

CHAPTER

23

SELECTED MCQs

(Economic and Social Development)



*A thing may look specious in theory,  
and yet be ruinous in practice; a thing  
may look evil in theory, and yet be  
in practice excellent.\**

\* Edmund Burke (1729–1797)

## SET- 1

1. Consider the following statements related to the Central fund allocations to states.
  1. The Central Sector Schemes are formulated on the subjects of the Union List, hundred per cent funded and implemented in states by the Central government.
  2. The Centrally Sponsored Schemes are part formulated on the subjects of the State List, part funded by the Central government and implemented by the states.
  3. The Central assistance is provided by the Government of India to support states' five year plans under three heads: Normal Central Assistance, Special Central Assistance and Additional Central Assistance.
  4. Central assistance is approved by the Planning Commission and is released in the form of grants and/or loans in varying combinations.Select the correct statements using the code given below.
  - (a) 1, 2 and 3
  - (b) 2, 3 and 4
  - (c) 1, 3 and 4
  - (d) 1, 2, 3 and 4
2. Which of the following are correct about 'demergers'?
  1. The act of splitting off a part of an existing company to become a new company.
  2. New firms operate completely separate from the original company.
  3. Shareholders of the original company are usually given an equivalent stake of ownership in the new companies.
  4. A demerger is often done to help each of the segment operate more smoothly, as they can focus on a more specific task post demerger.Select your answer using the code given below:
  - (a) 1 and 2
  - (b) 2, 3 and 4
  - (c) 1, 2 and 4
  - (d) 1, 2, 3 and 4
3. What is correct about the term 'customs value'?
  - (a) The value of imported goods as appraised by the customs department and used as the basis for assessing the amount of import duty and other taxes.
  - (b) A term to specify the real value of import by deducting any dumping duty imposed by the trading partner.
  - (c) The real value of custom duty imposed on the imported item by the custom department.
  - (d) None of the above.
4. Consider the following statement about 'terms of trade' of a country.
  1. It is the contractual conditions of sale between a buyer and a seller.
  2. It is the quantity of foreign goods and services that a country can purchase from the proceeds of the sale of its goods and services of a given quantity.
  3. It is a measure of a country's trading clout and is expressed as the ratio of an index of export prices to an index of import prices.

Select the correct statements using the code given below.

- (a) Only 1
  - (b) 2 and 3
  - (c) 1 and 3
  - (d) 1, 2 and 3
5. "... India should not be overly obsessed with China, since in the long run, India's growth will be sustainable and durable and is impacted by its democratic character, while its weakness lies in delayed decision-making due to excessive deliberation...."

Which of the following international body recently gave the above cited opinion?

- (a) OECD
  - (b) IMF
  - (c) APEC
  - (d) ASEAN
6. Consider the following statements regarding the 'Taylor Rule'.
1. A rule that suggests appropriate adjustments to interest rates, based on various economic factors such as inflation and employment rate.
  2. The rule indicates that if inflation or employment rates are higher than desired, interest rates should be increased in response to these conditions, and the opposite action should be taken under the opposite conditions.

Select the incorrect statement/statements using the code given below.

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

7. Consider the following statements about the 'Laffer Curve'.

1. This is a curve which supposes that for a given economy there is an optimal income tax level to maximise tax revenues.
2. If the income tax level is set below this level, raising taxes will increase tax revenue.
3. If the income tax level is set above this level, then lowering taxes will increase tax revenue.

Select the incorrect statements using the code given below.

- (a) 1 and 2
  - (b) 2 and 3
  - (c) 1 and 3
  - (d) 1, 2 and 3
8. Consider the following statements about the 'insurance repository system', recently introduced in India
1. Insurance policies will be held in electronic form.
  2. This will provide speed as well as accuracy in revisions and changes in the policies.
  3. IRDA has given licences to five firms to function as insurance repositories.
  4. Repositories are expected to cut down the management cost of each insurance policy to almost one-fifth of the present cost.

Select the correct statements using the code given below.

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

## 23.4 Indian Economy

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9. Consider the following statements about the idea of 'inclusive growth'.
1. The idea of 'inclusive growth' entered into the domain of planning with the Eleventh Plan.
  2. This is not only about economics but also about 'social' inclusion.
  3. The main idea behind inclusive growth is to include SCs, STs, OBCs, Minorities and Women in the country's development process.
  4. The 3rd Generation of Economic Reforms runs parallel to the idea of inclusive growth.
- Select the correct statements using the code given below.
- (a) 1, 2 and 3  
(b) 2, 3 and 4  
(c) 1, 3 and 4  
(d) 1, 2, 3 and 4
10. The RBI-appointed 'Committee on Comprehensive Financial Services for Small Business and Low Income Households' has recently submitted its report. Consider the following statements with regard to the report of the committee.
1. A universal bank account to all Indians above the age of 18 years.
  2. A banking system with 'payments banks' for deposits and payments and 'wholesale banks' for credit outreach.
  3. 'Priority sector lending' target to be increased to 50 per cent.
  4. A state-level 'regulatory commission' for supervision of all NGOs and money service businesses.
- Select the correct advices using the code given below.
- (a) 1, 2 and 3  
(b) 2, 3 and 4  
(c) 1, 3 and 4  
(d) 1, 2, 3 and 4
11. Consider the following statements about the *Results-Framework Document (RFD)*.
1. 'RFD' provides a summary of the most important results that an organisation expects to achieve during the financial year.
  2. It moves the focus of the organisation 'from process-orientation' to 'result-orientation'.
  3. It provides an 'objective' and fair basis to 'evaluate' organisation's overall performance at the year end.
- Select the correct statement/statements using the code given below.
- (a) 1 and 2  
(b) 2 and 3  
(c) 1, 2 and 3  
(d) None of the above
12. Consider the following statements about 'effective revenue deficit'.
1. "Effective revenue deficit is a Western idea of public finance management, which India used it for the first time in the Union Budget 2011–12.
  2. It is a modified kind of revenue deficit which excludes that part of revenue deficit by which assets have been created.
  3. Effective revenue deficit of India for 2016–17 was aimed at zero by the Union Budget 2013–14.
  4. Revenue deficit for the year 2016–17 has been targeted to be 1.5 per cent by the Union Budget 2013–14.
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Select the correct statements using the code given below.

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

13. Consider the following statements about 'farm subsidies' in India.

1. The input subsidies in India such as on fertilizers fall under indirect farm subsidies.
2. Reduction in power and irrigation bills offered to farmers fall under direct farm subsidies.
3. The agricultural provisions of the WTO though allow direct farm subsidies, prohibits indirect subsidies.
4. All subsidies forwarded by the governments in India fall under the indirect category.

Select the correct statements using the code given below.

- (a) 1 and 2
- (b) 2 and 3
- (c) 3 and 4
- (d) 1 and 4

14. Consider the following statements related to the Bilateral Investment Promotion and Protection Agreement (BIPA).

1. The agreement is part of the World Bank's International Centre for Settlement of Investment Disputes (ICSID).
2. This promotes and protects the Indian investors investing abroad.
3. Promoting and protecting foreign investment in India is one of its objectives.

4. The Agreement functions in collaboration with the International Monetary Fund.

Select the correct statements using the code given below.

- (a) 1 and 2
- (b) 2 and 3
- (c) 3 and 4
- (d) 1 and 4

15. Consider the following statements about NSEL which was recently in news.

1. This is an NSE (National Stock Exchange) promoted commodity 'spot trading' platform.
2. 'NCDEX Spot' and 'R-Next' are the other such platforms.
3. Commodity exchanges in India are regulated by the Ministry of Consumer Affairs under the Forward Contract Regulation Act, 1989.
4. 'Spot contracts' has to be completed within 11 days, as per the Act.

Select the incorrect statements using the code given below.

- (a) 1 and 2
- (b) 2 and 3
- (c) 2 and 4
- (d) 1 and 3

16. Participatory Notes (P-Notes) were in news recently. Consider the following statements about P-Notes.

1. SEBI has classified three possible Categories of P-Notes issuing FIIs in the country.
2. Category-I are the offshore government entities/institutions investing solely on behalf of a country's central bank.
3. Category-II are regulated entities as Mutual Funds, supervised by their

regulatory bodies in their countries of origin.

4. Category-III entities neither fall in Category-I or Category-II, which have been recently asked by the SEBI not to issue P-Notes.

Select the correct statements using the code given below.

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

17. Consider the statements about tenets of the 'three arrows' of the *Abenomics* which was recently in news.

- 1. A massive fiscal stimulus activated by quantitative easing targeted at increasing the rate of inflation.
- 2. Boost to investment in public works and infrastructure to promote jobs and R&D.
- 3. Structural reforms to boost country's global competitiveness.
- 4. It follows ideas started by J. M. Keynes, whose most famous contemporary admirer is the Nobel Economist Paul Krugman.

Select the correct statements using the code below.

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

18. Which of the following statements are correct about the Planning Commission members Som Pal, B. K. Chaturvedi and Abhijit Sen?

- (a) They headed the Infrastructure Co-ordinating Monitoring Committees of the PC.

(b) They held the charge of being additional members to different Finance Commissions.

(c) They worked as head of the Committees working on inflation reforms in India in a World Bank assisted project.

(d) None of the above.

19. Consider the following statements about the Fourteenth Finance Commission.

- 1. The need for insulating the pricing of public utility services like drinking water, irrigation, power and public transport from policy fluctuations through statutory provisions.
- 2. The need for making the public sector enterprises competitive and market oriented; listing and disinvestment; and relinquishing of non-priority enterprises.
- 3. The need to balance management of ecology, environment and climate change consistent with sustainable economic development.
- 4. The impact of the proposed Goods and Services Tax on the finances of Centre and states and the mechanism for compensation in case of any revenue loss.

Which of the following does not belong to the 'terms of reference' given to the Fourteenth Finance Commission?

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

20. Consider the following statements about the recently set up Bharatiya Mahila Bank (BMB).

- 1. The bank will focus on lending predominantly to women and

companies that focus on women's activities/products but there will be no restriction on deposits by men.

2. The bank is looking at providing assistance through credit to set up day-care centers and start organised catering services.
3. BNB will also tie up with NGOs, and train women in various vocations in order to penetrate deeper into rural areas.
4. Chhavi Rajawat, a Sarpanch from Rajasthan is one among the six Board members of the bank.

Select the correct statements using the code given below.

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

21. Consider the following statements related to the recommendations of the RBI-appointed *Urvit Patel Committee* report.

1. The committee has suggested to privatise the public sector banks by divesting minimum 51 percent of their shares of the government so that they can be Basel III capital compliant.
2. It has advised the RBI to consider 4–6 per cent of CPI (N) inflation as the healthy range in the long-term, i.e., by 2016–17.
3. The GoI has been suggested to check its fiscal deficit to 3 per cent by 2015–16.
4. It has advised an autonomy for the RBI in its function regarding credit and monetary policy.

Select the incorrect statements using the codes given below.

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

22. Consider the following recommendations of the RBI-appointed *Nachiket Mor Committee* report.

1. The 'payments banks' will be involved in only payments with no deposits mobilisation functions.
2. The 'wholesale banks' to be responsible for only 'corporate' lending with no retail lending.
3. For the supervision of all NGOs and business entities involved in money services there will a 'regulatory commission' at the state level controlled by the concerned state governments.
4. RBI has adopted some of the advice of the Committee in the first Bi-monthly Credit & Monetary Policy announced, early April 2014.

Select the incorrect recommendations using the code given below.

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

23. Consider the following statements related to the current provision of using the disinvestment proceeds.

1. The allocations out of the NIF will be decided by the Union Budget.
2. Only the profits accruing out of the NIF can be used that too only on the social sector.
3. During 2013–14, the government approved allocations from the NIF towards spending on recapitalisation of public sector banks.

4. Fund of the NIF can be used for equity infusion in the Metro projects.

Select the correct statements using the code given below.

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

24. Consider the following statements related to the State Food Commissions provisioned in the National Food Security Act, 2013.

- 1. The five-member commission must have two women and one member each from the SCs and STs.
- 2. It may enquire into violations of entitlements either suo moto or on receipt of complaints and will hold powers of a civil court.
- 3. It will prepare an annual report of the Act to be laid before the legislature.
- 4. The commission will function as one of bodies of the two-tier grievance redressal structure as per the Act.

Select the correct statements using the code given below.

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

25. Consider the following statements related to the recommendations of the RBI-appointed committee to examine the current 'monetary policy framework', which has handed over its report recently.

- 1. The apex bank should adopt the new CPI (consumer price index) as the measure of nominal anchor for policy communication.

- 2. Food and fuel account for more than 57 per cent of the CPI on which the direct influence of monetary policy is limited.

- 3. The panel suggests to adopt a longer-term target of 4 per cent for CPI inflation with a band of +/- 2 per cent.
- 4. The committee asked the central government to ensure that the fiscal deficit as a ratio of the GDP is brought down to 3.0 per cent by 2016–17.

Select the correct statements using the code given below.

Code:

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

### ANSWER KEY WITH EXPLANATIONS

- 1. (d) The existing 137 Centrally Sponsored Schemes (CSSs) were recently merged into 66 by the GoI (which also includes 17 flagship programmes). The formula on which the central assistance (also known as the Central Plan Assistance (CPA)) is based was recently in news—on this an Expert Committee (*Composite Development Index of States*, chaired by Raghuram Rajan, the erstwhile Chief Economic Advisor to the Ministry of Finance) handed over its report in September 2013. To change the CPA funding pattern to the states, the central government needs to revisit the existing formula—the Gadgil-Mukherjee Formula (being used since the Eight Plan, 1992–97).
- 2. (d) Every statement is correct about the term 'demerger' (just opposite to 'merger').

3. (a) Customs value (or 'customs import value') is the value of imported goods as appraised/decided/calculated by the customs department of a country. This value is used as the basis for assessing the amount of import duty and other taxes. It may be computed in several ways, but the most-preferred method is transaction-value, which includes other costs incurred by the buyer, such as packaging costs, license fee or royalty, and any other expenses that accrue to the seller (in addition to the price paid by a buyer to a seller). It is the customs officer (and not the importer, exporter, or customs broker) who has the final say in assigning this value.
4. (b) This is not the contractual conditions of sale between a buyer and a seller, but the quantity of foreign goods and services (i.e., its total imports) that a country can purchase from the proceeds of the sale of its goods and services (i.e., its total exports) of a given quantity. It is a measure of a country's trading clout and is expressed as the ratio of an index of export prices to an index of import prices. Terms of trade of a country improves when the prices of its exports rise in comparison with the prices of its imports and vice versa.
5. (a) The statement was given by the body when it was visiting India in October 2013 for the deliberations related to opening of its office in India. It is known that India together with China, Brazil, South Africa and Indonesia are aspiring membership of the body.
6. (d) Both the statements are correct about the Rule. The US Federal Reserve Board seems to take this rule under consideration (as many other central banks of the world) but does not always follow its suggestions when adjusting the interest rate. This rule was developed by John Taylor, a 20th century economist.
7. (d) All of the statements are correct about the Curve. Although the theory claims that there is a single maximum point of tax rate and moves in either of the directions from this point makes revenues fall, in reality this is only an approximation. This is a 'graphical representation' of a conceptual relationship between *marginal tax rates* and *total tax collections*. Named after the US economics professor Arthur Laffer who proposed that lower tax rates encourage additional output (supply) and thus increase aggregate income. Laffer curve is used by the supporters of 'supply side economics' to back their claim that low income tax policies spur non-inflationary growth by encouraging new investment.
8. (d) The present management cost of each insurance policy is Rs. 120, which will come down to Rs. 25 once repositories start functioning. The IRDA has licensed five firms to function as repositories (Karvy Insurance Repositories, NSDL Database Management Ltd, Central Insurance Repositories Ltd., SHCIL Projects Ltd. and CAMS Repositories Services Ltd. Out of the total 52 insurance firms in the country only 20 per cent are ready with the sufficient infrastructure for repositories—GoI may make it mandatory by the 2014–15 fiscal.
9. (d) The 3rd generations of economic reforms articulated the idea of 'decentralised' development planning—parallel to the idea of inclusive growth. The concept got reference while the government decided to go for the 2nd and 3rd generation of

economic reforms (in the year 2000–01)—the benefits of reforms were found to be non-inclusive in nature.

10. (d) The Nachiket Mor Committee (*Committee on Comprehensive Financial Services for Small Business and Low Income Households*) handed over its report by mid-January 2014. The committee has suggested for providing a universal bank account to all Indians above the age of 18 years. This target is to be achieved by January 1, 2016. To enable this, a vertically differentiated banking system has been advised by it with *payments banks* for deposits and payments and *wholesale banks* for credit outreach. These banks need to have Rs.50 crore by way of capital, which is a tenth of what is applicable for new banks that are to be licensed. The Aadhaar will be the prime driver towards rapid expansion in the number of bank accounts. For credible monitoring, the committee has laid down certain norms even at the district level such as deposits and advances as a percentage of gross domestic product (GDP). The committee proposes an adjusted 50 per cent priority sector lending target with adjustments for sectors and regions based on difficulty in lending. It advocates fewer NBFCs and substantial regulatory convergence for them with banks on non-performing assets and the extension of securitisation laws to certain NBFCs. A state-level regulatory commission will consolidate supervision of all non-governmental organisations and money service businesses.
11. (d) All of the statements are correct about RFD—adopted by about 84 ministries and departments by 2014–15 since 2009–10 as part of the GoI *Performance Monitoring and Evaluation System (PMES)*’ under which each ministries/ departments is required to prepare an RFD. This is a step in the direction of improving ‘performance’ and ‘efficiency’.
12. (b) The idea was for the first time used by the GoI in the Union Budget 2011–12, but it was not borrowed from the Western nations—this an Indian idea. Other statements are correct about it.
13. (d) The agricultural provisions (i.e., the Agreement on Agriculture) of the WTO have put a ceiling on the amount of farm subsidies (both direct and indirect) of the member country—as they distort the free market prices of farm goods.
14. (b) The BIPA is a kind of India alternative of the ICSID (one of the World Bank group entity). But it has no links either with the ICISD or IMF. By now, India has signed such agreements with 82 countries.
15. (c) NSEL (National Spot Exchange Ltd.) is promoted by a private firm (which owns it by 99 per cent) Financial Technologies India Ltd. and NAFED (National Agricultural Cooperative Marketing Federation of India Ltd.) for ‘spot trading’ in commodities in India, operating since 2008. Other such bourses—the NCDEX Spot and R-Next, are promoted by the NSE and Reliance Capital, respectively. Since February 2012 ‘spot contracts’ are being looked after by the Forward Market Commission (FMC)—regulated under the Forward Contract (Regulation) Act, 1952.
16. (d) All of the statements are correct about the P-Notes.
17. (d) Abenomics is the name given to a suite of measures introduced by the Japanese Prime Minister Shinzo Abe after his December 2012 re-election to the post

he has held since 2007. Such measures by a government to boost growth is not possible in the case of the recession-hit economies of the Western world—the Japanese economy has an edge over them due to its low levels of inflation and fiscal deficit.

18. (b) In 2002 the GoI decided that from now onwards the Planning Commission (PC) will function more or less as a collaborator to the Finance Commission (FC)—the existing PC member Som Pal was made an Additional Member of the Twelfth Finance Commission. B. K. Chaturvedi was the Additional Member to the Thirteenth Finance Commission, Prof. Abhijit Sen is the Additional Member to the Fourteenth Finance Commission (2015–20), headed by Y. V. Reddy, ex-RBI Governor. Such a suggestion was given by the Fourth Finance Commission headed by P. V. Rajamannar.
19. (d) All belong to the terms of reference given to the Fourteenth Finance Commission (2015–20).
20. (d) India's first women's bank, the Bharatiya Mahila Bank was inaugurated in Mumbai on November 19, 2013 at the iconic Air India building at Nariman Point in Mumbai.
21. (d) The expert panel didn't say anything on the disinvestment of public sector banks. It has suggested a 2–6 per cent flexible target with a 4 per cent CPI (N)-based inflation in the long run (i.e., by 2016–17). The fiscal deficit target of 3 per cent has been advised for the GoI, but to be done by the fiscal 2016–17. The panel did not give any suggestion on the autonomy aspect of the RBI.
22. (d) Payment banks will be involved in payments and deposits both while the 'wholesale banks' will take care of credit aspect. The state-level 'regulatory commission' will be functioning under the RBI (not the states). None of the advices of the expert panel has yet been adopted by the RBI though an indication came from the central bank of allowing licences for opening payment banks in coming times (while the RBI delivered two new licences to set up banks, early 2014).
23. (c) In January 2013, the government restructured the National Investment Fund (NIF) and decided that the disinvestment proceeds with effect from the fiscal year 2013–14 will be credited to the existing '*Public Account*' under the head NIF and they would remain there until withdrawn/ invested for the approved purpose by an Union Budget. It was decided that the NIF would be utilised for subscribing to the shares of the CPSE, including public sector banks (their recapitalisation, too) and insurance companies, to ensure 51 per cent government ownership in them; investment by the government in RRBs, IIFCL, NABARD, Exim Bank; equity infusion in various Metro projects; investment in Bhartiya Nabhikiya Vidyut Nigam Ltd. and Uranium Corporation of India Ltd.; investment in railways towards capital expenditure.
24. (d) The NFSA provisions for a two-tier grievance redressal structure—the State Food Commission (SFC) and District Grievance Redressal Officer (DGRO). The DGROs will be appointed by the state governments for each district to hear complaints and take necessary action according to norms to be prescribed by the state governments. If a complainant

(or the officer or authority against whom an order has been passed by the DGRO) is not satisfied, he or she may file an appeal before the SFC. The SFCs have been given power to impose penalties—if an order of the DGRO is not complied with, the concerned authority/officer can impose a fine of up to Rs. 5,000.

25. (d) All the statements are correct regarding the *Urjit Patel Committee* which handed over its report by late January 2014 to the RBI. The inflation-related advices of the panel has been accepted and implemented by the RBI, commencing with its 1st Bi-monthly Credit and Monetary Policy for 2014-15, announced in April 2014.

**SET- 2**

1. Consider the following statements.

1. RBI takes recourse to open market operations (OMOs) to manage liquidity in the system.
2. In OMOs, RBI generally sells G-Sec in open market, however, in rare cases it also buys back the same from the market.
3. A 'debt switch' is a method in which the RBI buys back G-Secs of short-term maturity and replaces it with G-Secs with longer maturity periods.

Which of the above statements are correct?

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

2. Consider the following statements about Independent Evaluation Office (IEO).

1. It is inspired from an IMF institution with the same name.
2. Together with the Flagship Programmes it may evaluate any scheme run by the GoI.
3. IEO may take the services of civil society and non-governmental research houses of India and abroad.

4. Its reports will be directly put in the public domain.

Which of the above statements are correct?

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

3. CPSE ETF was launched by the GoI in March 2014 for the purpose of meeting the revised targets of disinvestment. Consider the following statements about CPSE ETF.

1. The CPSE ETF will invest its corpus in the CPSE Index, which comprises 10 state-owned stocks.
2. An ETF is a security that tracks an index, a commodity or a basket of assets like an index fund.
3. The ETF will trade like a stock on a stock exchange.

Which of the above statements about CPSE ETF are correct?

- Code:
- (a) 1 and 2
  - (b) 2 and 3
  - (c) 1 and 3
  - (d) 1, 2 and 3

4. Consider the following statements regarding the Marginal Standing Facility (MSF).
1. MSF functions as the last resort for banks to borrow short-term funds.
  2. MSF is on the line of the existing LAF and is part of it.
  3. Being a penal rate, MSF is a costlier route than repo.
  4. MSF is linked to the net demand and time liabilities of the banks.
6. Which of the following segments of money is considered as the 'Other' deposits with the RBI?
1. Deposits of quasi-government bodies
  2. Other financial institutions and primary dealers
  3. Balance in the accounts of foreign central banks and governments
  4. Accounts of international agencies

Which of the above statements are correct?

- (a) 1, 2 and 3
  - (b) 2, 3 and 4
  - (c) 1, 3 and 4
  - (d) 1, 2, 3 and 4
5. RBI recently announced revised norms for Priority Sector Lending in India. Consider the following statement in the light of the announcement.
1. Foreign banks' PSL target has been increased to 40 per cent at par with Indian banks irrespective of their number of branches.
  2. Food and Agro-processing and overdrafts up to Rs. 50,000 in no-frill accounts have been included in it.
  3. Off-grid solar and other renewable energy solutions together with vocational education are now under the PSL.
  4. MSE loans up to Rs. 2 crore have also been added under the PSL lending of the banks.
7. As per the New Monetary Aggregates of the RBI which of the following is not regarded as 'broad money'?
1. Bankers' deposits with the RBI
  2. Demand & Time Deposits of the banks
  3. Other Deposits with the RBI
  4. Currency & coins with the public
  5. Currency in circulation
  6. Savings of Post Offices

Select your answer using the code below:

Code:

- (a) 1, 2 and 4
  - (b) 3, 4 and 5
  - (c) 1, 5 and 6
  - (d) 2, 3 and 4
8. Which of the following segments of the money form India's 'Reserve Money'? Give your answer using the code given below:
1. Net forex reserves with the RBI
  2. GoI currency liabilities to the public
  3. RBI's net credit to Banks and the GoI
  4. Non-monetary liabilities of the RBI

Select your answer using the code below:

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

9. Consider the following statements regarding the Regional Rural Banks (RRBs) in India.

1. The share capital of the RRBs is sponsored by the GoI, RBI and the Scheduled Commercial Banks in the ratio of 50 percent, 35 percent and 15 percent.
2. Its main objective is to enlarge institutional credit for the rural and agriculture sector.
3. RRBs are being restructured by the GoI under the recommendations of the Vyas Committee.
4. Appointments to the RRB's are done by the sponsoring Scheduled Commercial Banks which falls outside the domain of the IBPS recruitment process.

Which of the above statements about RRBs are correct?

- (a) 1 and 2
- (b) 2 and 3
- (c) 1 and 3
- (d) 3 and 4

10. Which of the following statements is correct about the term 'bank run'?

- (a) The net balance of money a bank has in its chest at the end of the day's business.
- (b) A panic situation when deposit holders start withdrawing cash from the banks.
- (c) The ratio of bank's total deposits and its total liabilities.

(d) The period in which a bank creates the highest credit in the market.

11. Consider the following statements.

1. Bond holders and depositors both suffer due to increased inflation.
2. RBI's profits out of its investments in the Treasury Bills fall due to increased inflation.
3. Bond holders' income increases with increased inflation in case of an inflation-indexed bond.
4. Cost of governments' market borrowings increases in deflationary situation.

Which of the above statements are correct?

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

12. Consider the following statements regarding the operations of the various money market components in India:

1. Commercial Paper route of borrowing working capital is profitable once inflation has peaked.
2. Cost of operation for the banks in the Call Money Market falls in the wake of rising inflation.
3. Earnings from Money Market Mutual Funds see erosion with increased inflation.
4. Interest payments liabilities of the GoI on account of the Cash Management Bill increases in case of decreased inflation.

Select the correct statements using the code below.

- (a) 1, 2 and 3
  - (b) 2, 3 and 4
-

- (c) 1, 2 and 4  
(d) 1, 2, 3 and 4

13. Consider the following statements.

1. Governments cost of loan repayment is minimum once the inflation is maximum.
2. Tax collections of governments increase with increased inflation.
3. Seignorage is a double-edged technique to increase governments' income.

Select the correct statements using the code below.

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

14. Consider the following statements related to the functions of RBI.

1. The final decision regarding Credit & Monetary Policy is taken by the Union Ministry of Finance.
2. Open Market Operations by the RBI comes under its autonomous powers.
3. Ultimate power of issuing fresh currency notes in India remains with the RBI.
4. RBI has been given full autonomy in the area of regulating the All India Financial Institutions.

Which of the above statements are incorrect?

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

15. Consider the following statements about 'market maker'.

1. Market maker is a kind of broker in India's security market who quotes two-way prices for the securities.
2. On the platform of the Over the Counter Stock Exchange of India Ltd. (OTCEI) only market makers are allowed to trade.
3. The Discount and Finance House of India (DFHI) is the chief market maker in India's Money Market.
4. Brokers have no compulsions of quoting two-way prices of securities though they may do so voluntarily.

Which of the above statements are correct?

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

16. Consider the following statements regarding Commodity Future Trading in India.

1. It is the best tool of maintaining stable prices for the commodities.
2. Price discovery at Commodity Exchanges discounts the local and global factors in the process of price search.
3. This is highly suitable for the agricultural commodities in India where highest price fluctuations happen due to various natural and man-made reasons.
4. At times, GoI bans trading in certain agricultural commodities as in short-term it may lead to speculative price rises.

Which of the above statements are correct?

- (a) 1, 2 and 3  
(b) 2, 3 and 4

- (c) 1, 3 and 4
- (d) 1, 2, 3 and 4

17. Consider the following statements about the 'private placement' route to raise capital from the primary security market.

1. Shares are sold to a select group of investors through a process of direct negotiations.
2. This is completely opposite to the public issue route where no negotiation takes place with the investors.
3. Other than the foreign and domestic financial institutions, individuals too can participate in it.

Which of the above statements are correct?

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

18. Consider the following statements related to a limited liability firm.

1. Nominal Capital of a company is the limit up to which a company can issue shares.
2. Registered Capital and Authorised Capital of a company are synonyms.
3. Paid-up Capital of a company can never be more than its Issued Capital.
4. Upper limit of Paid-up Capital of a company is its Authorised Capital.

Select the correct statements using the code below.

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

19. Consider the following statements related to the Angel Investors.

1. Such investors are focused on helping the business succeed rather than reaping a huge profit from their investment.
2. Conceptually, in profit motive, they are exact opposite of a 'venture capitalist'.
3. They usually invest in 'person' rather than in the viability of the business.
4. In India, they are classified as a category of 'venture capital funds'.

Select the correct statements using the code below.

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

20. Consider the following statements.

1. Indian Depository Receipts (IDRs) allow Indian investors to invest in foreign companies in rupees.
2. Global Depository Receipts (GDRs) make it possible for foreign investors to invest in Indian companies in their currencies.
3. IDRs are issued in India by a Domestic Depository.
4. Though India has provisions for IDRs, foreign companies are yet to issue IDRs in India.

Select the correct statements using the code below.

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

21. Consider the following statements about the recently set up Bharatiya Mahila Bank (BMB).

1. Its lending is restricted only to women; men are allowed to deposit money in BMB.
2. The bank is looking at providing assistance through credit to set up day care centres and start organised catering services.
3. The bank may tie up with NGOs in the process of promoting vocations among the rural women.
4. The savings interest rate for one lakh rupee and above is 5 per cent while interest for deposits of one year is 9 percent.

Which of the above statements are correct?

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

22. Consider the following statements related to disinvestment and its proceeds.

1. Strategic disinvestment had a provision of 74 per cent stake sale in the non-strategic PSUs.
2. As per the current policy only 49 per cent of shares of a profit-making PSU can be sold.
3. Funds out of the disinvestment now flow into Public Accounts and its use is decided by the Union Budget.
4. Since 2009 the government has been using the funds of the NIF itself in place of the profits from it.

Which of the above statements are incorrect?

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

23. Consider the following statements about 'capital consumption'.

1. A situation, when due to the losses of a company in consecutive years make it obliged to pay its current expenses using its capital base.
2. A situation when the listed firms under-report their losses so that they can take higher benefits of depreciation.
3. The process by which a company shows higher loss in its operation to withhold payments of dividends to its various share holders.

Which of the above statements are incorrect?

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

24. Consider the following statements about the idea of 'micro-finance' in India.

1. Micro-finance is a small-scale financial intermediation, inclusive of savings, credit, insurance, business services and technical support provided to the needy borrower.
2. The thrust of the micro finance initiative is to channelize production and consumption credit in multiple doses based on the absorption capacity of the prospective borrower.
3. It has evolved through following different models at different times—a 'charity based model' to a 'thrift-based model' and finally to the 'trust and creditworthiness model'.
4. It was in Australia where the link between microfinance institutions and the formal financial institutions evolved.

Select the correct statements using the code below.

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

25. Consider the following statements regarding the 'Cash-based Accounting System versus Accrual Accounting System' in India.

1. The Indian Government accounts are prepared on a cash based accounting system which does not give a realistic account of the government's financial position.
2. The present system does not reflect accrued liabilities arising from the gap between commitments and transactions of the government on the one hand and payments made.
3. The Twelfth Finance Commission recommended introduction of accrual accounting in the government which have been accepted in principle.

Code:

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

### ANSWER KEY WITH EXPLANATIONS

1. (c) OMOs are an effective quantitative policy tool in the armoury of the RBI by which it modulates the liquidity in the system in the short-term. This is a two-way operation—through sell or buy of the G-Secs. The OMOs is constrained by the stock of the G-Secs available with the RBI—once it needs to siphon out money from the market.

2. (d) It has been set up on February 22, 2014 under the Planning Commission, which is headed by a Director General (Ajay Chhibber is its first DG). It is considered a welcome move by the GoI in wake of the increased public scrutiny of the recent years.

3. (c) The CPSE ETF basket consists of shares of 10 PSUs and provides an opportunity for investors to become part-owners of Oil & Natural Gas Corp., GAIL India, Coal India, Indian Oil, Oil India, Power Finance Corp., Rural Electrification Corp., Container Corp., Engineers India and Bharat Electronics. Though globally ETF is a very popular investment vehicle, it is at a nascent stage in India and is yet to gain popularity. Through the CPSE ETF, the government is trying to make this product popular. The government hopes to mop in around Rs. 3,000 crore through ETF to meet the revised disinvestment target of around Rs. 16,000 crore (cut from Rs. 40,000 crores) for the year 2013–14.

4. (c) RBI announced this route in 2011–12 as a 'penal' route for banks to borrow once they have exhausted all borrowing option, i.e., the repo route. MSF rate is regulated by the RBI above the current repo rate. This route can be used by banks for only overnight borrowings and is linked to their net demand and time liabilities (NDTL).

5. (b) Only those foreign banks which have 20 or more branches in the country have been brought at par with domestic banks regarding PSL (in a phased manner over a maximum period of 5 years starting April 1, 2013 to March 31, 2018). The foreign banks with less than 20 branches

have no sub-targets within the overall priority sector lending target of 32 per cent. It is known that the RBI in August 2011 did set up a committee to re-examine the existing classification and suggest revised guidelines with regard to PSL and related issues (chaired by S. M. V. Nair). The committee submitted its report in February 2012.

6. (d) The stock of money in 'Other deposits' with the RBI is the liquidity which is available at its disposal for day-to-day uses and are not of any use for long-term purposes. Accounts in international agencies include agencies like IMF and other such bodies.
7. (c) In the new monetary aggregate  $M_3$  is the 'broad money' (like the old one). Bankers' deposit is part of the 'reserve money'. Post Offices' saving deposits (excluding National Saving Certificates) are part of  $M_4$ . For 'other deposits' see the explanation of the Q. No. 8.
8. (d) Non-monetary liabilities of the RBI includes those liabilities which pile up due to its role as 'promoters' to the All India Financial Institutions.
9. (b) The share capital of the RRBs are jointly held by the GoI, the sponsoring scheduled commercial banks (SCBs) and the concerned state governments in the ratio of 50 percent, 35 percent and 15 percent. Since December 2012, appointments to the RRBs take place through the Institute of Banking Personnel Selection (IBPS). By now, the RRBs have been amalgamated into 64 only (originally there were 196 such banks set up to 1996 when GoI decided not to further them).
10. (b) This happens when there is a fear that the bank has insufficient funds with it—
  11. (c) This question is based on the situation where 'borrowers benefit out of inflation while lenders suffer' (i.e., inflation premium). Inflation-indexed bonds are neutral to the effects of inflation; if someone holds such bonds during inflationary pressures, the interest benefit on it does not see any erosion.
  12. (d) This question is based on the idea of relationship between 'inflation' and 'real interest rate' which borrowers pay on their borrowings. Components of money market are tools of borrowing 'short-term' (i.e., working capital) money from the financial market—thus inflation affects them in similar ways.
  13. (d) The idea is the same as 'inflation premium'. Seignorage is a technique by which government intends to increase its tax revenues by issuing fresh currency notes, which brings in extra cash to the government in two ways, one via printed currency and the other through increase in tax income.
  14. (b) RBI avails no autonomy in its functioning—though the Narasimhan Committee-I in 1991 has suggested autonomy in areas of critical importance, similar to many Western economies. It is believed that it has been given a kind of working autonomy in the area of making and announcing the Credit & Monetary

Policy (though there is no change in the official stand hitherto).

15. (d) Since market makers quote two-way prices for securities, they seem to 'make' market for the concerned securities. The OTCEI is modelled on the NASDAQ of the USA for listing of SMEs, which face lesser liquidity in their share transactions. The DFHI is a dedicated body for two transactions in the money market of India, operating since 1988.
  16. (d) All the statements are correct. In case of India's agricultural commodities, such trading doesn't seem functioning well because other related institutional developments have not happened in time and farmers are not yet active players on the commodity exchanges of India (partly due to operational difficulties, smaller capital base and lack of knowledge). Once big farmers (contract/corporate farmers) emerge, it will start functioning in a better way for such commodities.
  17. (d) Other routes of raising capital from the primary market are: (a) Public Issue and (b) Rights Issue.
  18. (d) All the options are correct.
  19. (d) Such investors are usually found among an entrepreneur's family and friends, but they may be from outside also providing financial backing to entrepreneurs for starting their business. The Union Budget 2013–14 promised a provision for them. As per *SEBI (Alternative Investment Funds) Regulations, 2012 (AIF Regulations)*, Category I AIF are those AIFs with 'positive spill over effects' on the economy, for which certain incentives or concessions might be considered by SEBI or the GoI or other regulators in India, which shall include *Venture Capital Funds, SME Funds, Social Venture Funds, Infrastructure Funds* and such other *Alternative Investment Funds (AIFs)* as may be specified.
  20. (a) Standard Chartered Bank is the only company which has issued IDRs in India. In May 2010 it raised Rs. 2,500 crore through this route.
  21. (b) It will predominantly deal with women clients, but there is no restriction on having male clients. Inaugurated in November 2013, the BMB focuses on Indian women across economic classes, with special attention to economically neglected, deprived, discriminated, under-banked, unbanked, rural and urban women to ensure inclusive and sustainable growth. The bank with a team of professionals with rich experience and expertise has designed and developed new products and services to suit the needs of women across different segments, including self help groups, women entrepreneurs, salaried women, HNIs and corporate—having six exclusive women members on its Board.
  22. (d) The strategic disinvestment policy was put on hold by the UPA-I government in 2004. The proceeds of disinvestment started flowing into the National Investment Fund since 2005 (a professionally managed fund) with a mandate to use the profits of it for social sector expansion and for upgradation of divested PSUs. But in wake of the economic slowdown after recession in the Western economies, the government decided to use directly the fund since 2009–10. Presently, the proceeds are considered to be part of the Public Account and its uses are decided by the Union Budget. The proceeds may be used in recapitalisation of public sector
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banks, purchase of shares in the public sector banks and insurance companies, upcoming metro projects etc.

23. (d) Capital consumption is the other term for 'depreciation'. In the process of their uses fixed assets depreciate (go for wear and tear) at the rate decided by the government of the economy—the rates for the same assets may vary across economies.
24. (d) Microfinance (MF) is a small-scale financial intermediation, inclusive of savings, credit, insurance, business services and technical support provided to the needy borrower. The thrust of the MF initiative is to channelise production and consumption credit in multiple doses based on the absorption capacity of the prospective borrower. The presumption here is that the borrowers possess basic financial literacy and requisite capacity to operate their self-determined economic ventures profitably. The formal existence of MF was found in 1972. A *charity based model* (interest free loans where repayment was based on peer pressure) of MF was evolved in Ireland. Later on, in *Germany*, a *thrift-based model* was developed with establishment of saving funds. Bangladesh Grameen model is based on the principle of trust and creditworthiness of poor with both, obligatory and voluntary saving schemes. The Foundation for Development Cooperation (FDC) of Australia evolved a research project, The Banking with the Poor (BWTP) network to link microfinance institutions with formal financial institutions.
25. (d) The Indian government accounts are prepared on a 'cash based accounting system'. This system recognises a transaction when cash is paid or received. However, it does not give a realistic account of the government's financial position because it lacks an adequate framework for accounting for assets and liabilities, and depicting consumption of resources. Moreover, capital expenditure (expenditure on the creation of new assets) under the cash system is brought to account once in a year in which a purchase or disposal of an asset is made. This is not an effective way to track assets created out of public money. The present system does not reflect accrued liabilities arising from the gap between commitments and transactions of government on the one hand and payments made. The Twelfth Finance Commission recommended introduction of 'accrual accounting' in government. The government has accepted the recommendation in principle and asked the *Government Accounting Standards Advisory Board (GASAB)* in the office of the Comptroller and Auditor General of India (CAG) to draw a roadmap for transition from cash to accrual accounting system, and to prepare an operational framework for its implementation. So far twenty-one state governments have agreed in principle to introduce accrual accounting.
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## SET-3

1. Consider the following statements about GIC Re.

1. The public sector reinsurer provides reinsurance support to the life and non-life insurance companies in the country.
2. It also manages Marine Hull Pool, Indian terrorism insurance pool and India motor third party insurance pool for commercial vehicles on behalf of Indian insurance industry.
3. It has emerged as a preferred reinsurer in the Afro-Asian region.
4. It is the third largest aviation reinsurer globally.

Select the correct statements using the code below.

Code:

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

2. What is incorrect about the headline inflation of India?

1. Urjit Patel Committee has advised to measure headline inflation at WPI as well as CPI.
2. This is the inflation for the Indian economy and is measured at only WPI.
3. Inflation-indexed bonds are issued in India linked to it only.

Select the answer from the above statements using the code given below.

- (a) 1 and 2
- (b) 2 and 3

(c) 1 and 3

(d) 1, 2 and 3

3. Consider the following statements related to the Central Sales Tax (CST) and the VAT (Value Added Tax).

1. CST is a destination-based tax of the Centre while VAT is an origin-based tax of the states.
2. CST is inconsistent with VAT.
3. CST is a cascading-type tax not rebatable against the VAT.

Select the correct statement/statements using the code given below.

- (a) Only 1
- (b) 1 and 2
- (c) Only 3
- (d) 1, 2 and 3

4. Consider the given statements regarding subsidies.

1. They are essential parts of public policy to the extent they are ad hoc arrangements.
2. While everybody benefits from it, they are not paid by all.
3. Capital part of subsidies is counted in the planned expenditure of the government.
4. The FRBM Act has strict provisions regarding subsidies.

Select the incorrect statements using the code given below.

Code:

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

5. Which among the following is/are not counted as 'public expenditure'.

1. Expenditure categorised as 'consumption'.
2. Expenditure known as 'investment' and 'capital creation'
3. Expenditure in 'running the government'.
4. Expenditure in forwarding 'external grants'.

Select the correct answer using the code given below.

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

6. If the RBI decides to adopt an 'expansionist' monetary policy, which of the following it would not do?

1. Cut CRR and optimise SLR.
2. Increase MSF Rate.
3. Cut Bank Rate and increase Reverse Repo Rate

Select the answer using the code given below.

- (a) 1 and 2
- (b) Only 1
- (c) 2 and 3
- (d) Only 2

7. Which of the following 'redistributive' policies the government will not adopt if it wants to bridge economic inequality?

1. Rationalising subsidies
2. Progressive tax policies
3. Regressive expenditure

Select the answer using the code given below.

- (a) 1 and 2
- (b) Only 2
- (c) 2 and 3
- (d) Only 3

8. Which of the following will be the outcome once an economy is under an inflationary pressure?

1. Domestic currency heads for depreciation
2. Exports become less competitive with imports getting costlier
3. Cost of borrowing decreases
4. Bond-holders get benefitted

Select the answer using the code given below.

- (a) 1 and 2
- (b) Only 2
- (c) 1 and 3
- (d) Only 3

9. Consider the following statements related to the Regional Rural Banks (RRBs).

1. They were conceived as institutions that combine local feel and familiarity with the rural problems, which the cooperatives possess.
2. They were conceived on the line of a business organisation with the ability to mobilise deposits, like a commercial bank.
3. Originally they were intended to provide institutional credit to the weaker sections of the society called 'target groups'.

Select the incorrect statement/statements using the code given below.

- (a) 1 and 2
- (b) 2 and 3
- (c) 1, 2 and 3
- (d) None of these

10. Consider the following statements regarding the marginal standing facility rate of the RBI.

1. It is similar to the repo rate for the financial institutions.
2. It is on the lines of the liquidity adjustment facility and part of it.
3. Though it is a costlier route to fulfil overnight requirement of funds, it is not a penal rate.
4. Banks use this route once they exhaust all channels to raise short-term fund.

Select the incorrect statements using the code given below.

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

11. Which one of the following statements is not true about Game Theory?

- (a) It is a branch of economics that uses models to study interactions between countries, individuals and organisations.
- (b) It was devised in 1944 by John Von Neumann and Oscar Morgenstern.
- (c) It was often used in political or military context to explain conflicts between countries but has of late been used to map trends in the business world, ranging from how cartels sell prices to how companies can better their goods and services in new markets.
- (d) Robert J. Aumann and Thomas C. Schelling were awarded Nobel Prize in Economics in 2005 for their work on this theory.

12. Consider the following statements about Base Rate.

1. It has replaced the idea of prime lending rate.
2. This is a kind of benchmark rate below which banks are not allowed to lend.
3. Though it is fixed by banks themselves, an informal consultation with the RBI is must.
4. Banks maintain their capital adequacy ratios in accordance with their base rate.
5. It has helped banks to check their rising levels of NPAs.

Select the incorrect statements using the code given below.

- (a) 1, 2 and 5
- (b) 2, 3 and 4
- (c) 3, 4 and 5
- (d) 2, 3 and 5

13. Due to certain reasons, it becomes difficult for the Export Credit Gaurantee Corporation to cover pure commercial risks of the medium- and long-term exports originating from India. What are these reasons?

1. Long repayment period
2. Large value of contracts
3. Difficult economic and political conditions in the importing countries
4. Non-availability of reinsurance for such external projects

Select the answer using the code give below:

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

14. Consider the following statements about derivatives in India.

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1. A security derived from a debt instrument, share, secured or unsecured loan.
2. A contract which derives its value from the prices or index of underlying assets.
3. A security derived from exchange rates and interest rates.
4. It may be derived from monsoon forecasting.

Select the correct statements using the code given below.

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

15. Consider the following statements about the security market in India.

1. As the ADRs and GDRs are for the foreigners with respect to Indian companies, the IDRs are for the Indians with respect to the foreign companies.
2. Due to availability of better routes for foreign investments in the Indian security market, the IDR route has lost its relevance.
3. The IDRs are today a very popular route for Indians to invest in the foreign security market.
4. India allows debt and non-debt, both forms of the securities under ADR, GDR and IDR.

Select the correct statements using the code given below.

- (a) 1 and 2
- (b) 2 and 3
- (c) 3 and 4
- (d) 1 and 4

16. Consider the following statements regarding 'angel investors'.

1. Investors who provide financial backing to entrepreneurs for starting their business.
2. They are investors with positive spillover effects.
3. They may provide finance as loan or as share capital in the upcoming business.
4. They usually invest in person rather than the economic viability of business.
5. They are usually from the entrepreneur's family and friends, but may be from outside, too.
6. Venture capital funds serve similar purpose to the extent arrangement of investible capital is concerned.

Select the incorrect statements using the code given below.

- (a) 1, 2 and 5
- (b) 2, 3 and 4
- (c) 3, 5 and 6
- (d) None of the above

17. Consider the following items with respect to India's capital account.

1. foreign currency deposits of the banks
2. private remittances
3. security market investments by the RFPs and QFIs
4. foreign direct investment
5. external bonds issued by the GoI
6. merchandise trade balance
7. interest liabilities of the external loans

Which among the above items is associated with India's capital account?

- (a) 1, 3, 4 and 5
- (b) 2, 4, 6 and 7
- (c) 1, 5, 6 and 7
- (d) 1, 3, 6 and 7

18. Consider the following statement regarding the India Inclusive Innovation Fund.
1. The idea is to build innovative enterprise from the bottom of the pyramid (BOP).
  2. The fund will provide risk capital to create solutions aimed at enhancing the quality of life at the BOP.
  3. Will address the social impact objectives by kick-starting an ecosystem of capacity-building around BOP-focused entrepreneurship.
  4. Will address economic return objectives by providing the capacities needed to deliver.
  5. The fund will get mobilised from the government, public sector enterprises, corporate sector, venture funds, angel investment and investment firms.
- Select the correct statements using the code given below.
- (a) 1, 2, 4 and 5
  - (b) 2, 3, 4 and 5
  - (c) 1, 3, 4 and 5
  - (d) 1, 2, 3, 4 and 5
19. As per the circular of the RBI what is correct about the Core Investment Companies (CICs)?
- (a) All those companies with a paid-up capital of over Rs. 1,000 crore, which invest primarily in the core industries.
  - (b) All those NBFCs which invest not less than 90 per cent of their total assets in the form of shares and securities for non-trading purposes.
  - (c) All the corporate houses with net-owned fund not less than Rs. 1,000 crore invested in the core sector for at least 10 years.
  - (d) All the Foreign Institutional Investors (FIIs) with a minimum of Rs. 1,000 crore paid-up capital base with at least 80 per cent of it invested in the core industries for long-term purposes.
20. An upsurge has been seen in the NPAs of the public sector banks, recently.
1. Lower economic growth in the country
  2. Aggressive lending by banks in the past, especially during good times
  3. Lack of right loan-recovery legal provisions
  4. Banks switching over to a system-based identification of NPAs
- Select the correct factors responsible for it using the code given below.
- (a) 1, 2 and 3
  - (b) 2, 3 and 4
  - (c) 1, 2 and 4
  - (d) 1, 3 and 4
21. Which of the following are incorrect when the government starts repurchasing its bonds before their maturity periods?
1. Promotion of an 'expansionist' monetary policy
  2. An attempt to increase the saving rate of the economy
  3. A tool to check the rising inflation
  4. Promotion to credit creation by the banks
- Select the answer using the code given below.
- (a) 1, 2 and 3
  - (b) 1, 3 and 4
  - (c) 2, 3 and 4
  - (d) 1, 2, 3 and 4

22. Consider the following statements about 'narrow banking'.
1. A banking business in which banks go for short-term risk-free lending.
  2. A type of retail banking in which banks provide short-term 'open-ended' loans.
  3. When banks prefer short-term 'closed-ended' lending to the corporate sector.
  4. A banking business which adopts long-term collateralised loans to public.
- Select the incorrect statements using the code given below.
- (a) 1, 2 and 3
  - (b) 1, 3 and 4
  - (c) 2, 3 and 4
  - (d) 1, 2, 3 and 4
23. Consider the following statements about the 'ordinary shares' of a limited liability firm.
1. They undertake maximum entrepreneurial risk associated with a business venture.
  2. These shares do not avail any voting right in the affairs of the company.
  3. If a company is going for closure these shares get their claims after the bank loans have been settled and before the preference shares.
  4. Company Law provides them no investment claims in the situations of closures.
- Select the incorrect statements using the code given below.
- (a) 1, 2 and 3
  - (b) 1, 3 and 4
  - (c) 2, 3 and 4
  - (d) 1, 2, 3 and 4
24. Consider the following statements about Grain Bank.
1. Run in tribal and non-tribal rural areas by the Ministry of Tribal Affairs and the Ministry of Consumer Affairs, Food and Public Distribution, respectively.
  2. Foodgrains can be borrowed from it by mortgaging dwellings.
  3. Established in the food scarce areas, it aims at providing safeguard to all against starvation during natural calamity and lean period.
  4. Civil society bodies can also run it.
- Select the incorrect statements using the code given below.
- (a) 1, 2 and 3
  - (b) 1, 3 and 4
  - (c) 2, 3 and 4
  - (d) 1, 2, 3 and 4
25. related to the sugar industry. The following statements are
1. Sugar mills are now free to sell their entire production as per their commercial prudence.
  2. The new procurement systems of sugar for the Public Distribution System is costlier.
  3. Sugar mills pay Rs. 24 per quintal as Sugar Cess to neutralise the government expenditure of sugar distribution through the public distribution system.
  4. Government provides loan to the sugar mills from the Sugar Development Fund for production of anhydrous alcohol.
- Select the correct statements using the code given below.

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

### ANSWER KEY WITH EXPLANATION ■

1. (b) It reinsures only 'non-life' segment of the insurance business and is the fifth largest aviation reinsurer in the world. Recently it has been selected as a Manager for Nat Cat Pool promoted by the Federation of Afro-Asian Insurers and Reinsurers (FAIR). GIC Re is financially strong and is rated 'A' (Excellent) by AM Best and 'AAA' by CARE.
2. (c) 'Headline Inflation' is measured at the wholesale prices only (by calculating the price movements of the 676 items which have been put under the basket for inflation). This is the inflation for the Indian economy. Inflation-indexed bonds have been issued linked to CPI also. Advice of the Urjit Patel Committee is for the RBI for monitoring the inflation rate for the economy through its credit and monetary policy.
3. (d) CST is levied under the provisions of the CST Act, 1956, on the sale of goods of the course of inter-state trade or commerce—levied by the Centre by virtue of Entry 92A of the Union List, but the same is assigned to the states within which the tax is leviable, by virtue of provisions of Article 269 of the Constitution of India. Thus, CST and VAT are inconsistent (similarly it will be inconsistent with the proposed GST also). This is why after extensive consultations between the Centre and states, the roadmap for *phasing out* the CST by March 31, 2010 (i.e., before the date appointed for the introduction of the GST) has been finalised (the date has got automatically forwarded as the GST was not implemented by that date). Accordingly, the process of phasing out of CST commenced with reduction in CST from 4 per cent to 3 per cent, w.e.f. April 1, 2007, and further to 2 per cent w.e.f. June 1, 2008. Further cut in it is suspended due to delaying of the GST implementation. States have been getting compensation from the Centre for losses accruing due to the CST phase out.
4. (d) Basically, subsidies benefit some people while they are paid by the whole population of the economy. Subsidies have been advised by the economists provided they are used as short-term measures—if the economy uses them as a long-term measure, they make the population handicapped (those who get them). Subsidies are like putting someone on pain-killers in place of providing the real treatment for the pain! That is why it is always advised by economists that besides subsidies there should be an effective and time-bound long-term policy to impart market-linked purchasing capacity to the population getting subsidy benefit. All subsidies fall under the non-planned expenditure. The FRBM Act has no direct provisions regarding subsidies—it talks about the revenue and fiscal deficits only.
5. (d) Every expenditure by the government is part of the public expenditure, be they plan, non-plan, developmental, non-developmental, revenue or capital.
6. (d) Following the 'expansionist' policy means encouraging the circulation of money in the economy. Here, except the MSFR increase, all other measures are dedicated to increase liquidity in the system.

7. (d) Regressive expenditure will never serve the purpose. The government will need to tax the higher income bracket with higher rate of taxes and rationalise the subsidies so that they go to the needy only and in adequate amount. All these measures are already being operationalised by the GoI.
8. (c) Inflation is directly seen converting into proportionate depreciation in the domestic currency. In such situations, exports become cheaper for other countries (which make it more competitive in the world market), besides imports becoming costlier (as the domestic currency loses value in front of the external currency). Real cost of borrowing is calculated by deducting the current rate of inflation (which is higher) from the 'nominal rate of interest/borrowing' (that is the rate of interest banks announce on a certain category of loan). Bond-holders are basically lenders so they suffer—interest income sees dilution.
9. (d) The RRBs were modelled to have the local touch of the 'cooperatives' and the business touch of the Scheduled Commercial Banks (SCBs). Since April 1997 they have been allowed to break free from the ceilings interests they forward on deposits or charge on loans (these measures were taken to consolidate the loss-making RRBs). In September 2005 the GoI initiated a process of amalgamation of the banks in a phased manner—accordingly, the total number of RRBs has come down to 46 (from 196) by the end of 2013.
10. (a) This route is only for banks, on the lines of the LAF, but it is not its part. It is a penal rate that is why remains always higher than the repo rate. While putting this route in place the RBI has permitted banks to borrow maximum 1 per cent of their Net Demand and Time Liabilities, in coming times it was cut down, too. Similarly, it commenced with a rate of 1 per cent higher than the current repo rate, but over the time it went upto 3 per cent higher than the current repo (in the process of checking inflation, by end 2013).
11. (a) Game Theory is a branch of Applied Mathematics which uses models to study interactions between countries, individuals and organisations. It has been used by applied economists in different areas.
12. (c) The ideas of prime lending rate (PLR) and benchmark prime lending rate (BPLR) have been abolished by the RBI since July 2010. Banks don't need to consult RBI to decide their base rates as this rate is neither linked to the NPAs nor the capital adequacy ratios (CARs) of the banks.
13. (d) Overseas projects undertaken by the Indian firms face many political and commercial risks in the importing countries—to provide adequate credit insurance cover to such firms, the government has set up the ECGC under the Ministry of Commerce and Industry, for medium- and long-term exports.
14. (a) The derivatives in India has not been allowed to derive their value from the weather forecastings (it is allowed in many developed economies, for example, the USA).
15. (d) Today, India allows liberal foreign investments in its security market that is why the American/Global Depository Receipts (ADRs/GDRs) has lost their relevance. The Indian Depository

- Receipts (IDRs) were never a popular route of investment for Indians—by now only one company (Standard Chartered Bank) has issued it in India which went for its full redemption by mid-2011.
16. (d) All the statements are correct about angel investors—a term introduced in the Union Budget 2013-14. SEBI puts them in the Category I AIF (Alternative Investment Fund) with ‘positive spillover effects’. The venture capital funds also come under this. A venture fund invests in business rather than the person (opposite to the angel investor).
17. (a) Private remittances, interest liabilities of foreign loans and trade balance are shown in the current account.
18. (d) The idea was proposed by the India Innovation Council for the fiscal 2011–12. This fund is based on the idea of inclusion in the promotion of entrepreneurship—it means it emphasises the social return model unlike the most popular model in the world of promoting the innovations on the items which are for the rich. The Union Budget 2014–15 (Interim) proposed a fund of Rs. 100 crore for this fund.
19. (b): CICs are basically the NBFCs carrying on the business of acquisition of shares and securities, which satisfies some conditions, i.e., it holds not less than 90 per cent of its total assets in this form; its investments in the equity shares in group companies constitutes not less than 60 per cent of its total assets; it does not trade in its investments in shares, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment; and it does not carry on any other financial activity except investment in bank deposits, money market instruments, government securities, loans to and investments in group companies.
20. (c) Some other factors were also responsible for the increase in NPAs, i.e., increased interest rates in the recent past; current macro-economic situation in the country.
21. (c) The money which flows from the government into the system was called the ‘cheap currency’ by J. M. Keynes. By doing so, governments promote economic activities, which supports the business and trade.
22. (c) The term was coined in India by the Narasimhan Committee-II set up on the Banking Sector Reforms (report came in April 1998). This suggestion was given by the committee for the ‘weak banks’ at that time.
23. (d) These shares get voting rights in their exact proportion as they cover the maximum risk—in a way it is a compensation. As these shares get dividend after all payments have been made by the company, similarly, if the company is being closed down they get their investment claims at the last—after settling the claims of employees, creditors, lenders, government, preference shares etc. Thus, both during life and death of a business, the ‘ordinary share holders’ are the last to receive their claims.
24. (a) Launched in 1996–97 by the Ministry of Tribal Affairs, the centrally sponsored scheme was transferred to the Ministry of Consumer Affairs, Food and Public Distribution in 2004–05. It lends foodgrains without any mortgage to the target population (marginalised people) only. The bank can be run by NGOs, self help group and gram sabha.

25. (a) The levy obligation (10 per cent) of the sugar mills was abolished by the government for the sugar produced after September 2012, on the recommendations of the 'C. Rangarajan Committee on Deregulation of the Sugar Sector'. Procurement of sugar for PDS is now linked with the market which has increased government expenditure on the head—states/UTs are reimbursed Rs. 18.50 per kg by the GoI for their sugar purchases under the PDS. The sugar cess paid by the sugar mills are not aimed at neutralising the government expenditure on sugar distribution through the PDS, but to strengthen the Sugar Development Fund—the fund is used for the purpose of promoting the sugar industry, cane production etc.

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### Set- 4

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1. The 'Dutch disease' has been recently in news in case of the Indian economy. Consider the following statements about the disease.
    1. This is a situation of resource curse
    2. Country's domestic sector becomes uncompetitive
    3. Exchange rate gets bloated due to low inflow of foreign capital
    4. This may be caused by the foreign investments and high remittances

Select the correct statements using the code given below.

    - (a) 1, 2 and 3
    - (b) 2, 3 and 4
    - (c) 1, 2 and 4
    - (d) 1, 2, 3 and 4
  
  2. Consider the following statements about the WTO-related groups.
    1. G-33 is the group of agricultural importing countries of the world.
    2. C-4 is the group of sub-saharan countries lobbying for cotton trade reforms.
    3. Cairns Group is the lobby of agricultural exporting countries.
    4. G-10 is the group of small countries most vulnerable to agricultural imports.

Select the correct statements using the code given below.

    - (a) 1, 2 and 3
    - (b) 2, 3 and 4
    - (c) 1, 3 and 4
    - (d) 1, 2, 3 and 4
  
  3. Consider the following statement related to the 'developmental' and 'non-developmental' expenditures in India.
    1. Plan expenditure is the leading development expenditure of the government in India.
    2. Maintenance expenses of the assets created by the plan expenditure of the previous years are also considered as developmental expenditures.
    3. Planning Commission mainly deals with plan expenditures though, in practice, it provisions funds for the non-plan expenditures also.

Select the incorrect statements using the code given below.

    - (a) 1 and 2
    - (b) 2 and 3
-

- (c) 1 and 3
- (d) 1, 2 and 3

4. Consider the following statements regarding depreciation.

1. Fixed assets losing monetary value over time.
2. Loss of value in a domestic currency in front of a foreign currency.
3. Fall in the monetary value of the equipments of a plant due to their use.
4. It does not happen in case of non-fixed assets.

Select the correct statements using the code given below.

Code:

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

5. Deficit financing leads to inflation in general, but it can be checked if—

- (a) Government expenditure leads to increase in the aggregate supply in ratio of the aggregate demand.
- (b) Only aggregate demand is increased.
- (c) All expenditures are used for the national debt payment only.
- (d) Fresh currencies are printed to fulfil its deficit financing needs.

6. Consider the following options if all banks in an economy are nationalised and converted into a monopoly bank.

1. Deposits will decrease in the new bank
2. Deposits will increase in the new bank
3. There will be no effect on either saving rate or lending

Select the correct option/options using the code given below.

- (a) Only 1
- (b) 1 and 2
- (c) Only 2
- (d) 1 and 3

7. Consider the following statements about the Gross Domestic Capital Formation (GDCF):

- (a) Expenditure dedicated to increase or maintain the capital stock in the economy.
- (b) Expenditure incurred on physical assets only, even in the case of deficit financing.
- (c) Production level overtaking the aggregate demand creating export surpluses.
- (d) Addition to the stock of the economy after adjusting the effects of depreciation.

8. Which of the following factors responsible for a surplus in the current account of an economy?

1. Its exports are compulsory imports for other economies.
2. It imports low-technology items and exports high-technology items.
3. It has huge domestic market.
4. Its imports are non-compulsive in nature.

Select the answer using the code given below.

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

9. If RBI cuts down the cash reserve ratio it will have the following impact on the economy.

1. Banks will have higher leverage to liquidity
2. Economy may see increased investment
3. Supply of currency in the economy may broaden
4. Real interest rates may decline

Select the answer using the code given below.

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

10. Which of the following items appear in a company's balance sheet?

1. Value of raw materials held by the company
2. Cash held in the banks in company's current account
3. Sales revenue of the company
4. The issued capital of the company

Select the answer using the code given below.

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

11. The idea of 'currency convertibility' as it is used by the economies today originated in which of the following?

- (a) Marshall Plan
- (b) Washington Consensus
- (c) IMF Plan
- (d) None of these

12. Which of the following statement defines the term 'insurance penetration'?

- (a) The number of insured per one hundred population in an economy

- (b) Insured people per one thousand of the population of an economy
- (c) Number of alive and insured per hundred population in an economy
- (d) None of the above

13. The exchange rate of a currency in its forex market depends on

1. Its twin deficit
2. The currency regime economy follows for exchange determination
3. Inflation, printing of fresh currencies, levels of forex earnings

Select the answer using the code given below.

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

14. Consider the following statements regarding the state of full convertibility of the rupee in the current account.

1. 100 per cent foreign currency is made available by the government at official rate of exchange for all visible and invisible imports.
2. Foreign investment in the Indian security market, though an issue of capital account, is considered as a matter of the current account for convertibility purpose.
3. In case of foreign grants, rupee is partially convertible in India.
4. Rupee is fully convertible if someone needs foreign currency to go for medical treatment abroad.

Select the incorrect statement/statements using the code given below.

- (a) 1, 2 and 3
- (b) 2, 3 and 4

- (c) 1, 2 and 4  
(d) 1, 3 and 4
15. The Reserve Bank of India calculates four components of money supply, viz.,  $M_1$ ,  $M_2$ ,  $M_3$  and  $M_4$ . Select the incorrect pair out of the the following.
- (a)  $M_1$  consists of the currency and coins with the public; demand deposits of the banks and other deposits with the RBI.  
(b)  $M_2$  consists of  $M_1$  and demand deposits of the post offices.  
(c)  $M_3$  includes the sum of  $M_1$  and  $M_2$ .  
(d)  $M_4$  includes the sum of  $M_3$  and demand as well as time deposits of post offices.
16. Consider the following statements in a situation when a currency goes for devaluation.
1. Fall in the value of currency vis-à-vis a foreign currency
  2. Exports become less competitive
  3. Trading partners see fall in their export
  4. Imports become costlier
- Select the correct statements using the code given below.
- (a) 1, 2 and 3  
(b) 2, 3 and 4  
(c) 1, 2 and 4  
(d) 1, 3 and 4
17. 'A diverse world with hundreds of languages and dialects comprising scores of ethnic groups and highly industrialised economies and up-coming economies—spanning half of the surface of the earth and are home to two-fifths of the world's population'. Which of the following economic group the statement refers to?
- (a) SAPTA  
(b) APEC  
(c) EC  
(d) OPEC
18. A state of 'equilibrium' for a consumer means—
- (a) A state of saving rate equal to the growth rate of the economy for the consumer.  
(b) A state of zero saving for the consumer and full expenditure.  
(c) The consumer is unable to fulfil needs with the given income.  
(d) The consumer is able to fulfil needs with a given level of income.
19. Modern economics defines 'tax' as—
- (a) A mode of income redistribution  
(b) A method of effecting transfer pricing  
(c) A way to mobilise resources for government expenditures  
(d) A tool of meeting the social obligations of modern governments
20. Consider the following statements about 'Sensex'.
1. Is the representative share index of Indian stock market.
  2. Its rise means an overall rise in prices of shares of a group of companies registered with Bombay Stock Exchange.
  3. The shares which are kept in it are of the high net-worth companies.
  4. It is a privileged to be in this 30-shares index.
- Select the incorrect statement/statements using the code given below.
- (a) Only 1  
(b) 1 and 2  
(c) Only 2  
(d) None of these

21. 'Structural reform measures' was one of the two categories of measures announced by the government to be taken under the process of economic reforms in India. These measures deal with—
1. Redefining the role of the state in the economy
  2. Attempting higher participation of private capital—Indian and foreign
  3. Increasing aggregate supply in the economy
  4. Checking the excessive demand in the economy leading to inflation
- Select the answer using the code given below:
- (a) 1, 2 and 3
  - (b) 2, 3 and 4
  - (c) 1, 2 and 4
  - (d) 1, 3 and 4
22. Which of the following is correct about the term 'ex-factory price'?
- (a) It is 'factory price' added with all indirect taxes of the Centre and the state.
  - (b) It is the 'ex-showroom price' after deducting the weight of indirect taxes from it.
  - (c) It is 'factor cost' added with weight of current rate of inflation.
  - (d) None of these above
23. Select the statement which correctly defines the concept of 'debt trap'.
- (a) A situation of an economy which borrows to repay its past borrowings.
  - (b) A situation when an economy is borrowing higher than what it is repaying for its past borrowings.
  - (c) A situation when an economy is borrowing to repay even the interest of its past borrowings.
  - (d) A situation when the forex reserves growth rate of an economy starts lagging behind the growth rate of its external borrowings.
24. Which of the following policy steps a government usually takes to boost demand and support the economy in deflationary situations?
1. Lowering interest rates together with cutting direct taxes
  2. Emphasising savings and enhancing salaries
  3. Increasing government expenditure
  4. Going for tapering of fiscal stimulus
- Select the answer using the code given below.
- (a) 1 and 2
  - (b) 3 and 4
  - (c) 1 and 3
  - (d) 1 and 4
25. Consider the following statements related to the Companies Act, 2013.
1. The proposed National Company Law Tribunal will replace the existing Company Law Board.
  2. The President of the Company Law Tribunal has to be a person who is or has been a Judge of a High Court for five years.
  3. The appeals against the orders of the National Company Law Tribunal can only be entertained by the Supreme Court of India.
  4. The existing Company Law Board will be merged into the upcoming National Company Law Appellate Tribunal.

Select the correct ones by using the code given below.

- (a) 1 and 2
- (b) 2 and 3
- (c) 1 and 3
- (d) 3 and 4

### ANSWER KEY WITH EXPLANATIONS

1. (c) This is a negative consequence of large increase in a country's income. This disease is primarily associated with a natural resource discovery, but it can result from any large increase in foreign currency, including FDI, foreign aid or a substantial increase in natural resource prices.

Economists often describe resource-rich countries as suffering from the 'Dutch Disease' or 'resource curse'. The expression comes from the experience of the Netherlands half a century back (in 1960s when the country discovered huge natural gas in the North Sea), which brought in foreign revenue, but reduced the competitiveness of the domestic economy (i.e., exports) on account of a rising exchange rate (bloating of exchange rate). There are many other examples of this phenomenon including countries as different as United Kingdom, Australia and Nigeria.

2. (b) These are groupings/lobbies of member countries of the WTO which keep lobbying to serve their interests and create pressure for trade reforms on the platforms of the multilateral trade body. G-33 is also called the 'Friends of Special Product' in agriculture and is a coalition of the developing countries pressing for limited access to their market for agricultural products.

3. (b) Planning Commission deals with only the plan expenditures of the economy. It does not provisions any fund for the non-plan responsibility of the government.
4. (d) This is 'wear and tear' in a fixed/immovable asset due to their use. For different assets the rates of depreciation are announced by the countries—the rates may vary across countries. Depreciation is also used by countries as a toll of economic policy—for example, to boost the sales of heavy vehicles the Government of India has doubled the rate of depreciation of the vehicles (from 20 per cent to 40 per cent).
5. (a) The basic reason for price rises in the situations of deficit financing is that governments fail to equalise the total demand of the economy by the total supply.
6. (a) Monopoly will discourage the depositors from putting money in the bank. The saving rate of the economy together with the lending activities of the bank will also get hampered.
7. (a) It means the 'net' addition to the national stock. Future growth of the economy depends on the GDCF.
8. (d) Having a huge domestic market never supports current account positively; it may impact the account negatively if its consumers are demanding more of the items which are being imported by the economy. In case of India, the situation is: its imports are compulsive and most of its exports are non-compulsive for its trade partners.
9. (d) The CRR provides more money in the hands of banks, which may be now lent out for investment and increase the supply of currency in the economy. As

- the supply of money increases to the banks, they may cut interest rates (cost of money remaining the same).
10. (c) The revenues a company gets out of its sale of the manufactured items are not shown in the balance sheet of a company.
  11. (d) The idea of 'currency convertibility' originated at Bretton Woods, New Hampshire, USA where the twin international economic organisations, viz., the International Monetary Fund and World Bank came into being.
  12. (d) 'Insurance penetration' is defined as the ratio of underwritten premium in a given year to the GDP of an economy.
  13. (d) Exchange rate of a currency depends on so many variables as given in the question. If the economy follows the 'floating currency regime' for the exchange rate determination, the exchange rate is directly linked to all those factors which affects the availability of domestic and foreign currencies in the economy—higher the supply of foreign currency, higher the value domestic currency will have and vice versa.
  14. (c) Foreign investments are of two types, viz., one is in the direct form and another in the indirect form (i.e., in security market), both are considered capital inflows. But in the case of convertibility the security investment part of the foreign investment is considered a matter of current account to make it liquid in which rupee is fully convertible (otherwise no foreign investor will come to invest in the share market). Going abroad is a matter of current account, thus rupee is fully convertible for this purpose.
  15. (c)  $M_3$  stands for the sum of  $M_1$  and total deposits of the banks (i.e., demand and time deposits of banks). These components of money in India were defined by the 2nd Working Group on Money Stock set up by the RBI in 1972. The 3rd Working Group on the Money Stock submitted its report to the RBI in 1998—as per it the new components of money in India are— $M_0$ ,  $M_1$ ,  $M_2$  and  $M_3$ . Together with the new stock of money the Working Group has suggested liquidities formula for the stock, too, namely-  $L_0$ ,  $L_1$ ,  $L_2$  and  $L_3$ .
  16. (c) Though, devaluation in currencies are discouraged and negated with excessive pressure coming from the trading partners of the country, it ultimately makes goods of the country cheaper in the world market—the economy earns profit from exports. The increase in profit of export takes place due to increase in 'volume' of the exports (but in reality, exporters forego more goods to earn the same amount of foreign currency). As foreign currency becomes costlier the country sees decrease in its imports (provided its imports are non-compulsive in nature) due to import substitution.
  17. (b) This is part of a *World Development Report* of the World Bank which got huge media attention across the world.
  18. (d) Though this ideal stage is reached only in hypothesis—with the changing times, consumers not only demand new goods and services, but new times come with the alternatives of it, too.
  19. (a) Incomes of citizens get redistributed after tax—this happens at two levels: once after paying tax and once when the governments use this money to provide essential services to the population. The poorer population uses more of the government services than the richer. The

- option (c) is also correct but comes later in order.
20. (b) Being in this index does not bring any privilege to a company. The shares put here are just for representation purpose of the industry.
21. (a) Government never did intend to check the demand—it basically went for the a set of reforms known as the ‘macro-economic stabilation measures’, which attempts to boost demand in the economy. The whole process of economic reforms in the economy is all about demand and supply management.
22. (a) ‘Ex-factory Price’ and ‘Ex-showroom Price’ are the same. Factory price is basically, the factor cost.
23. (c) Many of the highly indebted countires (HICs) in the sub-Saharan Africa fall under this category. India was very close to a similar situation in early 2000.
24. (c) Statement 2 will have contradictory/ neutralising effects on the economy as savings cut demand and salary enhancement increases demand. All these measures were taken by the government during 1996–99 in India when aggregate demand in the economy had fell down to a very low level and inflation was, at one time, just 0.5 per cent (the second fortnight of December, 1999). Tapering in the fiscal stimulus cuts demand in the economy as it syphons out liquidity from the market.
25. (a) As per the Companies Act, 2013 (which replaces the company law of 1956 vintage), the government has notified the rules pertaining to the National Company Law Tribunal (NCLT). The appeals against the NCLT won’t be entertained by the Supreme Court of India, but the newly set up body known as the National Company Law Appellate Tribunal (NCLAT).

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**Set- 5**

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1. Consider the following statements regarding the primary function of a ‘holding company’.

1. To invest in other companies, commonly known as subsidiaries.
2. Usually not involved in day-to-day operations of the operating company.
3. Lend initial or ongoing financial support via cash reserves or stock sales.
4. May assist in restructuring the operational model to ensure profits.

Select the correct statements using the code given below.

- (a) 1, 2 and 3  
(b) 2, 3 and 4

(c) 1, 3 and 4

(d) 1, 2, 3 and 4

2. Consider the following statements about ‘short-selling’.

1. Short selling allows to sell those shares which will be owned in future.
2. Short-selling is done by borrowing shares with a speculation that price of the share will fall in future.
3. Short-sellers post losses if prices uptrend for the short-selled shares.

Select the incorrect statements using the code given below.

- (a) Only 1  
(b) 1 and 2
-

- (c) Only 3  
(d) None of those
3. Consider the following statements about 'underwriters'.
1. They are financial firms also known as Merchant Banks, regulated by the RBI.
  2. They subscribe the un-subscribed shares of a company.
  3. Their services are like an insurer, while shares are being issued by a firm.
  4. They are registered with SEBI.
- Select the correct statements using the code given below.
- (a) 1, 2 and 3  
(b) 2, 3 and 4  
(c) 1, 3 and 4  
(d) 1, 2, 3 and 4
4. Consider the following statements.
1. The value of total goods demanded in an economy is always identically equal to the total value of goods supplied.
  2. Statement 1 is correct in the case of modern economies only, where use of currencies as the mode of exchange, but does not hold correct if it is a barter economy.
- Select the correct statement/statements using the code given below.
- (a) Only 1  
(b) Only 2  
(c) 1 and 2  
(d) None of the above
5. Consider the following statement which defines the 'wildcat strike'.
1. A strike called by the labourers in between the work.
  2. The strike which is called without informing the management.
  3. The strike which is supported by an outside trade union.
  4. The strike not supported by the organised trade union of the firm.
- Select the incorrect statements using the code given below.
- (a) 1, 2 and 3  
(b) 2, 3 and 4  
(c) 1, 3 and 4  
(d) 1, 2, 3 and 4
6. Which among the following policy decision/decisions a government should take to promote foreign investments in the economy?
1. Allowing full convertibility to its currency in current and capital accounts.
  2. Reducing or withdrawing the 'withholding tax'.
  3. Prohibitory laws for its nationals for overseas investments.
- Select your answer using the code given below.
- (a) 1 and 2  
(b) 2 and 3  
(c) 1 and 3  
(d) 1, 2 and 3
7. An economy is following the policies given below—
1. Creating self-employment sources with high speed.
  2. Cutting its expenditures on the heads of salaries, subsidies and pension.
  3. Promoting public-private partnerships in the infrastructure sector.

Select the correct outcome which the economy wants out of such a policy.

- (a) Promoting revenue expenditure at the cost of capital expenditures.
  - (b) Cutting revenue expenditures to promote capital expenditure.
  - (c) Promoting development expenditures without risking welfare.
  - (d) both b and c
8. Select the correct statement about 'zero-coupon bond' from the following—
- (a) A bond with zero coupon rate which is sold at a price lower than its face value and investors get face value price at maturity.
  - (b) A bond with zero rate of interest but of the highest value of liquidity for which investors get other concessions like tax breaks.
  - (c) A special category of bond used as 'express money' to finance immediate needs of the economy which carries zero interest but gives tax credits to investors in their income tax returns.
  - (d) A kind of bond which is generally issued by governments in the times of financial crises to the high income group citizens, which carries no interest but investors get tax concessions for investing in it.
9. Select the incorrect statement from the following statements regarding deficit financing which an economy might be following.
- (a) 'Factory price' of a product at constant prices is always lower than its 'factor cost' at current prices.
  - (b) 'Ex-factory price' of a product at the current prices is always lower than its 'market cost' at the constant prices.
  - (c) 'Maximum retail price' of a product is always higher than its 'ex-showroom price' at current prices.
  - (d) 'Factor cost' and 'market cost' may be calculated both at constant and current prices.
10. Consider the following statements about 'indicative planning'.
1. Dominance of imperative policies in the planning process.
  2. Inclusion of incentives-based and co-ordinating policies.
  3. Suitable for planned development of the state and mixed economies.
  4. This kind of planning commenced in India with the economic reforms.
- Select the incorrect statements using the code given below.
- (a) 1, 2 and 3
  - (b) 2, 3 and 4
  - (c) 1, 3 and 4
  - (d) 1, 2, 3 and 4
11. Select the correct statement from the following about 'vulture funds'—
- (a) The privately-owned funds which lend out capital for hostile bids of takeovers around the world charging high returns in the form of interests.
  - (b) The privately owned financial firms which buy sovereign debts of highly indebted countries at fraction of their value and collecting full amount via legal intervention.
  - (c) The enormous amount of private funds which have accumulated in major tax-havens of the world attacking high rising economies in the form of the so-called 'hedge funds'.
  - (d) The privately-owned equity capital which covers a very high risk of
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repayment as they lend money to secretive groups in the world to fight against the nation states—considered playing a major role in promoting majority of terror outfits today.

12. Consider the following statements.

1. Hedging is similar to insurance.
2. In badla, a buyer wants postponement of deal—it is called contango in Western economies.
3. In undha badla, a seller wants postponement of deal—it is called backwardation in the Western economies
4. Scrip share is the other name for sweat share.

Select the correct statements using the code given below.

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

13. Consider the following statements about the process of issuing shares through 'private placement'.

1. This is one among three routes through which a company raises capital in the primary market by issuing shares.
2. Companies directly negotiates with the investors which may be financial institutions as well as individuals.
3. This is completely opposite to the public issue route to issue shares.

Select the correct statements using the code given below.

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

14. Consider the following statements.

1. Raising capital by public issue is the most broad-based method, though it is the most time taking, too.
2. Though private placement route to raise capital is the least time taking, it is the riskiest route, too.

Select the correct statement/statements using the code given below.

- (a) Only 1
- (b) Only 2
- (c) 1 and 2
- (d) Neither 1 nor 2

15. Consider the following statements.

1. 'Trade creation' has taken place in India via the provisions of the WTO.
2. Growth stories of the industrialised economies were the outcome of follow-up to 'creative destruction'.
3. 'Trade creation' may be led by 'creative destructions'.

Select the correct statements using the code given below.

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

16. What is correct about the term 'transfer payments' which was in news recently?

- (a) The payments which takes place indirectly from the high bracket direct taxpayers to the subsidy-based sectors which are consumed by someone else.
- (b) The expenditure by government for which it receives no goods or services, such as tax collection, unemployment allowance etc.

- (c) The minimum return an asset must earn to prevent its transfer to the next best alternative use.
- (d) Tax is a mode of income redistribution through which payments get transferred from high to low income group directly and indirectly, both ways.

17. Consider the following statements about 'Venture Capital Fund'.

1. A dedicated corpus of capital to promote innovative entrepreneurship.
2. It may be public-owned or privately-owned.
3. The IVCF was India's first such fund set up under private ownership.

Select the correct statements using the code given below.

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

18. Consider the following statements.

1. Higher the price-earning ratio a share has, higher the investment they are able to attract.
2. Shares with lower price-earning ratios attract lower investment.
3. Lower the price-earning ratios, higher the investments the shares are able to attract.

Select the correct statements using the code given below.

- (a) Only 1
- (b) Only 2
- (c) Only 3
- (d) None of those

19. Select the correct statement about the 'unemployment trap'.

- (a) A situation in the economy when the rate of employment growth is less than the rate of increase in the unemployed population.
- (b) A situation of frictional unemployment when there is a heavy rush of labour force from the primary to the secondary activities.
- (c) A situation when existing job loss is higher than the new jobs created.
- (d) A situation when unemployed population of an economy does not feel encouraged to become employed.

20. Consider the following statements.

1. The risk of a government defaulting on overseas loan is known as sovereign risk.
2. All kinds of overseas borrowings by private companies also carry the burden of sovereign risk.
3. A member nation may insure its sovereign risk with the World Bank arm known as Multi-Lateral Insurance Guarantee Agency.

Select the correct statement using the code given below.

Code:

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

21. Select the incorrect statement from the given list below—

- (a) The difference in returns of two different bonds is known as 'spread'.
- (b) Payment and delivery done simultaneously is known as 'spot'.

- (c) Value of assets exceeding liabilities of an insurance company is called 'solvency margin'.
- (d) Charging high prices on goods with high tax weights is a situation of 'skimming price'.

22. Consider the following statements.

1. Expenditures done on advertisement, research and development are known as 'essential costs'.
2. The costs which are borne on account of salaries, fringe benefits, pensions and provident funds are known as 'sunk cost'.

Select the incorrect statement/statements using the code given below.

- (a) Only 1  
 (b) Only 2  
 (c) 1 and 2  
 (d) None of these

23. Consider the following statements.

1. 'Product swap' functions just opposite to the system of barter.
2. 'Currency swap' is a mode of hedging against exchange rate fluctuations.
3. 'Subsidy swap' is a method of cross-subsidising two products.

Select the correct statement/statements using the code given below.

- (a) 1 and 2  
 (b) Only 2  
 (c) 2 and 3  
 (d) Only 3

24. Consider the following statements.

1. 'Market cost' is 'factory price' added with all the indirect taxes.
2. 'Market cost' and 'ex-factory price' are different things.

3. 'Maximum retail price' and 'market cost' are the same things.

Select the correct statement/statements using the code given below:

- (a) Only 1  
 (b) 1 and 2  
 (c) Only 3  
 (d) 1 and 3

25. What is the reason for the underdeveloped corporate bond market in the country.

1. Predominance of bank loans
2. Limited participation of FIIs in them
3. Limited participation by pensions/ insurance funds and households due to lack of investor confidence
4. Crowding out by government bonds

Select the answer using the code given below.

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

### ANSWER KEY WITH EXPLANATIONS

1. (d) The difference between an *operating company* and a *holding company* lies in the fundamental structures of the two, in their management and their interactions with one another. Business goals are often different, and both business types are after profits, but holding companies can still benefit from operating company losses under certain conditions. The primary function of a *holding company* is to invest in other companies, commonly known as subsidiaries. Holding companies are usually not involved in day-to-day operations of the operating company, but lend initial or ongoing financial support via cash reserves or stock sales, and may

assist in restructuring the operational model to ensure profits. Holding companies are normally structured as *corporations* (limited liability firms, i.e., known as a *Ltd.* company in India) to protect assets and absorb financial losses.

*Operating companies* are owned by the holding company, but are responsible for all day-to-day operations of the company. When a holding company creates or purchases an operating company, they are sometimes allowed to conduct business as usual, especially, if they are profitable. Net profits after expenses are then handed over to the holding company.

*Ownership* of operating companies, even when purchased, revert to the holding company. Former owners who are kept on-board are often given control of the operating company in the form of executive management responsibility, but have no ownership rights. All major decisions that may affect profitability or involve large expenditures must first be approved by the holding company.

Although operating company's *profitability* should make sense for the holding company, this is not always the case. Especially, for larger holding companies with heavy tax burdens, owning one or more operating companies that lose money can benefit the parent company in the form of a business loss when tax time rolls around. This does not benefit the operating company, as it is responsible for operating income to run the business. If the losses become too great, operating companies can go out of business, but the holding company can still benefit because the operating company can help to balance overall profits and stock prices.

2. (d) All are correct about the action of 'short selling'. Short-sellers basically speculate that prices of the short-selled shares will fall in future. Thus, they borrow those shares (it means they don't own it) and post profit. In case the prices increase in place of falling, the short-seller posts loss (as the borrowed shares are to be handed over to the original owner at a higher price now).
3. (b) They are registered with the Security and Exchange Board of India (SEBI) but they may be owned by a bank which is registered with the RBI. The shares they underwrite cannot be bought by them as an investment in the company—they only cover the risk (i.e., working as an insurer) of share sell (guaranteeing their complete sale) and charge a pre-agreed fee for it from the share-issuing company.
4. (a) This is known as the '*Walras's Law*' which is correct only in the case of a barter economy. This is so because the economies which have currency as a mode of exchange, currency supplies depend on so many factors and not on the level of the goods and services produced in the economy. The best example is shown by the instances of inflation.
5. (a) This is a strike which is not supported by the organised trade union of the firm. At times, such strikes may be supported by a trade union from outside.
6. (a) The 3rd statement is neutral to the issue of attracting foreign investment and its promotion. Once the domestic currency becomes fully convertible in the capital account such prohibitory laws are not possible—that is why India is believed to not allowing such convertibility at the full scale—as the economy does not want foreign exchange taking flight from the

- economy (since it is itself trying to attract it).
7. (b) The Government of India also wants to do the same but its subsidy rationalising programmes have not taken place on expected lines.
  8. (a) G-Secs are issued by the GoI through this route, too.
  9. (b) Price of anything at current price has to be higher than its price at constant price as the former includes the weight of current inflation.
  10. (c) Planning in India was already indicative, during reform period it became more so. Imperative policies are the symptom of 'target planning' popular among the State economies (in ex-USSR, China before they switched over to mixed economy). Planning of the mixed economies can only reach its goals once private sector is also included in the process—this requires provision of incentives and co-ordination by the government.
  11. (b) These funds file lawsuits in London, New York, Paris and collect full face values plus interest of the national debts of the poor nations—many of the nations falling in the Heavily Indebted Poor Countries (HIPC). As per the IMF, these funds are concentrated in the US, UK as well as the British Virgin Islands (the UK protectorate tax haven). These countries have enough political pressure to ban these funds as their activities are against the soul of the foreign policies of the UK and US.
  12. (a) 'Scrip shares' are given to the existing shareholders without any charge and are also called 'bonus shares'. The shares given to employees (usually top officials) by a company without any charge is called 'sweat share'.
  13. (d) In a 'public issue' the company does not negotiate directly with the public who want to purchase the shares.
  14. (c) Public issue makes a company to broaden its share-ownership, but this is a complex and time-consuming process. While private placement is the quickest method to raise capital from the security market, a company covers the risk of takeovers in it (due to shift in the share holders loyalties to a competing firm).
  15. (d) The increase in international trade which results from the elimination or reduction of trade barriers (such as quota, customs, surcharge etc.), is 'trade creation'. Innovation is known as 'creative destruction' (the term was coined by the Australian economist J. Schumpeter).
  16. (b) All loss-making activities done by the government in the head of social sector come under it—poverty alleviation, healthcare, education, social security etc.
  17. (a) The IVCF was a public-owned Venture Capital Fund (VCF), set up in 1998. First such fund in India in which 'I' stands for IFCI (Industrial Finance Corporation of India, set up 1948), a Government of India's wholly-owned Specialised Financial Institution (SFIs).
  18. (c) Price-earning ratio of shares are calculated by dividing their market price by their earning per share.
  19. (d) This is the another term for 'poverty trap'. Such situation arises in an economy where there are provisions of unemployment allowance—disposable income (income after paying direct taxes) becomes less than the allowance they get.
  20. (a) World Bank arm, MIGA, provides insurance services, but to the companies which go for foreign direct investment; it covers non-commercial risk.

21. (d) 'Skimming price' is a mode of pricing when companies charge high profits on its products when consumers are not price-sensitive and demand is price-inelastic (prices not affecting the level of demand).
22. (c) The expenditure on the items discussed in Statement 1 are 'sink costs'. There is nothing like 'essential costs' in business economics.
23. (b) 'Product swap' is similar to barter while there is nothing like 'subsidy swap' in public finance management.
24. (a) 'Market Cost' and 'ex-factory price' are same things. 'Market cost' added with the traders margins and effect of the current inflation is 'maximum retail price' (MRP).
25. (d) These reasons have been cited by the *Economic Survey 2011-12* (p. 116). This is the first official document in recent times which has highlighted the immediacy of developing a healthy corporate bond market in the country.

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**Set- 6**

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1. Consider the following statements about an 'operating company'.
1. They are owned by the holding company
  2. Are responsible for all day-to-day operations of the company
  3. Major decisions that may affect profitability are not taken by it
  4. Hands over net profits after expenses to the holding company
- Select the correct statements using the code given below.
- (a) 1, 2 and 3  
(b) 2, 3 and 4  
(c) 1, 3 and 4  
(d) 1, 2, 3 and 4
2. Select the statement which correctly defines the difference between 'factor cost' and 'factory price':
- (a) 'Factor cost' is the manufacturing price of any product, while the 'factory price' includes the burden of indirect taxes on the product, too.
- (b) While 'factory price' of a product includes the current rate of inflation, the 'factor cost' does not.
- (c) When the weight of the state taxes are added to the 'factor cost' it becomes 'factory price'.
- (d) None of the above
3. What is correct about the concept 'transfer earnings'?
- (a) The return that an asset must earn to prevent its transfer to the next best alternative use.
- (b) The private remittances' earnings of an economy with the help of the transferred part of income to it by its nationals living abroad.
- (c) The earnings companies get on their exports by drawing back the full amount of indirect taxes on the exported items popularly known as 'duty drawback scheme'.
- (d) The transfer of the earnings by one arm of a company from one economy to its other arm in another economy under the agreement of 'double taxation'.
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4. Select the correct statement about the popular stock market term 'reverse yield gap' from the options given below:
- A situation when the returns of government securities is in excess over the equities.
  - A situation when the capital gains compensate the negative impact of inflation on the equities' returns.
  - The instance of comparatively higher inflation which depletes the returns earned by investors on the government bonds.
  - The situation when due to low long-term capital gains tax, returns on the government securities become higher.
2. With greater curvature in it, inequality of income rises proportionally—this inequality is measured by the 'Gini Coefficient'.

Select the incorrect statement/statements using the code given below.

- Only 1
  - Only 2
  - Both 1 and 2
  - Neither 1 nor 2
5. Consider the following statements.
- 'Liquidity trap' is a situation when people prefer to hold money rather than investing it.
  - 'Liquidity preference' is the situation when people prefer to invest money rather than hold it.
  - 'Liquidity crunch' is a situation of short-supply of money in the Money Market.
  - 'Credit crunch' is a situation of short-supply of money in the loan market.
7. What does the term 'Ninja' mean which became a common word in the financial world after the US sub-prime crisis?
- A loan given on false claims of credit-worthiness by the banks.
  - Borrower with no assets, no income or no job
  - Highly competitive form of lending, compromising the financial fundamentals.
  - A loan given to someone who is on the brink of bankruptcy.
8. Select the correct statement about MIBOR (Mumbai Inter Bank Offer Rate) out of the following list—
- This is the weighted average interest rate at which certain banks/institutions in Mumbai are ready to borrow from the Call Money Market.
  - This is the weightage average interest rate at which certain banks/institutions in Mumbai are ready to lend long-term money.
  - This is the weighted average interest rate at which certain banks/institutions in Mumbai are ready to lend in the Call Money Market.
  - This is the weighted average interest rate at which certain banks/institutions

Select the correct statements using the code given below.

- 1, 2 and 3
  - 2, 3 and 4
  - 1, 2 and 4
  - 1, 3 and 4
6. Consider the following statements. about the 'Lorenz curve'.
- A straight line on it represents complete equality of income.

are ready to borrow from the long-term market.

9. Consider the following statements about 'Pareto Optimality'.

1. It deals with distribution in an economy at the optimum level of taxation prevailing in the economy.
2. It suggests that in an economy somebody may be made better off by making somebody else worse off.
3. The idea works as a guide to finance managers in deciding how to spend limited funds.

Select the correct statements using the code given below.

Code:

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

10. Consider the following statements about the 'penny stocks'.

1. The shares listed on a stock exchange which show high market capitalisation with relatively low volume of shares.
2. The shares which are issued at a par value of rupee one.
3. Their trading price shows high volatility.

Select the incorrect statements using the code given below.

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

11. Consider the following statements about a 'preference share' in India.

1. These shares bear a stated dividend

2. They get priority over equity shares
3. Such shares can be issued for a period of less than 1 year.

Select the correct statements using the code given below.

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

12. What is correct about a 'hybrid security'?

- (a) A collateral which has the traits of movable and immovable properties—used in banking business
- (b) A stock which has qualities of equity shares as well as bond—used in the stock market
- (c) A lump sum trade conducted in the commodity exchanges in bullion and agricultural produced—allowed in India
- (d) None of the above

13. Select the correct statement about the 'P/E Ratio' from the following list—

- (a) A stock market terminology which is derived by dividing market price of a share by earning per share.
- (b) A ratio used in stock market to show the denomination paid by a company per share in relation to issue price of the share.
- (c) A ratio of the dividends of two consecutive years on a particular share paid by a listed company.
- (d) None of the above

14. Which one of the following decisions follows the idea of 'prisoner's dilemma'?

1. Companies fixing prices of their products at the levels less than they

could in the trust that other companies do not fix lower prices.

2. The dilemma, ultimately, hampers the companies which fix the higher prices.

Select the answer using the code given below.

Code:

- (a) Only 1
- (b) Only 2
- (c) 1 and 2
- (d) Neither 1 nor 2

15. Which of the following defines an economy in the situation of a 'population trap'?

- (a) When the population control policies of the economy almost fail and it goes for a situation of population boom.
- (b) When the population of an economy starts increasing after achieving the stage of 'replacement level'.
- (c) When the 'natural rate of increase' in an economy starts falling drastically below the 'replacement level'.
- (d) None of the above

16. Select the correct situation which defines 'poverty trap'—

- (a) When the population in an economy continues to remain poor even after increase in its 'nominal income'.
- (b) When the rise in income of the poor people is equitably neutralised by inflation.
- (c) When unemployment rate starts increasing together with the inflation.
- (d) When unemployed population getting unemployment allowance does not feel encouraged to become employed.

17. Consider the following statements about 'predatory pricing'.

1. Fixing of exceptionally high prices by the companies for their goods
2. Such pricing policy has an express purpose of harming rivals or exploiting the consumer.

Select the correct statement/statements using the code given below.

Code:

- (a) Only 1
- (b) Only 2
- (c) 1 and 2
- (d) Neither 1 nor 2

18. Which of the following is correct about 'high street banking'?

- (a) When banks emphasise retail lending.
- (b) When banks emphasise corporate lending.
- (c) When banks emphasise long-term but risk-free lending.
- (d) When banks emphasise short-term, low interest and risk-free lending.

19. Consider the following statements.

1. The paid-up capital of a company is never more than its authorised capital
2. The issued capital of a company can be maximum upto its authorised capital
3. The subscribed capital of a company can never be higher than its issued capital

Select the correct statements using the code given below.

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

20. Consider the following statements.

1. A situation when people think that they are getting richer during the

times of inflation is known as ‘money illusion’.

2. It is believed that lower levels of ‘money illusion’ are beneficial to ‘grease the wheels’ of the economy.

Select the correct statement/statements using the code given below.

Code:

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

21. ‘Bad’ money forces ‘good’ money out of circulation—proposes the Gresham’s Law.

1. it analyses the circulation of ‘black’ money in the Indian economy—usually getting deposited in the tax havens through hawala route.
2. the Chinese currency Yuan headed to replace the dominance of the US dollar in the world foreign exchange market.

In light of the law select the incorrect statement/statements given above using the code below.

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

22. What does a ‘J-curve effect’ mean in the area of foreign exchange management?

- (a) A deficit in BoP is followed after devaluation before posting surplus.
- (b) Though foreign exchange earnings of an economy in primary articles are lower, they are consistent.
- (c) All transactions outside a stock exchange get accounted once the stock exchange opens the next day follows a J-curve.

- (d) None of the world economies are as expert at managing their foreign exchange as one preceding successful economy.

23. Consider the following statements about ‘earth trilemma’.

1. For economic development world needs increased energy expenditure but this raises the environmental issues
2. The ‘EEE’ trilemma is synonymous to it
3. Without limiting the levels of consumption, earth as a system, can not sustain
4. Three issues need attention to sustain the earth—low consumption, high saving and an attitude of conservation

Select the correct statements using the code given below.

- (a) 1 and 2
- (b) 3 and 4
- (c) 1 and 4
- (d) 1 and 3

24. Which of the following is correct about the ‘impossible trinity’?

- (a) A country can not maintain all three policy goals—stable financial market, global integration and stable exchange rate.
- (b) A country can not maintain all three policy goals—free capital flows, a fixed exchange rate and an independent monetary policy.
- (c) A country can not maintain all three policy goals—stable exchange rate, global integration and continuous economic growth.
- (d) A country can not maintain all three policy goals—small fiscal deficits,

social welfare and high economic growth.

25. Consider the following statements.

1. Brown Label ATMs are intermediate between bank-owned ATMs and White Label ATMs.
2. Brown Label ATMs are part managed by the concerned bank and part by third party.
3. Brown Label ATMs carry the 'logo' of the concerned bank unlike the White Label ATMs which carry their own logo.
4. Banks have seen fall in their operational cost but increased risk in India.

Select the correct statements using the code given below.

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

### ANSWER KEY WITH EXPLANATIONS

1. (d) For detailed explanation on the 'holding' and 'operating' companies, see the Answer of Qs. 1, Set- 5.
2. (d) 'Factor Cost' and 'Factory Price' mean same thing—the cost of all inputs which are needed to produce a product (such as raw material, labour, power, interest, rent, maintenance, etc).
3. (a) Any earning above the 'transfer earning' is known as its 'economic cost'.
4. (b) Such a situation arises during the periods of high inflation—because equities provide capital gains which compensate the negative impact of inflation on them while government securities do not get this advantage. This is why during higher inflation it is suggested to invest in

equities rather than government bonds (provided the security market in healthy mode).

5. (c) 'Liquidity trap' and 'liquidity preference' are used synonymously. Liquidity crunch is short-supply of money in the money as well as capital market.
6. (d) The 'Lorenz Curve' is a graphical representation of wealth distribution (US economist Max Lorenz, 1905) in which a straight diagonal line represents perfect equality of wealth distribution—the Lorenz curve lies beneath it, showing the reality of wealth distribution. The difference between the straight line and the curved line is the amount of inequality of wealth distribution, a figure described by the Gini coefficient. The curve is used to show what percentage of a nation's residents possess what percentage of that nation's wealth.

'Gini Coefficient' (developed by the Italian Statistian and Sociologist, 1912) measures the inequality in income in an economy (also known as the Gini index or Gini ratio). This is a measure of statistical dispersion intended to represent the income distribution of a nation's residents. This measures the inequality among values of a frequency distribution (for example levels of income)—a Gini coefficient of zero expresses perfect equality, where all values are the same (for example, where everyone has the same income) while a Gini coefficient of one (i.e., 100 per cent) expresses maximal inequality among values (for example, where only one person has all the income). However, a value greater than one may occur if some persons represent negative contribution to the total (e.g., have negative income or

- wealth). For larger groups, values close to or above 1 are very unlikely in practice. This is commonly used as a measure of inequality of income or wealth.
7. (b) Banks require the borrower to show a stable income source or sufficient collateral, a 'ninja loan' ignores the verification process. A ninja loan is often found in the mortgage market. In such loans, generally, interest rate initially remain lower and is increased later. Such borrowers hope to pay their loan once their property appreciate. But in case if the property doesn't appreciate, many borrowers default repayments. This why such loans are very risky for lenders.
  8. (c) This rate is tracked by the borrowers across India who keep operating in the 'working capital market'.
  9. (b) The concept is not connected to taxation. This idea of the Italian economist Vilfredo Pareto (1843–1923) suggests that 'nobody can be made better off without making someone else worse off'.
  10. (d) They are low-priced shares of small companies with very low market capitalisation. They were in news recently as some of such shares did show high rise in their trading prices on the security bourses.
  11. (a) Such shares may get dividend even if the company has gone in loss and they are issued for a period upto 10 yrs.
  12. (b) Mutual fund companies offer such stocks—some part of money is invested in share market and the debt market—such option is known as a 'balance fund'.
  13. (a) Investors in share market take their investment decisions after analysing the 'P/E Ratio' (Price-Earning Ratio) of different shares in the market—this is the ratio of the share price and its earning (dividend).
  14. (a) This is a famous example in the 'game theory' which concludes that why co-operation is difficult to achieve even if it is mutually beneficial, ultimately making things worse for the parties involved.
  15. (d) This is a situation of population growth rate (i.e., natural rate of increase) greater than the achievable growth rate in the economy.
  16. (d) Such situations occur since the after tax income (i.e., disposable income) turns out to be less than the benefit of the unemployment allowance.
  17. (b) Exceptionally low prices are fixed by the firms under such pricing policy which has the objective of harming and finally eliminating rivals from the market—when they have monopolistic presence in the market they start exploiting the consumers.
  18. (a) This is another term for 'retail lending'—in such lending, banks forward a large number of loans to individual borrowers rather than putting the same money to a few corporate (non-individual i.e. group) borrowers—though the former is more risky and cumbersome, too.
  19. (d) The limit upto which shares can be issued by a company is upto its authorised capital (the capital which is written in its Article of Association).
  20. (c) The phrase was coined by the economist J.M. Keynes.
  21. (c) The Law proposed by Sir Thomas Gresham (an advisor to Queen Elizabeth—I of England) does not deal with 'black', 'white' or any weakening world currency, nor it is correct in the case of paper currencies. The law is

correct once metallic currencies are in circulation which have proportional intrinsic value—such currencies are hoarded (as in the case of price rise).

22. (a) This theory states that a country's trade deficit will worsen initially after the depreciation/devaluation of its currency because higher prices on foreign imports will be greater than the reduced volume of imports. The effects of the change in the price of exports compared to imports will eventually induce an expansion of exports and a cut in imports—which, in turn, will improve the balance of payment situation.
23. (a) The 'EEE' trilemma is also known as the 'Earth Trilemma' which says that for economic development, mankind needs to increase energy consumption but this accelerates environmental degradation. In a sense, energy model needs re-thinking.
24. (b) This remains the prima donna of all 'trilemmas' articulated by the economists. This is also known as 'Mundell's

Impossible Trinity' which has strong theoretical foundations in the Mundell-Fleming Model developed in 1960s.

25. (a) In case of the *Brown Label ATMs (BLA)* banks only handle part of the process (cash handling and back-end server connectivity) while the ATM machine is owned by the third party along with the physical infrastructure—they carry the 'logo' of the bank.

The *White label ATM's (WLA)* are fully managed by third party service providers (and they have their own label i.e., 'logo'—for example, in case of the Tata-launched Tata Communications Payment Solution carry their logo—'Indicash'. These are branded non-bank ATM machines. Cash handling, management and logistics are provided by third party. Debit cards of all banks can be operated through these machines. The role of the concerned bank is only limited to provided account information and back-end money transfers.