

ForumIAS

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Prelims Marathon

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HISTORY
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Money Supply and Credit in the Indian Banking System

1. Which of the following statements correctly defines the nature of the 'Stock of Money' in an economy?

- a) It is a flow concept, as it measures the total value of transactions over a period of time, such as a financial year.
- b) It is a stock concept, as it measures the total quantity of money held by the public at a specific point in time.
- c) It is a purely abstract concept, representing the total capacity of banks to create credit, irrespective of time.
- d) It is measured by the total velocity of currency movement combined with the base money created by the RBI.

Correct Answer: (b)

Explanation:

The Stock of Money refers to the total quantity of money held by the public in an economy at a particular point in time. This makes it a stock concept, as opposed to a flow concept, which is measured over a period of time (e.g., GDP, income, or investment). The money supply measures (M1, M3, etc.) are all fundamentally stock concepts.

2. Consider the following financial assets and their corresponding liquidity aggregates:

- 1. **Demand Deposits of Banks:** Included in M1
- 2. **Post Office Savings Deposits:** Included in M2 but not M3
- 3. **Certificates of Deposit (CDs):** Included in the higher liquidity aggregates L2 and L3

Which of the above pairs is/are correctly matched in the decreasing order of liquidity (from high to low)?

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

Correct Answer: (d)

Explanation:

The money aggregates M1, M2, M3, M4 and liquidity aggregates L1, L2, L3 are arranged in decreasing order of liquidity, where M1 is the most liquid and L3 is the least.

Statement 1: Correct. Demand deposits are part of M1 (Narrow Money), which is the most liquid component after Currency with Public.

Statement 2: Correct. $M2 = M1 + \text{Savings Deposits of Post Office Savings Banks}$. M3 is $M1 + \text{Net Time Deposits of Banks}$ and generally does not include Post Office Deposits (in the older aggregation), which are primarily included only in M2 and M4.

Statement 3: Correct. Certificates of Deposit (CDs), being time deposits, are not part of narrow money (M1). They are included in L2 and L3, the broadest liquidity measures, signifying their lower liquidity compared to M3. (Note: In the new monetary aggregates (NM1, NM2, NM3), term deposits are included in NM2 and NM3, which are less liquid than NM1).

3. Which of the following components constitute Narrow Money (M1) as defined by the Reserve Bank of India (RBI)?

1. Currency with the Public
2. Demand Deposits with the Banking System
3. Inter-bank Term Deposits (e.g., Call Money)
4. 'Other' Deposits with the RBI

Select the correct answer using the code given below:

- a) 1 and 2 only
- b) 1, 2 and 4 only
- c) 1, 3 and 4 only
- d) 2, 3 and 4 only

Correct Answer: (b)

Explanation:

The RBI defines the monetary aggregate M1 (Narrow Money) as:

$M1 = \text{Currency with the Public} + \text{Demand Deposits with the Banking System} + \text{'Other' Deposits with the RBI}$

Statement 1: Correct.

Statement 2: Correct. Demand Deposits include current account deposits and the demand liability portion of savings accounts.

Statement 3: Incorrect. Inter-bank term deposits, such as Call Money and Certificate of Deposits, are part of the broader money aggregates, not M1.

Statement 4: Correct. This includes deposits of international financial institutions, foreign central banks, etc., with the RBI.

4. In the Indian monetary system, Broad Money (M3) primarily includes:

- a) Currency with public plus all deposits with post offices
- b) M1 plus time deposits with the banking system
- c) Reserve money plus excess reserves held by banks
- d) Demand deposits plus government securities

Correct Answer: (b)

Explanation: Broad Money $M3 = M1 + \text{Time deposits with banks}$, capturing a wider spectrum of money for long-term economic analysis and credit expansion.

5. Consider the following statements regarding Money Supply measures in India:

1. RBI classifies Money Supply into M0 (Reserve Money), M1 (Narrow Money), M2, M3 (Broad Money), and M4.
2. M2 includes M1 plus savings deposits with post offices, serving as an intermediate liquidity measure.
3. As of July 2025, M3 reached ₹281 trillion, reflecting post-pandemic credit growth and digital inclusion.

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

Correct Answer: (d)

Explanation:

Statement 1: Correct. RBI's four-tier system (M0-M4) tracks liquidity from base to total money stock.

Statement 2: Correct. $M2 = M1 + \text{Post Office savings}$, bridging narrow and broad measures. **Statement 3: Correct.** M3 hit ₹281.4 trillion in July 2025, boosted by lending and fintech adoption.

6. In India, which of the following relate to the Minimum Reserve Requirements under RBI guidelines?

1. Cash Reserve Ratio (CRR) mandates banks to hold 4.5% of net demand and time liabilities as cash with RBI.
2. Statutory Liquidity Ratio (SLR) requires 18% investment in government securities as of 2025.
3. Both CRR and SLR can be adjusted by RBI without a statutory floor since the 2006 Amendment.

Select the correct answer using the code given below:

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

Correct Answer: (d)

Explanation: All are correct. CRR is 4.5% (post-2024 cuts); SLR at 18%; 2006 Act removed the 3% CRR floor for flexibility in monetary policy.

7. Reserve Money (M0) in India, also known as high-powered money, comprises:

- a) Currency in circulation plus demand deposits with commercial banks
- b) Bankers' deposits with RBI plus 'other' deposits and coins
- c) Time deposits plus post office savings
- d) Excess reserves plus government securities

Correct Answer: (b)

Explanation: $M0 = \text{Currency outstanding} + \text{Reserves (bankers' and others) with RBI}$, forming the monetary base for credit creation.

8. Consider the following factors:

1. An increase in the Cash Reserve Ratio (CRR)
2. An increase in the Currency Deposit Ratio (CDR)
3. A shift in public preference from Demand Deposits to Time Deposits

Which of the factors given above will lead to a decrease in the value of the Money Multiplier (M0M3) in the economy?

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

Correct Answer: (b)

Explanation:

The Money Multiplier is the ratio of Broad Money (M3) to Reserve Money (M0) and indicates the extent of money creation by commercial banks.

1. **Increase in CRR: Correct.** A higher CRR means banks must hold more cash reserves, reducing their lending capacity, which slows down the process of credit creation and **decreases** the money multiplier.
2. **Increase in CDR: Correct.** If the public holds more cash (higher CDR), less money is deposited in the banking system. This shrinks the base of loanable funds, reducing the potential for credit creation and thus **decreasing** the money multiplier.

3. **Shift from Demand Deposits to Time Deposits: Incorrect.** This shift generally increases the money multiplier, as time deposits are included in M3 but not M1, and banks can lend a larger proportion of time deposits (subject to SLR/CRR). A larger base of term deposits supports a higher M3 relative to M0, generally increasing the multiplier.

9. With reference to Credit Counselling in India, consider the following statements:

1. RBI mandates banks to appoint credit counsellors for distressed borrowers, integrating it with Financial Literacy Centres (FLCCs).
2. Under 2025 guidelines, counselling is voluntary but mandatory for loans above ₹5 lakh in default, focusing on restructuring over recovery.

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

Correct Answer: (a)

Explanation:

Statement 1: Correct. RBI encourages dedicated counsellors via FLCCs for debt management and awareness.

Statement 2: Incorrect. It's encouraged for all defaults but not mandatory by threshold; emphasis is on ethical recovery.

10. Consider the following statements regarding Credit Rating Agencies (CRAs) in India:

1. CRAs are primarily regulated by the Securities and Exchange Board of India (SEBI) and assess the creditworthiness of corporate and government debt instruments.
2. CRAs assign ratings based on an analysis of the issuer's financial strength, market position, and ability to meet its debt obligations.
3. CRISIL, ICRA, and CARE are among the top Credit Rating Agencies operating in the country.

Which of the statements given above are correct?

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

Correct Answer: (d)

Explanation:

Statement 1: Correct. CRAs are registered with and primarily regulated by SEBI under the SEBI (Credit Rating Agencies) Regulations, 1999. They rate various debt instruments like bonds, debentures, and commercial papers.

Statement 2: Correct. The rating reflects the opinion of the CRA on the likelihood of the issuer fulfilling its financial obligations in full and on time.

Statement 3: Correct. CRISIL, ICRA, and CARE are among the major domestic credit rating agencies in India, alongside others like India Ratings and Acuité.

Insurance Sector in India

1. With reference to the history of the insurance sector in India, consider the following statements:

1. The Life Insurance Corporation of India (LIC) was formed in 1956 following the nationalization of the life insurance business through a single Act of Parliament.
2. The nationalization of the General Insurance business in 1971 also led to the creation of the General Insurance Corporation of India (GIC), which currently functions as the sole Public Sector General Insurer in the country.

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

Correct Answer: (a)

Explanation:

Statement 1: Correct. The life insurance business was nationalized in 1956, leading to the formation of LIC.

Statement 2: Incorrect. While the general insurance business was nationalized in 1971 (General Insurance Business Nationalisation Act, 1972) and GIC was created as the holding company, GIC was subsequently converted into a reinsurance company in 2000. Today, there are several Public Sector General Insurers (e.g., New India Assurance, United India Insurance, Oriental Insurance, and National Insurance), which were subsidiaries of GIC until they were delinked.

2. The opening up of the Indian insurance sector in the late 1990s was primarily based on the recommendations of a key committee. In this context, consider the following statements:

1. The **Malhotra Committee (1993)** recommended opening the sector to private participation, including foreign players, while creating a strong, independent regulator.
2. The resultant regulator, the Insurance Regulatory and Development Authority of India (IRDAI), is a statutory body established in 1999 to promote and ensure the orderly growth of the insurance and reinsurance business.

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

Correct Answer: (c)

Explanation:

Statement 1: Correct. The Malhotra Committee, headed by R. N. Malhotra, was pivotal in recommending reforms, including the denationalization and opening up of the sector to competition, leading to the establishment of the regulator.

Statement 2: Correct. IRDA (now IRDAI) was set up in 1999 under the IRDA Act, 1999, as the statutory and autonomous regulator for the insurance sector in India.

3. Consider the following pairs related to key recommendations of the Malhotra Committee (1993) on insurance reforms:

| Recommendation | Action Taken |
|---|---|
| I. Decontrol the sector for private entry | IRDA Act passed in 1999 |
| II. Reduce government stake in LIC/GIC to 50% | Implemented via share sales to PSUs in 2012 |
| III. Set up a regulatory authority | IRDA established in 2000 |

In how many of the above pairs is the given information correctly matched?

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

Correct Answer: (c)

Explanation:

Pair I: Correct. The committee suggested allowing private (Indian/foreign) entry, leading to the 1999 IRDA Act enabling it from 2000.

Pair II: Correct. It recommended 50% divestment; partial steps like 2012 LIC sales to PSUs were taken, though full reduction pending.

Pair III: Correct. Establishing a regulator was a core suggestion, realized with IRDA in 2000.

4. Consider the following statements with regard to the regulatory framework of the insurance sector:

- Appeals against the final orders of the Insurance Regulatory and Development Authority of India (IRDAI) are primarily preferred to the High Courts of the respective States where the insurer is headquartered.
- Both the Life Insurance Council and the General Insurance Council have been mandated to function as self-regulating bodies for their respective segments.

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

Correct Answer: (b)

Explanation:

Statement 1: Incorrect. As per the Insurance Laws (Amendment) Act, 2015, appeals against orders made by the IRDAI are to be preferred to the Securities Appellate Tribunal (SAT), not the High Courts.

Statement 2: Correct. The law has strengthened the Industry Councils, making them self-regulating bodies with power to frame bye-laws and collect fees from members.

5. With reference to the Deposit Insurance and Credit Guarantee Corporation (DICGC), consider the following statements:

1. DICGC is a subsidiary of the Reserve Bank of India (RBI) and provides deposit insurance coverage for all types of deposits, including those in cooperative banks.
2. The definition of reinsurance under the Insurance Laws (Amendment) Act, 2015, was strengthened to specifically prevent insurance companies from ceding 100 per cent of their risk, thus curbing "front company" practices.
3. The DICGC's maximum liability currently covers deposits up to ₹1 lakh per depositor, including both principal and interest.

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

Correct Answer: (a)

Explanation:

Statement 1: Correct. DICGC is a fully owned subsidiary of the RBI and covers all commercial banks, Local Area Banks, Regional Rural Banks, and Co-operative Banks.

Statement 2: Correct. The 2015 amendments introduced a definition of 're-insurer' that prohibits an insurer from ceding 100% of the risk, which prevents them from acting merely as a 'front company' for a re-insurer.

Statement 3: Incorrect. The limit was increased to ₹5 lakh per depositor per bank in February 2020 by the government.

6. The Export Credit Guarantee Corporation of India (ECGC), under the Ministry of Commerce and Industry, primarily provides cover for:

- a) Short-term domestic trade risks only
- b) Medium- and long-term export credits against political and commercial risks in importing countries
- c) Reinsurance for agricultural exports exclusively
- d) Deposit guarantees for exporters' bank accounts

Correct Answer: (b)

Explanation: ECGC offers credit insurance for Indian exporters' overseas projects, mitigating risks like non-payment due to political instability or commercial defaults in buyer countries, especially for medium/long-term contracts where reinsurance is limited.

7. With reference to the National Export Insurance Account (NEIA), consider the following:

1. NEIA is designed to cover non-payment risks specifically for **medium and long-term (MLT)** high-value infrastructure export projects.
2. Unlike the ECGC, NEIA is a trust and operates exclusively in foreign currency, providing cover to large state-owned enterprises only.

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

Correct Answer: (a)

Explanation:

Statement 1: Correct. NEIA was set up to ensure the availability of credit insurance cover for medium and long-term (MLT) high-value export projects, which are typically large and strategically important.

Statement 2: Incorrect. NEIA is indeed a trust, but it does not operate exclusively in foreign currency and is not limited to only state-owned enterprises. It provides cover for MLT projects and complements the role of the ECGC, which primarily covers short-term working capital credit risk.

8. Which of the following is the most appropriate definition of 'Insurance Penetration' for a country?

- a) The ratio of total insurance claims settled to the total premiums collected during a financial year.
- b) The percentage of the total population that holds at least one valid insurance policy.
- c) The ratio of total insurance premium (life and non-life) written in a year to the country's Gross Domestic Product (GDP).
- d) The total number of insurance companies operating in the country relative to the country's population size.

Correct Answer: (c)

Explanation:

Insurance penetration is the key metric used globally to measure the development of the insurance sector. It is defined as the ratio of total insurance premium (both life and non-life) collected in a year to the country's Gross Domestic Product (GDP). This measure indicates the size of the insurance industry relative to the size of the economy.

9. With reference to the status of the Indian Insurance Market (as of FY 2021-22), consider the following statements:

- 1. India ranks 9th globally in terms of the total premium level (Life and Non-life combined).
- 2. The insurance penetration rate has increased from 2.71% in 2001 to 4.2% in 2022, primarily driven by the growth in the non-life insurance segment.
- 3. The non-life insurance penetration is three times lower than the life insurance penetration.

How many of the above statements are correct?

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

Correct Answer: (b)

Explanation:

Statement 1: Incorrect. India is the 10th largest market globally in terms of total premium level. It ranks 9th only for the Life Insurance Market specifically.

Statement 2: Incorrect. While penetration has increased from 2.71% to 4.2%, the growth is primarily driven by the Life Insurance segment (3.2%) over the Non-Life segment (1.0%).

Statement 3: Correct. In FY 2021-22, life insurance penetration was 3.2%, and non-life penetration was 1.0%. The non-life penetration (1.0%) is approximately three times lower than the life insurance penetration (3.2%).

10. Which of the following factor contribute to the significant growth potential and increasing awareness in the Indian insurance industry?

1. The low insurance penetration rate in rural India, with less than 10% of the rural population having life insurance coverage.
2. India's large and growing digital penetration, facilitating online policy purchase and digital payments.
3. The presence of a high Health Protection Gap (HPG), where a substantial percentage of the population lacks health insurance coverage.

Select the correct answer using the code given below:

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

Correct Answer: (d)

Explanation:

All three factors contribute to the high growth potential:

Statement 1: Correct. The massive untapped rural market represents a huge potential customer base, as coverage is currently very low.

Statement 2: Correct. High digital penetration and the use of tools like mobile apps make the process of buying and managing insurance simpler, acting as a major growth facilitator.

Statement 3: Correct. The High Health Protection Gap (HPG), estimated at nearly 30% of Indians having no health insurance, indicates a significant unmet need and high potential for growth in the health insurance segment.

External Sector of India

1. With reference to India's Foreign Exchange Reserves (Forex Reserves), consider the following statements:

1. India's Forex Reserves are solely composed of Foreign Currency Assets, Gold Reserves, and the Reserve Tranche Position with the IMF.
2. A substantial build-up of Forex Reserves, when driven by RBI buying dollars in the spot market to reduce rupee volatility, can lead to an inflationary effect on the economy.
3. According to recent trends (2024), the rise in India's Forex Reserves can be attributed primarily to the valuation effect, rather than capital inflows.

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

Correct Answer: (b)

Explanation:

Statement 1: Incorrect. The Forex Reserves of an economy are its 'foreign currency assets' **added with** its gold reserves, **SDRs (Special Drawing Rights)**, and Reserve Tranche in the IMF.

Statement 2: Correct. When the RBI purchases dollars in the spot market, it infuses the Rupee into the system (liquidity injection), which can lead to an inflationary effect on the economy. To counteract this, RBI may convert spot purchases into forwards or use Open Market Operations (OMOs).

Statement 3: Correct. (Based on a recent general trend) In many recent periods, including early 2024, a significant portion of the increase in India's Forex Reserves has been a result of the **valuation effect** (appreciation of non-dollar assets like gold and Euro in the reserves when measured in US dollars) rather than purely new capital inflows.

2. Which of the following statements correctly reflects India's external debt composition and management?

- a) India's prudent external debt policy, following the 1991 BoP crisis, primarily focused on increasing the proportion of short-term debt to improve liquidity and financial market depth.
- b) While non-government debt dominates India's external debt, the majority of the sovereign (government) debt is denominated in Indian Rupee, minimizing exchange rate risk.
- c) India's external debt continues to be dominated by the US dollar, which is followed by the Indian Rupee in terms of currency composition.
- d) As per recent data (2024), the external debt-to-GDP ratio has significantly exceeded the 30% mark, signaling a high vulnerability.

Correct Answer: (c)

Explanation:

Option (a): Incorrect. India's prudent external debt policies focused on sustainability, solvency, and liquidity, which helped in obtaining a better, **longer-term maturity profile** (dominance of long-term debt).

Option (b): Incorrect. Non-government debt dominates, but the currency composition of government (sovereign) debt indicates the predominance of **SDR-denominated debt** (attributable to borrowing from IDA and SDR allocations by IMF).

Option (c): Correct. US dollar-denominated debt is the highest at over 60%, followed by the Indian Rupee, SDR, Japanese Yen, and Euro.

Option (d): Incorrect. India's external debt has historically remained within manageable limits. Although the percentage fluctuates, recent data (2024) shows the ratio remains below 20%, far from the 30% mark.

3. Consider the following exchange rate systems:

- 1. **Fixed Currency Regime:** The exchange rate is fixed by an external authority (like the IMF) against a basket of currencies.
- 2. **Floating Currency Regime:** The exchange rate is determined entirely by market forces of demand and supply with no intervention by the government or central bank.
- 3. **Managed Exchange Rate System:** A hybrid system where the government/central bank intervenes directly by buying/selling foreign currency.

How many of the above statements correctly define the exchange rate system?

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

Correct Answer: (b)

Explanation:

Statement 1: Correct. In a Fixed Currency Regime, the IMF fixed the exchange rate against a basket of currencies, which economies were supposed to maintain.

Statement 2: Incorrect. While a Floating Currency Regime is market-driven by demand and supply, an **ideal free-floating** system with no intervention does not exist in practice. Currencies that are "free float" still have

rare government intervention. The system described in the statement is often termed **free-floating** but the "entirely" and "no intervention" parts make the statement practically incorrect for real-world application.

Statement 3: Correct. The managed system is a hybrid of fixed and flexible, where the government/central bank intervenes to affect the rate (either directly by buying/selling foreign currencies or indirectly via monetary policy like interest rates) to reduce volatility or achieve desired objectives.

4. With reference to the evolution of India's exchange rate mechanism, consider the following events:

1. Shifting from a peg to the British Pound Sterling to a fixed currency system pegged to gold or the US Dollar.
2. Delinking the Rupee from the British Pound and determining its exchange rate with respect to a basket of world currencies.
3. Introduction of the dual exchange rate mechanism (official rate and market rate).

Which of the following represents the correct chronological order of the above events?

- a) 1 - 2 - 3
- b) 2 - 1 - 3
- c) 1 - 3 - 2
- d) 3 - 2 - 1

Correct Answer: (a)

Explanation: The correct chronological order is:

1. **Shifting to fixed currency (1948):** Rupee, which was historically linked to the British Pound Sterling till 1948, shifted to the IMF's fixed currency system, maintaining its value in terms of gold or the US Dollar (Rs. 3.30 = \$1 was fixed in 1948).
2. **Basket of Currencies (September 1975):** India delinked the Rupee from the British Pound and the RBI started determining its rate with respect to the exchange rate movements of the basket of world currencies.
3. **Dual Exchange Rate (1992-93):** India moved to the floating currency regime with its own method, known as the 'dual exchange rate,' comprising an 'official rate' and a 'market rate'.

5. Which of the following statements about Trade Balance is correct?

- a) Trade Balance is the net monetary difference between the total export and import of **goods** and **services** of an economy in a financial year.
- b) A negative Trade Balance is always considered unfavourable for the economy, as it requires drawing down the country's foreign exchange reserves.
- c) Trade Balance reflects the balance of current transactions in foreign currency, including private remittances and interest payments.
- d) Trade Balance is the monetary difference between the total export and import of an economy, and a positive balance is known as favourable.

Correct Answer: (d)

Explanation:

Option (a): Incorrect. Trade Balance refers to the export and import of **goods** only (visible trade). When services are included, it forms part of the Current Account.

Option (b): Incorrect. The negative outcome (unfavourable) of the **Balance of Payment** does not mean it is unfavourable, unless the economy lacks the means to fill the gap. However, the Trade Balance itself, if negative, is explicitly referred to as **unfavourable** to the economy.

Option (c): Incorrect. Trade Balance is a component of the Current Account. The Current Account includes all current transactions like export, import, interest payments, private remittances, and transfers.

Option (d): Correct. Trade Balance is the monetary difference between total export and import, which might be positive or negative, known to be either favourable or unfavourable, respectively.

6. Consider the following statements regarding a country's Trade Policy:

1. India's recent Foreign Trade Policy (2023) has introduced provisions for Rupee settlement of international trade, aiming to de-dollarize trade and reduce currency conversion costs.
2. Increasing import duties on certain goods falls outside the scope of the Trade Policy, as it is strictly a fiscal measure.

Which of the statements given above is/are correct?

- a) 1 only
- b) 1 and 2 only
- c) Both 1 and 2
- d) None of the above

Correct Answer: (b)

Explanation:

Statement 1: Correct. The Foreign Trade Policy 2023 (FTP 2023) introduced provisions for the internationalization of the Rupee, promoting its settlement for international trade to reduce dollar dependence.

Statement 2: Incorrect. Increasing import duties (Tariffs) is a classic instrument of trade policy and is used to regulate imports and protect domestic industry, falling well within its scope.

The Ministry sets policy direction; RBI regulates forex aspects; DGFT handles implementation, licensing, and updates to align with global trade dynamics.

7. With reference to currency valuation in the foreign exchange market, which of the following pairs is/are correctly matched?

| Term | Definition |
|-----------------|--|
| 1. Depreciation | A loss of domestic currency value against a foreign currency when it is market-driven (floating exchange rate system). |
| 2. Revaluation | Official appreciation, where the government increases the exchange rate of its currency against a foreign currency. |
| 3. Devaluation | Official depreciation, where the government cuts down the exchange rate of its currency against a foreign currency. |

Select the correct answer using the code given below:

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

Correct Answer: (d)

Explanation:

1. **Correct.** Depreciation is a market-driven loss of domestic currency value against a foreign currency and can only occur under the floating exchange rate system.
2. **Correct.** Revaluation is an official appreciation, meaning the government increases the currency's exchange rate against a foreign currency.
3. **Correct.** Devaluation is an official depreciation, where the government cuts down the currency's exchange rate.

8. In the foreign exchange market, "depreciation" of a currency applies exclusively to:

- a) Economies following a fixed exchange rate regime
- b) Official adjustments by the central bank
- c) Market-driven decline in value under a floating regime
- d) Increase in asset value due to economic growth

Correct Answer: (c)

Explanation: Depreciation refers to a market-led loss in currency value in floating systems, unlike devaluation (official) or domestic asset wear-and-tear usage.

9. Consider the following transactions:

- 1. External Commercial Borrowings (ECBs) by a private company.
- 2. Interest payments made by a resident on an External Debt.
- 3. Foreign Direct Investment (FDI) inflows.
- 4. Private Remittances (e.g., money sent by an NRI to a family in India).

How many of the above transactions are classified under India's Capital Account?

- a) Only one
- b) Only two
- c) Only three
- d) All four

Correct Answer: (b)

Explanation: The Capital Account shows capital-kind of transactions like external lending/borrowing, foreign currency deposits, FDI, FPI/PIS. The Current Account shows current transactions like export, import, interest payments, private remittances, and transfers.

- 1. **ECBs by a private company:** Capital inflow (External Borrowing) → **Capital Account**.
- 2. **Interest payments on External Debt:** Current transaction (payment) → **Current Account**.
- 3. **FDI inflows:** Capital inflow → **Capital Account**.
- 4. **Private Remittances:** Current transaction (transfer) → **Current Account**.

Therefore, only 1 and 3 are classified under the Capital Account.

10. With reference to the Balance of Payment (BoP), consider the following statements:

- 1. The BoP is essentially the net outcome of the Current Account and the Capital Account.
- 2. If there is a negative outcome (deficit) in the BoP, the gap must first be filled by drawing from the country's Foreign Exchange Reserves.
- 3. According to the principle of double-entry book-keeping, the total credits (inflows) must always equal the total debits (outflows), meaning the BoP is always technically in balance.

Which of the statements given above is/are correct?

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

Correct Answer: (c)

Explanation:

Statement 1: Correct. The BoP is the outcome of the total transactions with the outside world, which is essentially the net outcome of the current and capital accounts.

Statement 2: Correct. If there is a negative outcome in the BoP, the necessary foreign exchange is drawn from the country's forex reserves. If reserves are insufficient, it is a BoP crisis, and the economy seeks forex help (e.g., from the IMF) as a last resort.

Statement 3: Incorrect. While the BoP is calculated on the principles of double-entry book-keeping (every entry is shown as credit or debit), which ensures that the accounting sum of all transactions must be zero, the final outcome of the Current Account + Capital Account (known as the BoP) might be positive or negative. The difference is managed by changes in the country's reserves, but the statement implies that the **Current Account + Capital Account** outcome is always zero, which is false in economic terms (a deficit means it is not zero).

External Sector of India-II

1. With reference to the Liberalised Exchange Rate Management System (LERMS) and the Extended Fund Facility (EFF), consider the following statements:

1. India's adoption of LERMS in 1993 marked a shift from a floating exchange-rate system to a fixed currency system.
2. The Extended Fund Facility (EFF) is a service provided by the IMF primarily to member countries facing Balance of Payment (BoP) crises, and it mandates structural reforms in the recipient economy.

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

Correct Answer: (b)

Explanation:

Statement 1: Incorrect. India announced the LERMS in the Union Budget 1992-93 and operationalised it in March 1993. Under LERMS, India delinked its currency from the **fixed currency system** and moved into the era of the **floating exchange-rate system**. The new system introduced a dual exchange rate—one official and the other market-driven.

Statement 2: Correct. The EFF is an IMF service that authorizes member countries to raise foreign exchange to fulfil their BoP crisis, subject to the conditions of structural reforms put forth by the IMF. India signed this agreement in the financial year 1981-82.

2. Which of the following statements correctly describes the relationship between the Nominal Effective Exchange Rate (NEER) and the Real Effective Exchange Rate (REER) in the context of an economy experiencing higher inflation?

- a) If domestic inflation is lower than that of its trading partners, the REER will be less against the domestic currency than the NEER.
- b) The REER is the NEER adjusted for the weights of major trading partners' GDPs.
- c) If the domestic inflation rate is higher than that of its trading partners, the REER will be more against the domestic currency than the NEER, implying a loss of external competitiveness.
- d) A persistent appreciation of the REER always implies that the currency's nominal value has remained fixed against the basket of foreign currencies.

Correct Answer: (c)

Explanation:

NEER is the weighted average of the exchange rates against the currencies of India's major trading partners. REER is calculated when the weight of **inflation is adjusted with the NEER**. If inflation is higher in the domestic economy (India) compared to its trading partners, the purchasing power of the domestic currency falls more rapidly. When this higher inflation is adjusted to the NEER to get the REER, the REER's value rises (appreciates) more significantly than the NEERs, making the country's exports costlier and imports cheaper—hence it is "**more against it**" (the rupee) than the NEER. This signifies a loss of external competitiveness.

3. Which of the following measures were part of the structural reforms mandated by the International Monetary Fund (IMF) as pre-conditions for the medium-term loan given to India during the Balance of Payment (BoP) crisis of the early 1990s?

1. Devaluation of the rupee by 22 per cent.
2. Drastic cut in customs duty to a peak duty of 30 % from the erstwhile level of 130 per cent.
3. Increase in excise duty by 20 % to neutralise revenue loss from custom cuts.
4. Increase in government expenditure by 10% per annum to boost demand.

Select the correct answer using the code given below:

- a) 1, 2 and 4 only
- b) 1, 3 and 4 only
- c) 2 and 3 only
- d) 1, 2 and 3 only

Correct Answer: (d)

Explanation:

The structural reforms were guided and decided by the pre-conditions of the IMF.

Statement 1: Correct. Devaluation of rupee by 22 % was a condition.

Statement 2: Correct. A drastic custom cut to a peak duty of 30 % from the erstwhile level of 130 % was a condition.

Statement 3: Correct. Excise duty was to be increased by 20 % to neutralise the loss of revenue due to the custom cut.

Statement 4: Incorrect. Government expenditure was to be **cut by 10 %** per annum, not increased.

4. Consider the following statements regarding a Hard Currency:

1. It is a currency in which the highest faith is shown globally and is required by every economy.
2. An economy becomes a source of hard currency mainly by having the highest and most diversified exports that are compulsive imports for other countries.
3. The US Dollar, the Euro, and the Japanese Yen are considered some of the best hard currencies of the world today.

How many of the statements given above are correct?

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

Correct Answer: (c)

Explanation:

Statement 1: Correct. Hard currency is the international currency in which the highest faith is shown and is needed by every economy.

Statement 2: Correct. The economy with the highest and highly diversified exports that are compulsive imports for other countries (e.g., high-level technology, petroleum products) will create high demand for its currency, making it a hard currency.

Statement 3: Correct. The US Dollar, the Euro, Japanese Yen, and the UK Sterling Pound are mentioned as some of the best hard currencies of the world today.

5. Which of the following is the most definitive characteristic of a Soft Currency?

- a) It is a currency whose value is permanently pegged to a hard currency like the US Dollar.
- b) It is a currency that is easily available in its domestic foreign exchange market, typically because demand for it in international markets is relatively low.
- c) It is a currency that is undergoing a period of rapid depreciation against major global currencies.
- d) It is a currency that is used for transactions only in the current account but not in the capital account.

Correct Answer: (b)

Explanation:

A soft currency is a term used in the foreign exchange market which denotes the currency that is **easily available in any economy in its forex market**. It is essentially the opposite term for the hard currency, which is always scarce. The easy availability suggests low international demand/high domestic supply relative to demand. For example, the rupee is a soft currency in the Indian forex market.

6. With reference to the concept of Hot Currency in the foreign exchange market, consider the following:

- 1. A hard currency is temporarily termed as hot currency when it is rapidly flowing *into* the domestic economy.
- 2. The term hot is a permanent designation for a currency whose value is appreciating significantly.

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

Correct Answer: (d)

Explanation:

Statement 1: Incorrect. Hot currency is a temporary name for any hard currency. Due to certain reasons, if a hard currency is **exiting an economy at a fast pace** for a time, the hard currency is known to be hot. The example given is the US dollar becoming hot during the SE Asian crisis.

Statement 2: Incorrect. The term is a **temporary name** for a hard currency, not a permanent designation. It is related to the speed of exit, not necessarily appreciation.

7. The term Heated Currency in the forex market is best understood as a reference to:

- a) A domestic currency that is experiencing immense appreciation pressure due to large, persistent inflows of foreign direct investment (FDI).
- b) A domestic currency that is under significant depreciation pressure due to a high tendency of a hard currency to exit the economy.
- c) A foreign currency that is being heavily traded in derivative markets, causing volatility.
- d) A currency whose exchange rate has been deliberately inflated by its central bank to boost the national image.

Correct Answer: (b)

Explanation:

Heated currency is a term used in the forex market to denote the **domestic currency which is under enough pressure (heat) of depreciation**. This pressure is typically caused by a hard currency high tendency of **exiting the economy** (since it has become hot). It is also known as currency under heat or under hammering²⁶.

8. Match the economic terms with their associated characteristics:

| Term | Associated Characteristic in the Banking Industry |
|-------------------|--|
| 1. Cheap Currency | A period of comparatively lower/softer interest rates regime. |
| 2. Dear Currency | A period of comparatively higher/costlier interest rates regime. |

Which of the pairs given above is/are correctly matched?

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

Correct Answer: (c)

Explanation:

Pair 1: Correct. In the banking industry, **Cheap Currency** (or cheap money) means a period of comparatively **lower/softer interest rates regime**. This typically occurs when a government re-purchases its bonds, causing money to flow into the economy.

Pair 2: Correct. In the banking industry, **Dear Currency** (or dear money) means a period of comparatively **higher/costlier interest rates regime**. This occurs when a government issues bonds, causing money to flow from the public to the government.

9. With reference to Special Economic Zones (SEZs) in India, consider the following statements:

- The concept of SEZ is an improvement over the Export Processing Zones (EPZs), with the first EPZ in Asia set up in Kandla in 1965.
- A key objective of the SEZ policy was to make SEZs an engine for economic growth, supported by world-class infrastructure and an attractive fiscal package with minimum possible regulations.
- Units operating in SEZs are mandated to become net foreign exchange earners within one year of commencing production.

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

Correct Answer: (a)

Explanation:

Statement 1: Correct. The concept of SEZ is an improvement on the concept of Export Processing Zones. India's first EPZ in Asia was set up in Kandla in 1965.

Statement 2: Correct. The SEZ Policy was intended to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, with the minimum possible regulations.

Statement 3: Incorrect. Units in SEZs have to become **net foreign exchange earners within three years**, not one year.

10. Consider the following statements about the structure and issues related to Special Economic Zones (SEZs):

1. An SEZ is a duty-free enclave treated as a foreign territory only for trade operations, duties, and tariffs, and is divided into a processing area and a non-processing area.
2. Land acquisition for SEZs falls under the exclusive purview of the Central Government, as the SEZ Act is a central legislation.
3. The proposed Land Acquisition Bill, 2013, included a provision to enable state legislation on leasing land instead of outright acquisition, allowing ownership to remain with farmers.

Which of the statements given above are correct?

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

Correct Answer: (b)

Explanation:

Statement 1: Correct. SEZs are duty-free enclaves treated as foreign territory only for trade operations, duties, and tariffs. Every SEZ is divided into a **processing area** (where SEZ units operate) and a **non-processing area** (for supporting infrastructure).

Statement 2: Incorrect. Land acquisition is a matter that comes under the purview of the **state governments**, as land/land usage is a state subject.

Statement 3: Correct. The major highlights of the Land Acquisition Bill, 2013, included a provision to enable state legislation on **leasing in place of acquisition of land**, so that the ownership remains with farmers.

External Sector of India-III

1. With reference to the General Anti-Avoidance Rule (GAAR) in India, consider the following statements:

1. GAAR empowers tax authorities to recharacterize transactions that lack commercial substance primarily to obtain tax benefits.
2. It applies exclusively to domestic taxpayers and does not cover cross-border arrangements involving foreign entities.

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

Correct Answer: (a)

Explanation:

Statement 1: Correct. GAAR allows authorities to disregard arrangements that are entered into mainly to avail tax benefits without genuine economic intent.

Statement 2: Incorrect. GAAR extends to international transactions, including those with foreign investors or entities, to prevent treaty shopping and base erosion.

2. With reference to External Commercial Borrowings (ECBs) by Indian entities, which of the following risks is/are associated with an appreciation of the Indian Rupee against the currency of borrowing?

1. Increased debt servicing cost in Rupee terms.
2. Loss on hedging instruments taken to mitigate currency depreciation risk.
3. Translation loss on foreign currency-denominated assets on the entity's balance sheet.

Select the correct answer using the code given below:

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

Correct Answer: (b)

Explanation:

1. **Increased debt servicing cost in Rupee terms: Incorrect.** An **appreciation** of the Indian Rupee (INR ↑) means fewer Rupees are needed to buy one unit of foreign currency. This **reduces** the Rupee equivalent of the debt servicing (principal and interest) cost, benefiting the borrower. A *depreciation* of the Rupee would increase the cost.
2. **Loss on hedging instruments taken to mitigate currency depreciation risk: Correct.** A borrower taking an ECB is primarily exposed to the risk of the Rupee *depreciating* (making the foreign debt more expensive). If they hedge against this depreciation, and the Rupee instead *appreciates*, the hedge instrument (e.g., a forward contract) will result in a loss, offsetting the gain from the appreciating Rupee.
3. **Translation loss on foreign currency-denominated assets on the entity's balance sheet: Incorrect.** Translation risk arises when converting foreign currency financial statements/items into the home currency for reporting. If the Rupee **appreciates**, the Rupee value of a foreign currency-denominated **asset** will **decrease**, resulting in a translation **loss**. However, the question refers to the risk associated with **ECBs (liabilities)**. A Rupee appreciation would lead to a translation **gain** on the foreign currency-denominated **liability** (ECB).

3. The South Asian Free Trade Area (SAFTA) agreement provides for a "Sensitive List." Consider the following statements regarding this list in the context of India's external trade:

1. Products included in the Sensitive List are exempt from the tariff reduction schedule under SAFTA.
2. India's Sensitive List under SAFTA is the same for both Least Developed Countries (LDCs) and Non-Least Developed Countries (Non-LDCs) within the SAARC region.
3. The purpose of the Sensitive List is to protect the domestic industry and agriculture of the member countries from sudden import surges.

Which of the statements given above is/are correct?

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

Correct Answer: (c)

Explanation:

Statement 1: Correct. The Sensitive List is a list of products on which member countries are *not* required to grant tariff concessions or are subject to a reduced, non-zero tariff cut. This exempts them from the complete tariff liberalisation programme.

Statement 2: Incorrect. India maintains separate Sensitive Lists for SAARC LDCs (like Nepal, Bhutan, Bangladesh, Afghanistan) and Non-LDCs (like Pakistan, Sri Lanka). The list for LDCs is typically much smaller than for Non-LDCs, reflecting the principle of Special and Differential Treatment (S&DT) to promote their trade.

Statement 3: Correct. The primary objective of maintaining a Sensitive List is to provide protection to specific domestic sectors (e.g., local agriculture or infant industries) that might be vulnerable to competition following the full tariff liberalisation under the FTA.

4. Consider the following statements with regard to Early Harvest Scheme (EHS) in India's Free Trade Agreements:

1. EHS typically covers a limited set of tariff lines for immediate duty reductions as a precursor to a comprehensive FTA.
2. The India-Thailand EHS, signed in 2004, focuses exclusively on trade in agricultural goods.
3. EHS provisions often include safeguards against import surges in sensitive sectors.

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

Correct Answer: (b)

Explanation:

Statement 1: Correct. EHS provides quick wins on select goods to build momentum for full agreements.

Statement 2: Incorrect. The India-Thailand EHS covers a broader range of 83 products, including non-agricultural items like electronics.

Statement 3: Correct. It incorporates mechanisms like anti-dumping duties to protect domestic industries.

5. In the context of India's Comprehensive Economic Cooperation Agreement (CECA) with Singapore, which of the following sectors are comprehensively covered?

1. Trade in goods and services
2. Investment protection and facilitation
3. Movement of natural persons for business purposes

Select the correct answer using the code given below:

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

Correct Answer: (d)

Explanation: All three are integral to the CECA, which liberalizes tariffs on goods, opens services markets, provides investment safeguards, and eases temporary business travel for professionals.

6. With reference to the Regional Comprehensive Economic Partnership (RCEP), consider the following statements:

1. India opted out of RCEP negotiations in November 2019 due to concerns over trade deficits with China.
2. RCEP comprises 10 ASEAN countries plus five others, including Japan and South Korea.
3. The agreement entered into force in 2022 and covers about 30% of global GDP.
4. India retains an open invitation to rejoin without needing to renegotiate terms.

Which of the statements given above is/are correct?

- a) 1 and 2 only
- b) 1, 2 and 3 only
- c) 2 and 4 only
- d) 1, 3 and 4 only

Correct Answer: (b)

Explanation:

Statement 1: Correct. India's withdrawal was driven by fears of flooding domestic markets with cheap imports.

Statement 2: Correct. It includes ASEAN bloc and partners like Australia, China, Japan, and South Korea.

Statement 3: Correct. RCEP's scope makes it the world's largest trading bloc by economic size. **Statement 4: Incorrect.** Rejoining would likely require fresh negotiations to address India's original concerns.

7. Consider the following agreements under India's external trade framework:

1. Bilateral Trade and Investment Agreement (BTIA) with the EU
2. Comprehensive Economic Partnership Agreement (CEPA) with UAE
3. Comprehensive Economic Cooperation Agreement (CECA) with Australia

How many of the above are currently under active negotiations as of 2025?

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

Correct Answer: (a)

Explanation: Only the India-EU BTIA remains stalled in negotiations since 2013, with recent pushes in 2025; the others have been signed and implemented.

8. With reference to the Global System of Trade Preferences (GSTP) among developing countries, "GSTP facilitates reciprocal tariff concessions on a non-reciprocal basis for least developed participants" is most accurately described as:

- a) A multilateral framework under WTO
- b) A preferential trade arrangement outside WTO
- c) An investment promotion scheme
- d) A services liberalization pact

Correct Answer: (b)

Explanation: GSTP operates as an autonomous initiative by developing nations for mutual tariff reductions, independent of WTO rules, with special provisions for LDCs.

9. Consider the following statements regarding the impact of rising crude oil prices on India's external sector in 2025:

1. It exacerbates the current account deficit due to higher import bills.
2. It contributes to domestic inflation through pass-through to fuel and commodity prices.
3. It enhances the competitiveness of India's petroleum exports globally.

How many of the above statements are correct?

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

Correct Answer: (b)

Explanation:

Statements 1 and 2: Correct. Elevated prices strain the trade balance and fuel cost-push inflation. **Statement 3: Incorrect.** Higher global prices reduce the margin for refined product exports from India.

10. Consider the following statements with regard to India's Foreign Trade Policy 2023:

1. It introduces an amnesty scheme allowing one-time settlement for exporters with defaulted export obligations.
2. E-commerce exports are recognized with hubs to facilitate small shipments up to ₹10 lakh per consignment.
3. The policy extends validity of status holder certificates from five to lifetime.

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

Correct Answer: (d)

Explanation:

Statement 1: Correct. The scheme aids regularization of past defaults to boost compliance. **Statement 2: Correct.** It promotes MSMEs by streamlining small-value e-commerce shipments. **Statement 3: Correct.** Lifetime validity simplifies renewals for recognized exporters.

International Economic Organisations & India

1. With reference to the International Monetary System established under Bretton Woods, consider the following statements:

1. The adjustment mechanism primarily addresses imbalances in balance of payments through exchange rate flexibility and fiscal policies to restore equilibrium.
2. Liquidity in the system is enhanced by Special Drawing Rights (SDRs) to supplement member countries' reserves without relying solely on gold or dollars.

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

Correct Answer: (c)

Explanation:

Statement 1: Correct. Adjustment involves correcting persistent deficits or surpluses via policy tools and, post-Bretton Woods, floating rates to prevent global instability.

Statement 2: Correct. SDRs act as an international reserve asset allocated by the IMF to provide liquidity during shortages, reducing dependence on national currencies.

2. The Bretton Woods Conference of 1944 is most closely associated with:

- a) Establishing the General Agreement on Tariffs and Trade (GATT)
- b) Creating the framework for fixed exchange rates pegged to gold via the US dollar
- c) Launching the Asian Infrastructure Investment Bank (AIIB)
- d) Forming the Organisation for Economic Co-operation and Development (OECD)

Correct Answer: (b)

Explanation: Bretton Woods laid the foundation for a stable post-war monetary order, with currencies fixed to the dollar, which was convertible to gold, to foster international trade and growth.

3. With reference to India's engagement with the International Monetary Fund (IMF), consider the following statements:

- 1. India's quota in the IMF stands at approximately 2.76% of total quotas as of 2025.
- 2. India holds the 8th largest quota among IMF members, reflecting its growing economic weight.
- 3. The IMF's 16th General Review of Quotas in 2023 resulted in a 50% increase, but India's voting share remained unchanged.
- 4. India has accessed IMF facilities seven times since joining in 1945, primarily for balance of payments support.

Which of the statements given above is/are correct?

- a) 1 and 2 only
- b) 1, 2 and 4 only
- c) 2 and 3 only
- d) 1, 3 and 4 only

Correct Answer: (b)

Explanation:

Statement 1: Correct. This quota translates to SDR 13,114.4 million, positioning India as a significant contributor.

Statement 2: Correct. The ranking underscores India's influence in decision-making.

Statement 3: Incorrect. The increase adjusted shares, slightly boosting emerging economies like India.

Statement 4: Correct. These arrangements aided India's economic stabilizations, including in the 1990s crisis.

4. Consider the following pairs:

Institution – Primary Role

- I. International Bank for Reconstruction and Development (IBRD) – Concessional loans to low-income countries
- II. International Development Association (IDA) – Market-based loans to middle-income countries
- III. International Finance Corporation (IFC) – Mobilizing private investment in developing economies

In how many of the above rows is the given information correctly matched?

- (a) Only one
- (b) Only two
- (c) All the three
- (d) None

Correct Answer: (d)

Explanation: All pairs are incorrectly matched. IBRD provides non-concessional loans to middle-income countries; IDA offers concessional financing to the poorest nations; IFC focuses on private sector development without government guarantees.

5. With reference to the Multilateral Investment Guarantee Agency (MIGA) and International Centre for Settlement of Investment Disputes (ICSID) under the World Bank Group, "These institutions primarily facilitate foreign direct investment through risk mitigation and dispute resolution" is most accurately described as:

- a) Instruments of the International Monetary Fund
- b) Components of the Asian Development Bank
- c) Pillars of the World Trade Organization's investment framework
- d) Specialized agencies of the World Bank Group

Correct Answer: (d)

Explanation: MIGA provides political risk insurance to investors, while ICSID handles investor-state disputes, both promoting FDI in developing countries as part of the World Bank ecosystem.

6. Consider the following statements regarding India's role in the Asian Development Bank (ADB):

- 1. India is a founding member and holds the fourth largest shareholding at 6.317%.
- 2. As of 2025, ADB's active portfolio in India includes over \$16.5 billion in sovereign loans for infrastructure.
- 3. India has veto power in ADB decisions due to its substantial subscription.

Which of the statements given above is/are correct?

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

Correct Answer: (a)

Explanation:

Statement 1: Correct. This share reflects India's strategic importance in regional development. **Statement 2: Correct.** Projects span urban transport, energy, and climate resilience.

Statement 3: Incorrect. ADB operates on majority voting, with no single member holding veto except in specific cases like amendments.

7. In the context of the Organisation for Economic Co-operation and Development (OECD), which of the following best describes India's status as of 2025?

- 1. Full membership with voting rights in all committees
- 2. Key Partner status with enhanced engagement in policy dialogues
- 3. Observer role limited to economic outlook reports

Select the correct answer using the code given below:

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

Correct Answer: (b)

Explanation: India has been a Key Partner since 2007, participating actively in enhanced engagement on issues like taxation and trade, but without full membership privileges.

8. Consider the following statements with regard to the World Trade Organization (WTO) and India:

1. India became the 75th member of the WTO in 1995, inheriting commitments from GATT.
2. The 14th Ministerial Conference (MC14) is scheduled for March 2026 in Cameroon, following MC13 in Abu Dhabi.

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

Correct Answer: (a)

Explanation:

Statement 1: Correct. This accession marked India's integration into the multilateral trading system.

Statement 2: Incorrect. MC14 is set for March 2025 in Cameroon, with preparations ongoing as of October 2025.

9. With reference to India's negotiations at the WTO's Ninth Ministerial Conference in Bali (2013), consider the following statements:

1. The Bali Package included the Trade Facilitation Agreement to streamline customs procedures globally.
2. India secured a peace clause on public food stockholding for food security, exempting it from subsidy caps until a permanent solution.

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

Correct Answer: (c)

Explanation:

Statement 1: Correct. It aimed to reduce trade costs, benefiting developing nations like India. **Statement 2: Correct.** This interim measure protected India's Minimum Support Price operations for staples like rice.

10. Consider the following in the context of India's involvement with the New Development Bank (NDB) of BRICS and the Asian Infrastructure Investment Bank (AIIB):

1. India holds an equal 20% share in the NDB alongside other BRICS members.
2. AIIB's exposure to India is projected to reach \$20 billion by 2030 from \$12 billion in 2025.
3. Both banks prioritize sustainable infrastructure, with NDB approving nearly \$10 billion for Indian projects by 2025.

How many of the above statements are correct?

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

Correct Answer: (c)

Explanation:

Statement 1: Correct. Equal ownership ensures balanced governance among Brazil, Russia, India, China, and South Africa.

Statement 2: Correct. This growth supports India's infrastructure push amid global shifts. **Statement 3: Correct.** Focus areas include metros and renewables, aligning with India's development goals.