Corrigendum/Clarification – FRC #14 - RankForge 2027 Test 5

Number of items taken for scoring: 59
Number of items dropped: 01 (Question no. 37)
There are 3 changes in today's paper (Q.19, Q.32 and Q.37).

Q.19, the correct answer is Option a

Q.32, the correct answer is Option d

Q.37 has been dropped due to printing error

Also, some extra explanations have been provided for the students who have raised doubts.

Q.19) A doubt was raised whether a significant increase in public preference for digital transactions over physical cash will reduce or increase the seigniorage revenue accrued by the central bank.

Exp) One of the impacts of an increase in public preference for digital transactions over physical cash, in the case of India, will be less wear and tear of physical currency. Thus, the Central Bank cost of producing physical cash will decrease and consequently the seignorage is going to increase.

Thus the statement stating **'A significant increase in public preference for digital transactions over physical cash generally reduces the seigniorage revenue accrued by the central bank' is an incorrect statement.**

For future reference:

Q.19) Consider the following statements regarding 'Seigniorage' in the context of the monetary and banking system:

1. It represents the revenue generated by the central bank from the issuance of currency, due to the difference between the face value of the money and the cost of producing it.
2. A significant increase in public preference for digital transactions over physical cash generally reduces the seigniorage revenue accrued by the central bank.

Which of the statements given above is/are correct?

a) 1 only

b) 2 only

c) Both 1 and 2

d) Neither 1 nor 2

Ans) a

Q.32) A doubt was raised whether presently, Small Finance Banks are required to direct 75% of their total lending toward priority sectors.

Exp) It is an incorrect statement. The RBI has revised the Priority Sector Lending (PSL) target for SFBs, reducing the mandatory credit allocation from 75% to 60% of their Adjusted Net Bank Credit (ANBC).

Note: There is a misprint in the Economy Lexicon by ForumIAS, we will update the same in the upcoming edition.

For future reference:

Q.32) With reference to the Indian banking system, consider the following statements regarding Small Finance Banks (SFBs):

1. Unlike universal commercial banks, they do not require a formal banking license from the Reserve Bank of India (RBI) to undertake banking operations.
2. They are required to direct 75% of their total lending toward priority sectors.

Which of the statements given above is/are correct?

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

Ans) d

Q.37) There was a misprint in the question.

For future reference:

Q.37) Consider the following mathematical expression:

$$5\% \text{ } of \text{ } 5\% \text{ } of \text{ } 2500$$

Which one of the following is the correct value of the above expression?

a) 0.625

b) 6.25

c) 62.5

d) 625

Ans) b

Q.9) A doubt was raised regarding whether the RBI imposes a complete ban on all types of fresh lending when a bank is placed under the **Prompt Corrective Action (PCA)** framework. The RBI **does not impose a blanket ban on all fresh lending** under the PCA framework. Since lending is the primary source of a bank's income, completely stopping fresh loans would weaken its ability to recover. Instead, the RBI imposes **targeted restrictions** on lending and other activities based on the bank's financial condition.

However, under its broader statutory powers, particularly **Section 45 of the Banking Regulation Act, 1949**, the RBI may, in exceptional circumstances, seek the imposition of a **bank moratorium**, under which fresh lending and other banking operations may be prohibited or severely restricted to protect depositors and preserve financial stability. Thus, **PCA and a bank moratorium are distinct regulatory mechanisms.**