

## Corrigendum/Explanation SFG FRC 2026 Test 54

**There is 1 change in today's paper. In Q.42 the correct answer is Option c**

**Q.42)** Consider the following statements:

Statement I: During a Liquidity Trap, the traditional direct relationship between interest rates and bond yields reverses.

Statement II: In a Liquidity Trap, interest rates are so low and bond prices so high that people hoard cash to avoid capital losses when interest rates eventually rise.

Which of the following is correct in respect of the above statements?

(a) Both Statement I and Statement II are correct and Statement II is the correct explanation for Statement I.

(b) Both Statement I and Statement II are correct and Statement II is not the correct explanation for Statement I.

**(c) Statement I is correct but Statement II is incorrect.**

(d) Statement I is incorrect but Statement II is correct.

**For Future Reference:**

**Statement I is correct:** traditionally, Bond yield is directly proportional to interest rates. However, during Liquidity Trap, due to weaker sentiments in the market, despite cut in Interest rates, there is lower demand for bonds which results in lower Bond Prices and hence Increase in Bond Yields.

**Statement II is incorrect:** During Liquidity Trap, while the Interest rates are lowered, the Bond Prices do not go high (due to low demand)