interest rate at which the Reserve Bank of India lends short-term funds to commercial banks.
Which one of the following is correct?
A) Both Statement I and Statement II are correct, and Statement II is the correct explanation of Statement I.
B) Both Statement I and Statement II are correct, but Statement II is not the correct explanation of Statement I.
C) Statement I is correct, but Statement II is incorrect.
D) Statement I is incorrect, but Statement II is correct.

Answer: C) Statement I is correct, but Statement II is incorrect.
Explanation:

- The **Bank Rate**, as fixed by the RBI, **directly affects long-term lending** activities of institutions like scheduled banks, NBFCs, and cooperative banks.
- The **Bank Rate applies to long-term lending**, not **short-term funds.** Short-term lending by RBI is handled through **Repo Rate**, **MSF**, and **Liquidity Adjustment Facility (LAF)** mechanisms.

Source: Indian Economy (Ramesh Singh)

9**.** Consider the following statements regarding the **monetary policy tools used by the Reserve Bank of India (RBI):**

1. Repo rate refers to the interest rate at which the RBI lends short-term funds to commercial banks against government securities.
2. Reverse repo rate is the rate at which the RBI borrows short-term funds from banks and financial institutions.
3. A higher repo rate encourages banks to lend more to the public to earn higher interest income.

Which of the statements given above is/are correct?

A) 1 and 2 only
B) 1 and 3 only
C) 2 and 3 only
D) 1, 2 and 3

Answer: A) 1 and 2 only

Explanation:

- Repo rate is the **rate at which the RBI lends short-term funds** to banks by **accepting dated government securities as collateral.**
- Reverse repo rate is the **rate at which banks lend short-term surplus funds to the RBI**, essentially the reverse of repo.
- A **higher repo rate makes borrowing from RBI costlier** for banks, **reducing their ability to lend**, and hence **discourages lending**, not encourages it.

Source: Indian Economy (Ramesh Singh)

10. Consider the following statements:

Statement I: The Marginal Standing Facility (MSF) provides a safety valve against unexpected liquidity shocks to the banking system.

Statement II: Under the MSF, banks can borrow overnight funds from the RBI by pledging government securities, even below the Statutory Liquidity Ratio (SLR) threshold.

Which one of the following is correct?

A) Both Statement I and Statement II are correct, and Statement II is the correct explanation of Statement I.
B) Both Statement I and Statement II are correct, but Statement II is not the correct explanation of Statement I.
C) Statement I is correct, but Statement II is incorrect.
D) Statement I is incorrect, but Statement II is correct.

Answer: A) Both Statement I and Statement II are correct, and Statement II is the correct explanation of Statement I.

Explanation:

- MSF is specifically designed as a **safety valve** to address **unexpected liquidity shortfalls** in the banking system.

- Under MSF, banks can **borrow overnight by pledging securities even by dipping into their SLR holdings** (within a limit of 1% of NDTL), which they are otherwise required to maintain — this unique feature allows flexibility in emergency situations.

Source: Indian Economy (Ramesh Singh)

Banking in India-2

1. With reference to the Marginal Cost of Funds based Lending Rate (MCLR), consider the following statements:

1. MCLR is calculated by the Reserve Bank of India and is applicable uniformly across all banks.
2. Banks are not allowed to lend below the MCLR rate for loans linked to that benchmark.

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

Answer: B. 2 only
Explanation:

- The Marginal Cost of Funds-Based Lending Rate (MCLR) is the minimum interest rate that a bank is allowed to charge for lending.
- It serves as a benchmark for determining the lowest possible interest rate at which banks can offer different types of loans.
- MCLR is determined **internally by individual banks**, not by the RBI.
- Banks are **not permitted to lend below** the MCLR for loans linked to it.

Source: Indian Economy (Ramesh singh)

2**. With reference to the Reserve Bank of India (Pre-payment Charges on Loans) Directions, 2025, consider the following statements:**

1. The Directions apply to floating-rate loans taken by individuals for non-business purposes.
2. Small Finance Banks and Regional Rural Banks are exempt from the Directions only when issuing loans up to ₹50 lakh.
3. Regulated lenders can impose prepayment penalties if the repayment is partial or comes from a third-party source.

Which of the statements given above is/are correct?

A. 1 only
B. 1 and 2 only
C. 2 and 3 only
D. 1, 2 and 3

Answer: B. 1 and 2 only
Explanation:

- The Directions target floating-rate loans by individuals for non-business purposes.
- Small Finance Banks and RRBs are exempt only for loans up to ₹50 lakh.
- No prepayment penalty can be imposed, *regardless* of whether repayment is full or partial or from any source.

Source: Indian Economy (Ramesh singh)

3. Consider the following statements regarding Non-Performing Assets (NPAs):
1. A loan is classified as a Non-Performing Asset (NPA) if the principal or interest payment remains overdue for a period of 180 days.
2. Substandard assets are those which have remained NPAs for a period not exceeding 12 months.
3. Loss assets are considered unrecoverable and are of such minimal value that they are no longer regarded as bankable assets.

Which of the above statements is/are correct?
A. 1 and 2 only
B. 2 and 3 only
C. 1 and 3 only
D. 3 only

Answer: B. 2 and 3 only
Explanation:
- As per RBI guidelines, a loan becomes an NPA if the overdue period is **90 days**, not 180 days.
- Substandard assets are those which have remained NPAs for a period **less than or equal to 12 months**.
- Loss assets are those considered **uncollectible** and of such little value that they no longer qualify as bankable, though some recovery might be possible.

Source: Indian Economy (Ramesh singh)

4. With reference to Non-Performing Assets (NPAs) in Indian banking, consider the following statements:
1. Gross NPA (GNPA) refers to the value of total NPAs before provisioning is made by the bank.
2. Net NPA (NNPA) is calculated by subtracting provisions from the GNPA.
3. As per Basel-III norms, 100% provisioning is mandatory for all types of loans, including standard assets.

Which of the above statements is/are correct?
A. 1 and 2 only
B. 2 and 3 only
C. 1 and 3 only
D. 1, 2 and 3

Answer: A. 1 and 2 only
Explanation:
- GNPA reflects the **total value of all NPAs** a bank holds **before** provisioning.
- NNPA = GNPA – Provisions. It gives the **real burden of bad loans** after accounting for safeguards.
- 100% provisioning is required **only in case of NPAs classified as "Loss Assets"**, **not for all types of loans**. For standard loans, provisioning is much lower (5–20% depending on risk profile).

Source: Indian Economy (Ramesh singh)

5. With reference to the Debt Recovery Tribunals (DRTs) in India, consider the following statements:
1. DRTs have the authority to adjudicate cases involving disputed loans above ₹10 lakh from banks and financial institutions.
2. Under the SARFAESI Act, banks can recover secured debts without initially approaching courts or tribunals.
3. An appeal against a decision of the DRT can be made to the Debts Recovery Appellate Tribunal (DRAT).

Which of the above statements is/are correct?

A. 1 and 2 only
B. 2 and 3 only
C. 1 and 3 only
D. 1, 2 and 3

Answer: B. 2 and 3 only
Explanation:
- DRTs handle loan recovery cases **above ₹20 lakh**, not ₹10 lakh.
- The **SARFAESI Act, 2002** allows banks and financial institutions to enforce security interests and recover dues **without court intervention** at the initial stage.
- Any party aggrieved by the order of a DRT can appeal to the **Debts Recovery Appellate Tribunal (DRAT)**.

Source: Indian Economy (Ramesh singh)

6. Consider the following statements:
Statement I: A borrower who fails to repay a loan despite having the capacity to repay and is found to have diverted or siphoned off the funds can be classified as a wilful defaulter.
Statement II: According to RBI guidelines, wilful default classification can be done solely based on a one-time default event, without providing the borrower an opportunity to be heard.

Which one of the following is correct?

A. Both Statement I and Statement II are correct and Statement II is the correct explanation of Statement I.
B. Both Statement I and Statement II are correct but Statement II is not the correct explanation of Statement I.
C. Statement I is correct but Statement II is incorrect.
D. Statement I is incorrect but Statement II is correct.

Answer: C. Statement I is correct but Statement II is incorrect.
Explanation:
- The RBI defines a wilful defaulter as someone who **has the capacity to repay but does not**, or **diverts/siphons funds**, or **sells assets given as security**.
- An entity **cannot** be termed a wilful defaulter for a **one-off default.** The default must be proven as **intentional**, and the defaulter must be **informed and given a chance to explain**.

Source: Indian Economy (Ramesh singh)

7. Consider the following statements regarding Capital Adequacy Ratio (CAR):
1. Capital Adequacy Ratio is the ratio of a bank's total capital to its total credit exposure.
2. CAR is used to protect depositors' interests and ensure the financial stability of banks by assessing their capacity to absorb potential losses.

Which of the above statements is/are correct?
A. 1 only
B. 2 only
C. Both 1 and 2
D. Neither 1 nor 2

Answer: B. 2 only
Explanation:
- CAR is **not** calculated on total credit exposure but on **risk-weighted credit exposures**. It is the ratio of **a bank's capital to its risk-weighted assets**, not just total credit.
- The purpose of CAR is to **protect depositors** and **ensure financial system stability** by making sure banks have enough capital to **absorb losses**.

Source: Indian Economy (Ramesh singh)

8. Consider the following statements with reference to banking terminology:
1. Narrow Money refers to highly liquid forms of money which banks can freely use for long-term lending.
2. Broad Money includes components which banks can use for their lending programmes as it stays with them for a known period.

Which of the above statements is/are correct?
A. 1 only
B. 2 only
C. Both 1 and 2
D. Neither 1 nor 2

Answer: B. 2 only
Explanation:
- Narrow Money (e.g., M1 and M2) refers to **highly liquid money**, such as **currency with the public and demand deposits**, but it is **not suitable for lending** because it can be withdrawn at any time.
- Broad Money (M3) includes **time deposits** which stay with banks for a **predictable period**, allowing banks to use it for their **lending operations**.

Source: Indian Economy (Ramesh singh)

9. Consider the following statements regarding NRI bank accounts in India:
1. NRE Account is held in Indian Rupees and both principal and interest are tax-free.
2. NRO Account is used to manage income earned in India and the interest is taxable.
3. FCNR (B) Account is held in foreign currency and is exempt from tax.

Which of the above statements is/are correct?
A. 1 and 2 only
B. 2 and 3 only
C. 1 and 3 only
D. 1, 2 and 3

Answer: D. 1, 2 and 3
Explanation:

- The **Non-Resident External (NRE)** account is maintained in **Indian Rupees**, meant for **foreign income**. It is **freely repatriable** and both **principal and interest are tax-free** in India.
- The **Non-Resident Ordinary (NRO)** account is for managing **income earned in India** (like rent, dividends, etc.). The **interest earned is taxable**, and repatriation is subject to certain limits.
- The **Foreign Currency Non-Resident (Bank)** account is held in **designated foreign currencies**. Both **principal and interest are exempt from tax** in India, and there is **no exchange rate risk.**

Source: Indian Economy (Ramesh singh)

10. Consider the following statements regarding Nidhi Companies:
1. A Nidhi Company is registered under the Companies Act, 2013 and does not require a license from the Reserve Bank of India (RBI).
2. Nidhi Companies are allowed to accept deposits from the general public but not allowed to lend to non-members.
3. Nidhi Companies are prohibited from engaging in insurance, securities trading, or issuing preference shares and debentures.

Which of the above statements is/are correct?
A. 1 and 2 only
B. 1 and 3 only
C. 2 and 3 only
D. 1, 2 and 3

Answer: B. 1 and 3 only
Explanation:

- Nidhi Companies are **registered under Section 406 of the Companies Act, 2013** and are **exempt from requiring RBI licensing**, though they fall under the NBFC category.
- Nidhi Companies **cannot accept deposits from the general public**. They can **accept deposits only from their registered members** and also lend only to **members**, not to outsiders.
- They are **prohibited** from engaging in activities like **insurance, chit funds, securities trading**, and from **issuing preference shares, debentures, or any other debt instruments**.

Source: Indian Economy (Ramesh singh)

International Economic Organisations

1. Which of the following statements are correct regarding the New Development Bank (NDB)?
1. The NDB was established by the BRICS countries to support infrastructure and sustainable development projects.
2. The NDB's headquarters is located in New Delhi, India.
3. The NDB provides financial assistance exclusively to BRICS member countries.
4. All members of the NDB have equal voting rights

Select the correct answer:
A) 1 and 2 only
B) 1 and 4 only
C) 1, 3, and 4 only
D) All of the above

Correct Answer: B) 1 and 4 only
Explanation:

- **Statement 1 is correct**: The NDB was established by BRICS nations to support infrastructure and sustainable development projects.
- **Statement 2 is incorrect**: The NDB's headquarters is in Shanghai, China, not New Delhi.
- **Statement 3 is incorrect**: The NDB provides financial assistance to BRICS countries as well as other emerging and developing economies, not exclusively to BRICS members.
- **Statement 4 is correct**: Unlike the World Bank or ADB, the NDB grants equal voting rights to all its members, promoting equal partnership among members.

Source- Newdevelopmentbank official site

2. The "Flexible Credit Line (FCL)" is often seen in news related to?
A) AIIB
B) World Bank
C) IMF
D) NDB
Correct Answer: C) IMF
Explanation: The Flexible Credit Line (FCL) is a lending instrument designed by the IMF for countries with strong economic fundamentals to provide crisis prevention and mitigation support. (Source: IMF official website)
3. Which of the following is/are lending instrument(s) of the International Monetary Fund?
1. Extended Credit Facility
2. Standby Credit Facility
3. Monetary Development Facility

Select the correct answer:
A) Only one
B) Only two
C) Only three
D) None

Correct Answer: B) Only two (1 and 2)
Explanation: The IMF provides several lending facilities, including the Extended Credit Facility and the Standby Credit Facility. There is no facility named "Monetary Development Facility." (Source: IMF official website).

4: With reference to the African Development Bank (AfDB), consider the following statements:
1. It was established with the primary aim of promoting poverty alleviation and socio-economic development in Africa.
2. Its headquarters is located in Addis Ababa, Ethiopia.
3. India is one of the non-African member countries of the Bank.

Which of the statements given above are correct?
[A] 1 and 3 only
[B] 2 only
[C] 1, 2 and 3
[D] 1 and 2 only

Correct Answer: [A] 1 and 3 only
Explanation:

- **Statement 1 is correct** – The African Development Bank was established to promote poverty alleviation and sustainable socio-economic development across African countries.
- **Statement 2 is incorrect** – The headquarters of AfDB is located in **Abidjan, Côte d'Ivoire**, not Addis Ababa.
- **Statement 3 is correct** – India is among the **27 non-African countries** that are members of AfDB, in addition to 54 African nations.

Source- African Development Bank (AfDB) official site

5. Which of the following institutions is the soft window of the World Bank?
A) International Bank for Reconstruction and Development (IBRD)
B) International Development Association (IDA)
C) International Finance Corporation (IFC)
D) Multilateral Investment Guarantee Agency (MIGA)

Correct Answer: B) International Development Association (IDA)
Explanation: The IDA is known as the "soft window" of the World Bank as it provides concessional loans and grants to the poorest countries to support development projects.
(Source: Ramesh Singh)

6: With reference to the Asian Infrastructure Investment Bank (AIIB), consider the following statements:
1. AIIB has more than 80 member nations.
2. India is the largest shareholder in AIIB.
3. AIIB does not have any members from outside Asia.

Which of the statements given above is/are correct?
[A] 1 only
[B] 2 and 3 only
[C] 1 and 3 only
[D] 1, 2 and 3

Answer: A) 1 only
Explanation:

- Statement 1 is **correct**. The AIIB currently has over 100 approved members from around the world (both regional and non-regional members).
- Statement 2 is **incorrect**. China is the largest shareholder of AIIB, not India. India is among the top shareholders but ranks behind China.
- Statement 3 is **incorrect**. AIIB includes many members from outside Asia, including countries from Europe, Africa, and the Americas.

Source- Asian Infrastructure Investment Bank (AIIB) official site

7. Consider the following statements regarding the International Finance Corporation (IFC):
1. It lends money to public sector companies of its member nations.
2. It provides advice for public-private ventures and projects in partnership with private investors.

Which of the statements is/are correct?
A) 1 only
B) 2 only
C) Both 1 and 2
D) Neither 1 nor 2

Correct Answer: B) 2 only

Explanation: The IFC is the private sector arm of the World Bank Group. It lends to private sector companies and provides advisory services to encourage private investment. It does not lend to public sector companies.
(Source: Ramesh Singh)

8. Which of the following organizations of the World Bank "provides technical assistance to help countries disseminate information on investment opportunities"?
A) Multilateral Investment Guarantee Agency (MIGA)
B) International Development Association (IDA)
C) International Finance Corporation (IFC)
D) International Bank for Reconstruction and Development (IBRD)

Correct Answer: A) Multilateral Investment Guarantee Agency (MIGA)
Explanation: MIGA offers political risk insurance to foreign investors and also provides technical assistance to countries to promote investment opportunities.
(Source: Ramesh Singh)

9. The "Ordinary Capital Resources" is recently seen in news related to?
A) ADB
B) AIIB
C) World Bank
D) IMF

Correct Answer: A) ADB
Explanation: ADB's Ordinary Capital Resources (OCR) refers to its market-based lending operations targeting developing member countries, supporting diverse sectors.
(Source: ADB official website)

10. The famous "Uruguay Round negotiations" related to which of the following?
A) IMF
B) WTO
C) GEF
D) WEF

Correct Answer: B) WTO
Explanation: The Uruguay Round (1986–1994) led to the establishment of the World Trade Organization (WTO), significantly expanding trade rules and including agreements on agriculture, services (GATS), and intellectual property rights (TRIPS).
(Source: Ramesh Singh)

Security Market in India

1**. With reference to the security markets in India, consider the following statements:**
1. In the primary market, securities are traded between investors only.
2. The secondary market facilitates trading of securities that have already been issued in the primary market.
3. Stock exchanges provide the platform for trading in the secondary market.

Which of the statements given above is/are correct?
A. 1 and 2 only
B. 2 and 3 only
C. 1 and 3 only
D. 1, 2 and 3

Answer: B. 2 and 3 only
Explanation:
- In the **primary market**, securities are issued **directly by the capital raiser (such as a company)** to the investor. It is **not** a market where securities are traded **between investors**—that happens in the **secondary market**.
- The **secondary market** is where existing securities (already issued in the primary market) are **traded among investors**.
- **Stock exchanges** (like NSE, BSE) act as **institutionalised platforms** for trading in the **secondary market**.

Source: Indian Economy (Ramesh Singh)

2**. With reference to the National Stock Exchange (NSE) of India, consider the following statements:**
1. NSE was established in 1992 and has contributed significantly to transparency and reform in the Indian securities market.
2. CNX Nifty comprises 50 companies from across different sectors of the Indian economy.
3. CNX Nifty Junior represents companies listed exclusively on foreign stock exchanges with Indian operations.

Which of the statements given above is/are correct?
A. 1 and 2 only
B. 2 and 3 only

C. 1 and 3 only
D. 1, 2 and 3

Answer: A. 1 and 2 only
Explanation:

- NSE was established in **1992** and has played a major role in introducing **transparency, reform, and efficiency** in the Indian securities market.
- The **CNX Nifty** (also called Nifty 50) is the **benchmark index** of NSE and includes **50 well-diversified stocks** representing key sectors of the Indian economy.
- **CNX Nifty Junior** includes **Indian companies** ranked just below the top 50 in market capitalization, **not foreign-listed companies**.

Source: Indian Economy (Ramesh Singh)

3**. With reference to the Securities and Exchange Board of India (SEBI), consider the following statements:**

1. SEBI is a statutory body responsible for regulating and promoting the securities market in India.
2. The SEBI Board includes representatives from the Union Ministry of Finance and the Reserve Bank of India.
3. All members of the SEBI Board are nominated by the Reserve Bank of India.

Which of the statements given above is/are correct?
A. 1 and 2 only
B. 2 and 3 only
C. 1 and 3 only
D. 1, 2 and 3

Answer: A. 1 and 2 only
Explanation:

- SEBI is indeed a **statutory body** tasked with **regulating and promoting** the securities market, and **protecting investor interests**.
- SEBI's Board includes **two members from the Union Ministry of Finance** and **one from the RBI**.
- **Not all members** are nominated by the **RBI**; most members are nominated by the **Union Government**, with only **one RBI representative**.

Source: Indian Economy (Ramesh Singh)

4**. With reference to the Bombay Stock Exchange (BSE), consider the following statements:**

1. BSE is the first stock exchange in Asia and was established in the 19th century.
2. BSE uses an online trading system known as BOLT for seamless transactions.
3. BSE is yet to be listed on any stock exchange as it remains a privately held institution.

Which of the statements given above is/are correct?
A. 1 and 2 only
B. 2 and 3 only

C. 1 and 3 only
D. 1, 2 and 3

Answer: A. 1 and 2 only
Explanation:

- BSE is **Asia's first stock exchange**, established in **1875**, i.e., in the **19th century**.
- BSE uses **BOLT (BSE Online Trading)** system for **efficient and seamless online trading**.
- BSE is **not privately held anymore**—in **2017**, it underwent an **IPO** and got **listed on NSE**.

Source: Indian Economy (Ramesh Singh)

5**. With reference to commodity trading in India, consider the following statements:**
1. Commodity exchanges enable futures trading, helping participants hedge against price risk.
2. Farmers are the primary participants in commodity futures markets in India.
3. The Forward Markets Commission is a statutory regulatory authority for the commodity derivatives market in India.

Which of the statements given above is/are correct?
A. 1 and 2 only
B. 1 and 3 only
C. 2 and 3 only
D. 1, 2 and 3

Answer: B. 1 and 3 only
Explanation:

- Commodity exchanges do facilitate **futures trading** and help **hedge against price risks** caused by fluctuating commodity prices.
- The **farmers do not largely operate** in the futures market due to **operational difficulties and lack of knowledge**.
- The **Forward Markets Commission (FMC)**is a statutory regulatory authority for the commodity derivatives market in India. It was established in 1953 under the Forward Contracts (Regulation) Act (FCRA), 1952.

Source: Indian Economy (Ramesh Singh)

6**. With reference to the methods of raising capital in the primary market in India, consider the following statements:**
1. A Rights Issue allows all Indian citizens to subscribe to the company's shares.
2. Private placement involves raising capital by negotiating directly with a select group of investors.
3. Public issue is considered the most prestigious method of raising capital and is open to the general public.

Which of the statements given above is/are correct?
A. 2 and 3 only
B. 1 and 2 only

C. 1 and 3 only
D. 1, 2 and 3

Answer: A. 2 and 3 only
Explanation:
- A **Rights Issue** is **not open to all**; it is offered **only to existing shareholders** of the company.
- **Private Placement** involves **direct negotiations** with a **select group** of investors such as **financial institutions** or high-net-worth individuals.
- A **Public Issue** is **open to all Indian citizens** and is the **most broad-based and prestigious** method of raising capital.

Source: Indian Economy (Ramesh Singh)

7**. With reference to terms used in the Indian stock market, consider the following statements:**
1. A scrip share is a bonus share issued to existing shareholders at no additional charge.
2. Kerb dealings refer to transactions that happen during regular trading hours on stock exchanges.
3. Badla refers to the postponement of transactions by buyers, also known as contango in the Western world.

Which of the statements given above is/are correct?
A. 1 and 3 only
B. 2 and 3 only
C. 1 and 2 only
D. 1, 2 and 3

Answer: A. 1 and 3 only
Explanation:
- A **scrip share** is indeed a **bonus share** given **free to existing shareholders**.
- **Kerb dealings** happen **outside** stock exchanges, **unofficially**, and **after normal trading hours**.
- **Badla** is when **buyers want to postpone** the transaction, and it's referred to as **contango** in the Western markets.

Source: Indian Economy (Ramesh Singh)

8**. With reference to commodity exchanges in India, consider the following statements:**
1. NCDEX deals primarily in agricultural commodities and is regulated by SEBI.
2. MCX is the largest commodity futures exchange in India, where metals and crude oil are commonly traded.
3. The AGRIDEX index tracks the performance of 10 non-agricultural commodities.

Which of the statements given above is/are correct?
A. 1 and 2 only
B. 2 and 3 only

C. 1 and 3 only
D. 1, 2 and 3

Answer: A. 1 and 2 only
Explanation:

- **NCDEX** (National Commodity and Derivatives Exchange) is focused on **agricultural commodities** and is regulated by **SEBI**.
- **MCX** (Multi Commodity Exchange) is the **largest commodity futures exchange** in India, where **metals and crude oil** are traded.
- **AGRIDEX** is an index launched by **NCDEX**, not MCX, and it tracks **agricultural commodities**, not non-agricultural ones.

Source: Indian Economy (Ramesh Singh)

9**. With reference to foreign investments in Indian security markets, consider the following statements:**
1. Foreign Direct Investment (FDI) involves active ownership and flows primarily into the primary market.
2. Foreign Portfolio Investment (FPI) and Foreign Institutional Investors (FII) both bring short-term capital and operate in the secondary market.
3. FPI and FII investors are primarily eligible for company profits in the form of dividends, not capital gains.

Which of the statements given above is/are correct?
A. 1 and 2 only
B. 2 and 3 only
C. 1 and 3 only
D. 1, 2 and 3

Answer: A. 1 and 2 only
Explanation:

- **FDI** implies **active ownership** and targets the **primary market**.
- **FPI** and **FII** provide **short-term capital** and are involved in **secondary market** trading.
- FPI and FII investors are primarily eligible for **capital gains**, not just dividends. Dividends may be received, but **capital appreciation** is their main focus.

Source: Indian Economy (Ramesh Singh)

10. With reference to methods of raising capital in the Indian securities market, consider the following statements:
Statement I: An Initial Public Offering (IPO) allows a privately held or government-owned company to raise capital by offering shares directly to the public.
Statement II: Under the Offer for Sale (OFS) method, securities are sold directly to the public by the company through a stock exchange platform.
Which of the statements given above is/are correct?
A. Only Statement I is correct
B. Only Statement II is correct

C. Both Statement I and Statement II are correct
D. Neither Statement I nor Statement II is correct

Answer: A. Only Statement I is correct
Explanation

- An **IPO (Initial Public Offering)** is the **first time a private or government-owned company** (like LIC) raises funds from the **public** by issuing its shares.
- The process involves:
    - Offering shares to retail and institutional investors.
    - **Listing** the company on a **stock exchange** post-IPO.
    - Enabling future capital raising through **Follow-on Public Offerings (FPOs)**.
- In an **Offer for Sale (OFS)**:
    - The **company does not sell directly to the public**.
    - Instead, the company sells **securities in bulk** (en bloc) to **intermediaries** like **issuing houses or brokers**.
    - These intermediaries then **resell the securities** to the public.
- This method **does not involve direct issuance** to retail investors by the company.

Source: Indian Economy (Ramesh Singh)

External Sector of India

1. With reference to India's Foreign Exchange Reserves, consider the following statements:
1. They consist of Foreign Currency Assets, Gold, SDRs, and Reserve Tranche Position.
2. Special Drawing Rights and Reserve Tranche Position are maintained with the World Bank.
3. RBI uses forex reserves to intervene in the currency market to stabilize the value of the Rupee.

Which of the statements given above is/are correct?
A. 1 and 2 only
B. 1 and 3 only
C. 2 and 3 only
D. 1, 2 and 3

Answer: B. 1 and 3 only
Explanation:

- India's forex reserves include **Foreign Currency Assets (FCA), Gold, Special Drawing Rights (SDRs), and Reserve Tranche Position (RTP)**.
- SDRs and RTP are maintained with the **International Monetary Fund (IMF)**, **not** the World Bank.
- The RBI **uses forex reserves** to stabilize the currency, especially during excessive **depreciation of the Rupee**, by intervening in the foreign exchange market.

Source: Indian Economy (Ramesh Singh)

2**. With reference to the Fixed Currency Regime under the IMF, consider the following statements:**
1. Under this regime, the exchange rate of a currency was fixed by the IMF against a basket of major world currencies.
2. Member countries were required to maintain the fixed exchange rate determined by the IMF, which could be revised periodically.

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

Answer: C. Both 1 and 2
Explanation:
- The IMF regulated exchange rates by fixing them against a basket of major currencies (like USD, GBP, JPY, DM, and FFr).
- Countries were expected to maintain these fixed rates, with revisions made by the IMF as needed.

Source: Indian Economy (Ramesh Singh)

3**. With reference to the Floating Currency Regime, consider the following statements:**
1. In a floating exchange rate system, the value of a currency is determined by market forces such as demand and supply.
2. The IMF mandated all member countries to adopt the floating currency regime after 1973.
3. In a floating exchange rate system, the central bank does not intervene in the foreign exchange market under any circumstances.

Which of the statements given above is/are correct?
A. 1 only
B. 1 and 2 only
C. 1 and 3 only
D. 1, 2 and 3

Answer: A. 1 only
Explanation:
- Floating exchange rates are driven by **market demand and supply**.
- The **IMF allowed** member countries the **option** to choose between fixed and floating regimes after 1973; it was **not mandatory**.
- While floating regimes are primarily market-determined, **central banks may intervene occasionally** to stabilize extreme volatility — such interventions make it a **managed float**.

Source: Indian Economy (Ramesh Singh)

4**. With reference to the Managed Exchange Rate System, consider the following statements:**
1. It is a hybrid system combining features of both fixed and floating exchange rate regimes.
2. India follows a managed but flexible exchange rate system.
3. Under this system, central banks never intervene in the foreign exchange market to influence currency value.

Which of the statements given above is/are correct?
A. 1 and 2 only
B. 1 and 3 only
C. 2 and 3 only
D. 1, 2 and 3

Answer: A. 1 and 2 only
Explanation:

- The managed exchange rate is a **hybrid** of fixed and floating systems, involving both market mechanisms and official interventions.
- India has followed a **managed but flexible exchange rate system** (also called a dual-currency regime) since the **1992–93 financial year**.
- Central banks **do intervene** in this system, either directly (buying/selling currencies) or indirectly (changing interest rates, managing capital flows) to **stabilize or guide** exchange rates.

Source: Indian Economy (Ramesh Singh)

5**. With reference to the Foreign Exchange Market, consider the following statements:**
1. It is the institutional framework where one national currency is exchanged for another.
2. Exchange rates in the foreign exchange market are determined purely through government mandates under all systems.
3. Active currency exchange in this market is typically seen under floating and managed exchange rate regimes.

Which of the statements given above is/are correct?
A. 1 and 2 only
B. 1 and 3 only
C. 2 and 3 only
D. 1, 2 and 3

Answer: B. 1 and 3 only
Explanation:
- The foreign exchange market serves as the **institutional setup** for exchanging one currency for another.
- Exchange rates in the forex market are **not always determined by government mandate**. In **floating** and **managed regimes**, they are **market-driven or influenced**, not fixed.
- **Free-floating** and **managed exchange rate systems** allow active participation in the forex market; it is **restricted or non-existent** in a **fixed or hard-fixed regime**.

Source: Indian Economy (Ramesh Singh)

6**. With reference to international trade, consider the following statements:**
Statement I: The trade balance refers to the monetary difference between the total exports and imports of an economy in a financial year, and it can be either favourable or unfavourable.
Statement II: Trade policy, also known as foreign trade or Exim policy, regulates a country's export-import activities and is periodically revised based on global economic conditions and the policies of trading partners.
Which of the statements given above is/are correct?
A. Statement I only
B. Statement II only
C. Both Statement I and Statement II
D. Neither Statement I nor Statement II

Answer: C. Both Statement I and Statement II
Explanation:
- Trade balance is the **difference between exports and imports** in monetary terms. A **positive** balance is favourable (surplus), while a **negative** balance is unfavourable (deficit).
- Trade policy governs the **export-import framework** and is updated to reflect **changes in global trade dynamics** and the policies of key trade partners.

Source: Indian Economy (Ramesh Singh)

7. With reference to currency valuation in the foreign exchange market, consider the following statements:

1. Depreciation refers to a fall in the value of a domestic currency in a floating exchange rate system due to market forces.
2. Devaluation occurs when the government officially lowers the value of its currency under a fixed exchange rate system.
3. Revaluation is the process of increasing the value of a currency due to demand-supply dynamics in a floating exchange rate system.

Which of the statements given above is/are correct?

A. 1 and 2 only
B. 1 and 3 only
C. 2 and 3 only
D. 1, 2 and 3

Answer: A. 1 and 2 only
Explanation:

- Depreciation happens when a domestic currency **loses value due to market forces** in a **floating exchange rate system**.
- Devaluation is an **official reduction** in the currency's value by the **government**, usually in a **fixed or managed exchange rate** system.
- Revaluation is **not market-driven**; it is an **official act** by the government to **increase the value** of its currency under a **fixed or managed exchange rate** system — not in a floating regime.

Source: Indian Economy (Ramesh Singh)

8**. Consider the following statements:**
Statement I: In the external sector, the Current Account of a country records all current transactions in foreign currency, such as exports, imports, interest payments, remittances, and transfers.
Statement II: These transactions are recorded as either inflows (credits) or outflows (debits), and the resulting balance can be either a surplus or a deficit.
In the context of the above statements, which of the following is correct?

A. Both Statement I and Statement II are correct, and Statement II is the correct explanation of Statement I
B. Both Statement I and Statement II are correct, but Statement II is not the correct explanation of Statement I
C. Statement I is correct, but Statement II is incorrect
D. Statement I is incorrect, but Statement II is correct

Answer: A. Both Statement I and Statement II are correct, and Statement II is the correct explanation of Statement I
Explanation:

- **Statement I** correctly defines the **Current Account in the external sector** as a record of **foreign currency transactions** like exports, imports, remittances, interest, and transfers.
- **Statement II** accurately explains **how** these transactions are recorded (credit/debit), and how they result in either a **surplus or deficit**, which directly supports Statement I.

Source: Indian Economy (Ramesh Singh)

9**. With reference to the Capital Account in the Balance of Payments (BoP), consider the following statements:**

1. The Capital Account records all capital transactions of an economy with the rest of the world, including external borrowings, foreign investments, and foreign currency deposits.
2. Unlike the Current Account, the Capital Account does not reflect a surplus or deficit at the end of the financial year.

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

Answer: C. Both 1 and 2
Explanation:
- The Capital Account includes **capital transactions** such as **external lending/borrowing**, **FDI**, **portfolio investment**, **foreign currency deposits**, and **external bonds**.
- The Capital Account is **not assessed in terms of surplus or deficit** like the Current Account. It is used to balance the BoP alongside the current and reserve accounts.

Source: Indian Economy (Ramesh Singh)

10. **With reference to the Current Account, consider the following statements:**
1. The Current Account in the external sector includes all current transactions such as exports, imports, interest payments, remittances, and transfers.
2. In the banking sector, a current account is primarily used by business firms and generally does not earn interest, but it facilitates multiple withdrawals and provides overdraft facilities.

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

Answer: C. Both 1 and 2
Explanation:
- In the **external sector**, the Current Account reflects **foreign currency inflows and outflows** from transactions like **trade, remittances, and services.** It can be in **surplus or deficit** depending on the net flow.
- In **banking**, a **current account** is used mainly by businesses for high-volume transactions, usually **non-interest-bearing**, but it offers **overdraft** and **cheque-based facilities.**

Source: Indian Economy (Ramesh Singh)

Taxation In India

1. Consider the following statements regarding Tax Incidence:
1. The statutory incidence of tax refers to the actual economic burden borne by consumers and producers due to the tax.
2. The final incidence of tax is influenced by the elasticity of demand and supply of the good being taxed.

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

Answer: B. 2 only
Explanation:
- Statutory (initial) incidence refers to **who is legally obligated** to remit the tax to the government—not who bears the actual economic burden.
- Final (economic) incidence depends on the **elasticity of demand and supply**. If a good is inelastic, consumers bear more of the burden. If it's elastic, producers are more likely to bear it.

Source: Indian Economy (N.C.E.R.T)

2**. With reference to Progressive and Regressive Tax Policies, consider the following statements:**
1. **Progressive tax policies** impose higher tax rates as income increases, thereby benefiting lower income groups.
2. **Regressive tax policies** apply the same tax rate to everyone, which ends up benefiting higher income groups more.
3. In India, **Personal Income Tax** is considered regressive, while **GST** is progressive in nature.

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

Answer: (a) 1 and 2 only
Explanation:
- Progressive taxes increase with income, supporting equity.
- Flat tax rates mean the poor pay a larger share of their income, benefiting the rich.
- In India, **Personal Income Tax is progressive** and **GST is regressive**, not the other way around.

Source: Indian Economy (N.C.E.R.T)

3**. With reference to Central Value Added Tax (CENVAT) Credit, consider the following statements:**
1. CENVAT allows manufacturers to claim credit for the excise duty paid on inputs and use it to offset the duty on final products.
2. The availability of CENVAT Credit encourages investment in capital goods by allowing credit for tax paid on them.

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

Answer: (c) Both 1 and 2
Explanation:
- CENVAT allows a manufacturer to take credit of the excise duty paid on raw materials and input services.
- This credit can then be used to reduce the excise duty liability on the final product.
- This avoids the cascading effect of taxation at multiple stages of production.

- CENVAT Credit is also available on capital goods, which encourages manufacturers to invest in machinery and technology.
- Since tax paid on such capital goods can be claimed back as credit, it reduces the effective cost of investment, promoting modernization and higher productivity.

Source: Indian Economy (N.C.E.R.T)

4**. With reference to Value Added Tax (VAT), consider the following statements:**
1. VAT is collected at each stage where value is added during production and distribution of goods.
2. Unlike non-VAT systems, VAT prevents the cascading effect of tax and helps control inflation.
3. VAT is considered a pro-poor tax system because it avoids increasing the burden on lower income groups.

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

Answer: (d) 1, 2 and 3
Explanation:
- VAT is collected at multiple points where value is added—from manufacturer to wholesaler to retailer.
- **V**AT eliminates the **cascading effect** (tax on tax) seen in older systems, thereby reducing the inflationary impact.
- Since VAT avoids price inflation and does not increase the tax burden disproportionately, it is considered **pro-poor** while not being anti-rich.

Source: Indian Economy (N.C.E.R.T)

5**. With reference to the Goods and Services Tax (GST) in India, consider the following statements:**
1. GST is a destination-based tax levied on the supply of goods and services at every point of sale.
2. In case of intrastate sales, only the Central GST (CGST) is levied.
3. The final consumer bears the GST cost, but it is remitted to the government by the seller.

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

Answer: (c) 1 and 3 only
Explanation:
- GST is a **destination-based**, **multi-stage**, and **value-added** tax, levied at every point of sale.
- For **intrastate** sales, **both Central GST (CGST)** and **State GST (SGST)** are levied.
- Though **consumers** pay GST, it is the **businesses** that collect and remit it to the government.

Source: Indian Economy (N.C.E.R.T)

6. With reference to Excise Duty in India, consider the following statements:
1. Excise duty is an indirect tax imposed on goods manufactured within the country.
2. After the implementation of GST, excise duty is still levied on certain items like petroleum and liquor.
3. Excise duty is paid directly by the consumers to the government at the time of purchase.

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

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

Answer: (a) 1 and 2 only
Explanation:

- Excise duty is an **indirect tax** levied on the **manufacture** of goods **within India**.
- After **GST**, excise duty is still applicable on **petroleum and liquor**, which are **excluded from GST**.
- Excise duty is paid by the **manufacturer** to the government, not **directly by consumers**. However, the burden may be **passed on** to consumers in the final price.

Source: Indian Economy (N.C.E.R.T)

7**. With reference to Capital Gains Tax (CGT) in India, consider the following statements:**
1. Capital gains are considered a form of income and are taxed when a capital asset is transferred between owners.
2. An immovable property held for more than 12 months is treated as a long-term capital asset.
3. Equity shares held for more than 12 months are considered long-term capital assets.

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

Answer: (b) 1 and 3 only
Explanation:

- Capital gains arise from the sale of capital assets and are considered **taxable income** when ownership is transferred.
- For **immovable property**, an asset becomes **long-term** if held for **more than 24 months**, not 12 months.
- **Equity shares** and some financial securities are considered **long-term capital assets** if held for **more than 12 months**.

Source: Indian Economy (N.C.E.R.T)

8**. Consider the following statements regarding Minimum Alternate Tax (MAT):**
Statement I: MAT is imposed to ensure that companies with substantial book profits but low or zero tax liability still contribute a minimum tax.
Statement II: MAT is computed based on the taxable profits of a company under the regular provisions of the Income Tax Act.
Which one of the following is correct?
(a) Both Statement I and Statement II are correct, and Statement II is the correct explanation of Statement I.
(b) Both Statement I and Statement II are correct, but Statement II is not the correct explanation of Statement I.
(c) Statement I is correct, but Statement II is incorrect.
(d) Statement I is incorrect, but Statement II is correct.

Answer: (c) Statement I is correct, but Statement II is incorrect.
Explanation:

- The **primary purpose** of MAT is to bring companies with **high book profits** (but low tax liability due to exemptions/deductions) under the tax net, ensuring **minimum tax contribution**.
- MAT is **not computed on taxable profits** under the regular provisions. It is calculated on **"book profits"** (profits shown in financial statements), which differ from taxable income.

Source: Indian Economy (N.C.E.R.T)

9**. With reference to Tax Buoyancy and Tax Elasticity, consider the following statements:**
1. Tax buoyancy measures how tax revenues change in response to changes in the tax rate.
2. Tax elasticity refers to the responsiveness of tax revenue to changes in Gross Domestic Product (GDP).
3. A high tax buoyancy indicates that tax revenue is growing faster than the economy.

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

Answer: (c) 3 only
Explanation:
- T**ax elasticity** measures how tax revenues change in response to changes in the tax rate.
- Tax **buoyancy** refers to tax revenue responsiveness to GDP; **elasticity** is about responsiveness to **tax rate** changes.
- High tax buoyancy means tax revenue increases at a higher rate than GDP, indicating efficient tax collection or strong economic performance.

Source: Indian Economy (N.C.E.R.T)

10. Consider the following statements regarding Cess and Surcharge in India:
1. Cess is levied for a specific purpose and the revenue from it is shared with the States based on the Finance Commission's recommendations.
2. Surcharge is levied on the base tax and its proceeds are retained exclusively by the Union 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

Answer: (b) 2 only
Explanation:
- While **cess is levied for a specific purpose** (like education or sanitation), **its revenue is *not* shared with the States**. It is credited to the **Consolidated Fund of India**, unless a separate fund is created by law.
- **Surcharge is levied on the base income tax**, especially on higher-income individuals and companies. Its proceeds **remain with the Union Government** and **are not shared** with States as it is outside the divisible pool.

Source: Indian Economy (N.C.E.R.T)