

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.**

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* Edmund Burke (1729–1797)

SET-1

1. Standing deposit facility scheme (SDFS) has been in news recently—select the correct statement(s) related to it by using the code given below:
 1. A new small saving scheme (SSS) announced by the Government in the Union Budget 2018-18.
 2. This will allow ‘uncollateralized deposit’ of the liquidity by the RBI.
3. Select the correct statements related to the new System of National Accounts to which India shifted recently—using the code given below:
 1. Now, India accounts its national income at ‘market price’.
 2. Growth rate of the economy is now measured by ‘GDP at constant market price’.
 3. ‘Product taxes’ added to the ‘gross value added’ is the ‘market price’.
 4. ‘Product taxes’ are ultimately paid by the consumers of goods and services.

Code:

- (a) Only 1
 - (b) Only 2
 - (c) 1 and 2 both
 - (d) Neither 1 nor 2
2. Select the correct statements about the ‘*hybrid annuity model*’ (HAM) which the government has launched recently to promote the road projects in the country—use the codes given below:
 1. It is an improvement over the existing ‘engineering-procurement-construction’ model of the PPP.
 2. Investment participation in this model is between the GoI and the private firm in the ratio of 40:60.
 3. Toll is to be collected by the government while the private participator gets a fixed amount of annuity for a defined period of time.
 4. Risks related to clearance, compensation, commercial and traffic are to be borne by the government.

Code:

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

Code:

- (a) 1 and 2
 - (b) 1, 2 and 4
 - (c) 2, 3 and 4
 - (d) 1, 2, 3 and 4
4. Consider the following statements 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. Consider the following statement—

“Most of the world’s poor people earn their living from agriculture, so if we knew the economics of agriculture, we would know much of economics of being poor”.

Which of the following document has used the above-given saying of the Economics Nobel Laureate Theodore Schultz?

- (a) Food and Agriculture Organisation Report- 2017 (UNO)
- (b) Economic Survey 2015-16 (GoI)
- (c) Union Budget 2017-18 (GoI)
- (d) World Development Report-2016 (World Bank)

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

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. 'Bad bank' was recently in news—select the statements correct about it, using the code given below:

1. It is a bank which buys the bad loans of the banks
2. Government of India is presently consider to set up such a bank.
3. It will help India come out of the twin balance sheet problem.

Code:

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

11. LoU (Letter of Undertaking) was recently in news. Select the correct statement(s) about it by using the code given below:

1. It is issued by a customer in the name of a bank or financial institution.
2. It guarantees the creditworthiness of the drawee of the LoU.

Code:

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

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.

Select the correct statements using the code given below:

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

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 statement is correct about SWIFT which was recently in news?
- A global association of banks which guarantees loans across the world.
 - Banks guarantee creditworthiness of a borrower through it.
 - Letter of Undertaking issued by a bank is guaranteed by this global association.
 - None of the above.
19. If interest rate is increased in an economy, it will—
- increase the consumption expenditure in the economy.
 - decrease tax collection of government.
 - decrease the savings in the economy.
 - decrease the investment expenditure in the economy.
20. Arrange the following according to their increasing order of 'liquidity', using the code given below:
- Saving deposits with the banks
 - Currency and coins with the public
 - Demand deposits with the banks
 - Term deposits with the banks
- Code:*
- 4-1-3-2
 - 2-3-4-1
 - 3-4-1-2
 - 1-2-3-4
21. *Swiss Challenge* was recently in news. Select the correct statements related to it, using the code given below:
- It is a method of public procurement through awarding contracts.
 - Bidders face challenge of improving upon the first bidder.
 - The new method of awarding contracts is being first time used in India.
 - This can be used for PPP and non-PPP projects.
- Code:*
- 1 and 3
 - 1, 2 and 4
 - 3 and 4
 - 1, 2, 3 and 4
22. Select the correct statements from the list given below, using the code:
- Infrastructure sector has the highest share in the non-performing assets of the public sector banks in the country, at the start of the year 2017-18.
 - From 2001 till 2016-17, banks' lending to the infrastructure sector has grown annually around 40 per cent.
- Code:*
- Only 1
 - Only 2
 - 1 and 2
 - Neither 1 nor 2
23. Consider the following statements related to the current provision of using the disinvestment proceeds.
- The allocations out of the NIF will be decided by the Union Budget.
 - Only the profits accruing out of the NIF can be used that too only on the social sector.
 - During 2013-14, the government approved allocations from the NIF towards spending on recapitalisation of public sector banks.
 - 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. Select the correct code regarding the need of change in the FRBM Act, as per the new school of thinking—

1. Targeting a fiscal number will be better than targeting a fiscal range.
2. The present provisions of the Act might have compromised the socio-economic interests of the economy.

Code:

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

ANSWER KEY WITH EXPLANATIONS

1. (b) Need of the 'standing deposit facility' (SDF) was proposed by the RBI in November 2015 for the first time. The Union Budget 2018-19 announced to put this scheme in place. RBI will be able to hold 'uncollateralized' deposit under it in case the economy is flush with excess fund (as was seen during demonetisation in November 2016).
2. (c) Hybrid Annuity Model (HAM) is a PPP model to develop road projects while the 'engineering, procurement, construction' (EPC) was fully funded by the GoI. Private sector, in this model, has the responsibility to build the road and hand it over to the government. The selection takes place on the basis of bidding—the bidder which asks for lowest annuity gets the project. The new PPP model was announced by the GoI by late **January 2016**.
3. (d) India shifted to the new system in the financial year 2015–16. It is the standard practice across the world and was suggested by the IMF in 2008. Some examples of 'product taxes' are—cenvat, excise, sales tax, vat, service tax, etc. Though the product taxes are imposed on the producers they are ultimately borne by the consumers (it is an indirect tax).
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. (b) To highlight the importance of the agriculture sector in case of India, the Survey first quotes Mahatma Gandhi (India lives in villages) and then Theodore Schultz. In **2016–17**, we see a major shift in the government's budgetary allocation in favour of the agriculture sector.
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 *Economic Survey 2016–17* advised the government to set up such a body which it called 'public sector asset reconstruction agency (PARA)'. It will serve twin purposes—on one hand it will buy the 'non-performing assets' (i.e., bad debts) of the government banks while on the other it will help the corporate sector of the country to come out of the 'red' (their balance sheet in unsustainable)—this way helping India to come out of the 'twin balance sheet' (TBS) problem.
11. (b) LoU is issued by banks/financial institutions to firms which gives guarantee of firms' creditworthiness. This makes it possible for the firms to borrow as per

their needs. In case the firm defaults in servicing the loans the LoU-issuing bank/institution is supposed to compensate the lending banks/financial institutions. It was in news by late February 2018 when a firm (led by Nirav Modi) was accused of a Rs. 11,500 crore borrowings from several overseas branches of the Indian banks on the basis of a LoU issued by the Punjab National Bank (PNB) in the name of his firm (Gitanjali).

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 is an Indian idea.
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. (d) SWIFT (Society for Worldwide Interbank Financial Telecommunication) is a ‘messaging network’ that connects banks and financial institutions across the world. The letter of undertakings (LoUs) are communicated through it only by the banks/financial institutions across the globe.
19. (d) As interest rate goes up the investment decreases because the cost of fund increases.
20. (a) Demand deposits will have more liquidity than the saving deposits as the former includes the ‘current accounts’ of the firms (the most liquid deposit with the banks).
21. (b) This method is being used by the GoI for the first time, though, it has been already used by the states (Andhra Pradesh, Bihar, Gujarat, MP, Punjab, etc.). By late **January 2016**, the Ministry of Railways used this method to award contracts for development of 400 railway stations in the country. Though, the government has been discouraged by the Vijay Kelkar Expert Committee (set up on ‘Revisiting and Revitalising the PPP Model of Infrastructure Development’). The committee submitted its report in January 2016 itself.
22. (c) Both of the statements are correct.

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. (b) The FRBM Act presently does not provide any space to the governments (Centre and State) to realign the fiscal deficit target. This is why, in times of such needs we see the governments not abiding to the fiscal targets set by them—and performance of the Act's implementation has been mixed. Volatility becoming a kind of new normal in the global economy, governments need some fiscal space—that is why we find a new school of thought emerging in recent times which believes it correct to review the FRBM Act. Now in place of a fiscal deficit number the Government targets a 'range'-with a flexibility of 0.5 per cent (implemented since 2018-19 accepting the advice of the Review Committee on the Act).

SET- 2

- Which statement is correct about the 'liquidity coverage ratio' which was in news recently?
 - Corporate houses measure the availability of their working capital needs by it.
 - Banks maintain enough liquidity under it for their needs upto 30 days.
 - RBI uses this to measure the liquidity supply in the country's money market by it.
 - This is ratio of the short-term and long-term liquidity available in an economy.
- For which of the following purposes Indian currency is fully convertible? Select the correct code:
 - Repatriation of remittances
 - Interest payments of foreign loans
 - Direct foreign investment

4. Indirect foreign investment
5. Trade

Code:

- (a) 1,3 and 5
 - (b) 1, 2, 4 and 5
 - (c) 3, 4 and 5
 - (d) 2, 4 and 5
3. Since 2016–17, a new methodology has been operationalised by the RBI, for the banks in India, to decide their lending rates—known as the *Marginal Cost of funds based Lending Rate (MCLR)*. The new method *aims* for which of the following; select your answer using the code given below:
1. to improve transmission of policy rates into the lending rates of banks
 2. to improve transparency in the methodology followed by banks for determining interest rates
 3. to ensure availability of bank loans at interest rates which are fair to the borrowers as well as the banks
 4. to help the banks to become more competitive and enhance their long run value

Code:

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

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.

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
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

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
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 and Time Deposits of the banks
 - 3. Other Deposits with the RBI
 - 4. Currency and 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 is correct about the situation of 'inverted custom duty'?
- (a) When custom duties are higher on the raw materials and lower on the finished goods.
 - (b) When due to some exemptions custom duty on the similar goods are lower for the multinational firms in comparison to the domestic firms.
 - (c) When the countries with low tax regime (tax havens) give high export subsidies making the indigenous industries suffer in trade.
 - (d) None of the above.
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.
 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 and 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. Net stable funding ratio (NSFR) was in news recently. Which of the following statement is not correct about it?

- (a) This is a clause of the Basel III norms for banking regulation
- (b) This is an obligatory provision for Indian banks.

- (c) It is a ratio which shows the resilience of banks to their long term needs of funds.
- (d) India is not committed to follow this provision.

22. A new disinvestment policy was announced by the Government recently—select the correct statements related to it, using the code given below;

1. As per the new policy the PSUs can be now privatised.
2. Government of India can sell the shares of the PSUs upto 100 per cent, too.
3. PSUs will be used to attract more investment in the economy.

Code:

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

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. Crypto-currencies have been in news recently—select the correct statement(s) about it in case of India, by using the code given below:

1. Government of India does not consider crypto-currencies a legal tender.
2. Government proposes to eliminate use of such currencies.

Code:

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

ANSWER KEY WITH EXPLANATIONS

1. (b) This is one of the provisions of the Basel III norms of prudential regulation of the banking sector.
2. (b) Rupee is fully convertible in the cases—interest payment, remittances, grants and indirect foreign investment (though, it belongs to the capital account).
3. (d) All are the objectives of the new methodology. The MCLR will be a tenor linked internal benchmark and actual lending rates will be determined by adding the components of spread to the MCLR. Banks will review and publish their MCLR of different maturities *every month* on a pre-announced date. The periodicity of reset shall be one year or lower. Banks will continue to review and publish *Base Rate* as hitherto.

As per the RBI (*April 2016*), 'for monetary transmission to occur, lending rates have to be sensitive to the policy rate'. But this was not occurring by now. Banks, by now, have been using either of the following three methods to compute their Base Rate—(i) average cost of funds, (ii) marginal cost of funds, or (iii) blended cost of funds (liabilities).

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. (a) This is a situation when the import (custom) duty applicable on the finished product is lower than on the raw material (or intermediate product). This discourages domestic manufacturers. In case of India it occurs not solely because of basic custom duty but in some cases as a result of other additional duties.
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—depositors lose confidence in the bank and start withdrawing their deposits in the concerned bank. This term has been used in contemporary journalism recently in the wake of the high loss fetched by the United Bank of India. Similar situations were seen in the wake of the sub-prime crisis in the US economy—by now, over 300 banks have been closed down in the economy due to losses.
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 and 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. (d) This is one of the clauses of the Basel III norms (of the Basel based Bank for International Settlement) aimed at prudential regulation of the banking sector. Banks are supposed to maintain sufficient long-term (one year) liquidity under it so that they could be sure of stable source of fund in times of financial stress if such situations arise in the economy.
22. (d) As per the new policy announced by the Government in 2016–17, any amount of shares can be sold in the public sector undertakings (PSUs). Disinvestment is now seen as the part of 'comprehensive management of Government's investment in the PSUs'.
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.
In the new system of national income accounting it is written as CPC (Consumption of fixed capital)—in use since 2015–16 after the advice of the IMF.
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. (a) The stand of the GoI on crypto-currencies has been already made clear by the RBI. It was re-emphasised in the *Union Budget 2018-19* also when the Government announced to take all measures to eliminate use of such currencies in financing *illegitimate activities* or as part of the payment system.

SET- 3

1. Which one is the correct equation for India's NNP at market prices?
 - (a) Total GVA at basic prices + Production taxes (less Production subsidies)
 - (b) CE + MI + CFC + Product taxes + Production taxes (less Product and Production subsidies)
 - (c) Total GVA at basic prices + Product and Production taxes (less all subsidies)
 - (d) CE + MI + CFC + Product taxes (less Product subsidies)
2. Which of the following is correct about 'Coach Mitra' recently in news—
 - (a) A single window interface proposed by the Indian Railways to register all coach related complaints and needs.
 - (b) An 'app' based service system to help rail passengers to avail entertainment and internet on the go.

(c) A self-service window for buying rail and platform tickets.

(d) None of the above.

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 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

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. Select the correct statements about 'countervailing duty'—

- (a) A tax imposed on import by the importing country to neutralise the benefit of export subsidies offered by the exporting country.
- (b) Another name of the anti-dumping duty.
- (c) It does not come under the preview of the WTO.
- (d) It is opposite to custom duty.

13. Due to certain reasons, it becomes difficult for the Export Credit Guarantee 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.

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. 'Net income' term was recently in news— which of the following is correct about it?

- (a) It is balance of a company's total income and its total expenditure.
- (b) The profit of a company after paying corporate tax.
- (c) The income earned by a company over their losses and interest payments.
- (d) The income of a company without deducting their losses.

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 RFPIs 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. NITI Aayog has suggested a new method, the '*price deficiency payment*', for farmers which is consistent with India's agricultural obligations to the WTO. Select the correct statements regarding it, using the code given below:

1. It suggests to pay a bonus price above the minimum support price (MSP) announced for a crop which will be not more than the market price of the crop.
2. It looks into the prices in the mandis regulated by the Agriculture Produce Market Committee (APMC) of the states.
3. Farmers to get a maximum payment of the difference between the MSP and market price of a crop.
4. The technology platform of direct benefit transfer (DBT) is to be used for the purpose.

Code:

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

ANSWER KEY WITH EXPLANATIONS

1. (b) As per the new methodology this is the correct formula to derive the Net National Product (NNP) of a nation.
2. (a) This was one of the announcements of the **Union Budget 2017–18**, for railways. At present, for cleaning service of the rail coach a SMS based service (called ‘clean my coach service’) is operational.
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. (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. In 2016–17, the GoI allowed the foreign re-insurance to enter into India.
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. (a) Anti-dumping duty is imposed in similar case but not due to export subsidy given by the exporting country, rather when the country is exporting (dumping) something 'below fair market price'. In both of the taxes an investigation is provisioned by the WTO.
13. (a) 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. (a) It is derived by deducting the expenses of the company from its total revenue in a particular period (usually one year). It is also called *earnings*, *net earnings* or *net profit*.
16. (a) 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 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. (c) This advice was given by a ‘Task Force on Agriculture’ of the NITI by late 2015. It suggested that farmers can be made a payment (say 50 per cent) of the difference between the market price and APMC regulated price for a crop, to encourage them produce more. This way, India will be able to promote more food crops as well as not violate the agricultural provisions of the WTO.

Set-4

1. Select the correct statement(s) about India's new method of national income accounting:

1. Subsidies are not added in it.
2. Firms' income are taken after deducting their depreciation.

Code:

- (a) Only 1
 - (b) Only 2
 - (c) 1 and 2
 - (d) Neither 1 nor 2
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. Crains 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 was the leading development expenditure of the government in India.
 2. Maintenance expenses of the assets created by the plan expenditure of the

previous years were also considered as developmental expenditures.

3. Planning Commission mainly dealt 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 financial 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. Purchase tax was recently in news—select the correct statements about it, using the code given below:

1. The state tax is subsumed in the upcoming GST.
2. The tax is presently paid by traders and manufacturers on their purchases.
3. The tax is deductible while paying VAT to the states.

Code:

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

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. Sensex 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 privilege 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. Recently, the government allowed formation of a new type of 'firm' (business entity) in India—LLP. Select the correct statements related to it, using the code given below:
1. it is a partnership firm.

2. liability of partners does not extend to their personal assets.
3. it can enter into contracts and hold property in its own name.
4. this will enable smaller firms higher access to credit.

Code:

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

ANSWER KEY WITH EXPLANATIONS

1. (a) In the new methodology of national accounting, subsidies are not added with (it is 'less subsidies').
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) From 2017–18, India will only have 'revenue' and 'capital' classification of expenditure (as per the **Union Budget 2017–18**).
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 tool 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 liquidity 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) It is one among the eight state taxes which are to be merged into the new federal indirect tax, the GST.
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 stablilation 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. (d) All of the statements are correct. Such a business entity was allowed by the GoI through the Limited Liability Partnership (LLP) Act, 2008. By *May 2016*, over 36,000 such firms were operative in the country. This firm has certain legal qualities of the ‘limited liability’ firms with the ease of a ‘proprietorship partnership’ firms.

Set-5

1. Select the correct equation for the Gross Value Added at the factor cost in the new method of national accounts:
 - (a) $CE + MI + CFC + \text{Production Subsidies}$
 - (b) $CE + MI + CFC + \text{Production Taxes}$
 - (c) $CE + MI + CFC + \text{Product Taxes}$
 - (d) $CE + MI + CFC + \text{Product Taxes}$

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-sold 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. Select the correct statements related to the recently formed think tank, the NITI, using the code given below:
 1. it is to function as a vehicle of good governance.
 2. it has to develop a holistic and inclusive development model for the economy integrating the needs of Centre, states and the local bodies.
 3. the body, in a sense, subsumes the National Development Council in its Governing Council—this gives it more legitimacy.
 4. it has three specialised wings related to—research, conflict resolution and team India.

Code:

- (a) 1 and 2
 - (b) 1, 2 and 3
 - (c) 2, 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 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. Which of the following is correct about the external concessional loans India gets as Official Development Assistance—

- (a) Only central government can uses them.
- (b) Centre as well as the States, both can use such loans.
- (c) Such loans can be used by Centre, States as well as the private sector.
- (d) They can be used in only social sector.

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. Which of the following is correct statement regarding the external loans India get from the European Investment Bank—

- (a) these loans can be only used by the central government
- (b) these loans can be used by public as well as private sector
- (c) these loans are more concessional than the official development assistance (ODAs) which India gets from foreign countries.
- (d) these loans are availed by only private sector companies of India

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. Select the correct statements regarding India's present composition of the external debt, using the code given below:

- 1. Concessional part is around 10 per cent.
- 2. Forex reserves provide around 77 per cent cover to it.
- 3. Long-term part of the debt is around 83 per cent.

Code:

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

ANSWER KEY WITH EXPLANATIONS

1. (a) When 'production taxes' are added to it (less 'production subsidies') we get the value of GVA at Basic Prices.
2. (d) All are correct about the action of 'short selling'. Short-sellers basically speculate that prices of the short-sold 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) Though, the National Development Council (NDC) is still there, it has not met since December 2012 (when it had its 57th meeting). It is believed that either the body will be abolished or considered subsumed into the Governing Council of the NITI Aayog. The three 'specialised wings of the NITI are related to—research, consultancy and team India. Basically, 'conflict resolution' is one its functions.
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 change 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. (b) Private sector can not avail its use. There is no sectoral compulsion though the areas are outlined before loan is availed.
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. (b) These loans are less concessional than that of the ODAs—but more flexible as they can be used by centre, states as well as the private sector.
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) As per the *Economic Survey 2016–17*, India's external debt was US \$ 484.3 billion by end-September 2016, while its forex reserve was US \$ 360 billion.

Set- 6

1. Select the items which India shows in its current account, using the code given below:
 1. inflows due to exports and outflows due to imports
 2. inflows and outflows due to income repatriation
 3. inflows and outflows due to foreign portfolio investment
 4. external lending and borrowings

Code:

- (a) 1 and 2
 - (b) 2 and 3
 - (c) 3 and 4
 - (d) 2 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'.
4. Select the correct statement about the popular stock market term 'reverse yield gap' from the options given below:
- (a) A situation when the returns of government securities is in excess over the equities.
 - (b) A situation when the capital gains compensate the negative impact of inflation on the equities' returns.
 - (c) The instance of comparatively higher inflation which depletes the returns earned by investors on the government bonds.
 - (d) The situation when due to low long-term capital gains tax, returns on the government securities become higher.
5. Consider the following statements.
- 1. 'Liquidity trap' is a situation when people prefer to hold money rather than investing it.
 - 2. 'Liquidity preference' is the situation when people prefer to invest money rather than hold it.
 - 3. 'Liquidity crunch' is a situation of short-supply of money in the Money Market.
 - 4. 'Credit crunch' is a situation of short-supply of money in the loan market.
- 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
6. Consider the following statements. about the 'Lorenz curve'.
- 1. A straight line on it represents complete equality of income.
 - 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:

- (a) Only 1
 - (b) Only 2
 - (c) Both 1 and 2
 - (d) Neither 1 nor 2
7. What does the term 'Ninja' mean which became a common word in the financial world after the US sub-prime crisis?
- (a) A loan given on false claims of credit-worthiness by the banks.
 - (b) Borrower with no assets, no income or no job
 - (c) Highly competitive form of lending, compromising the financial fundamentals.
 - (d) A loan given to someone who is on the brink of bankruptcy.
8. Select the correct effect of fall in the rate of inflation—
- (a) Government's interest payment liabilities increases.
 - (b) Interest income on saving bank accounts goes down.
 - (c) Lending and bank business grows.
 - (d) Bondholders' incomes decrease.
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. Recently, India shifted to a new method for measuring its national income. The new

method classifies taxes into 'product' and 'production'. Select the statements given below which are correct about these taxes.

Use the code for your answer—

1. both of the taxes are imposed on the producers.
2. while product taxes are variable, the production taxes are fixed.
3. land revenue, profession tax, stamps and registration fees are some of the examples of production taxes in India.
4. sales tax, excise duty, service tax, export and import taxes are the examples of product taxes in India.

Code:

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

13. Select the correct statement regarding the process of 'disinflation'—

- (a) prices fall towards the upper limit of the healthy range of the headline inflation
- (b) price levels fall below the lower limit of the healthy range of inflation
- (c) retail inflation index falls down to single digit
- (d) it is similar to deflation

14. Which one of the following decisions follow 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 fixes 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. Select the correct statement/s by using the code given below:

1. Setting up new PSU goes against the spirit of the economic reforms.
2. Process of disinvestment may not lead to de-nationalisation.

Code:

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

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. Select the correct code for the current state of happiness in the world:

- 1. In rich countries, mental illness is the single biggest cause of misery.
- 2. Happiness depends on much more than income.

Code:

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

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. Select the correct statements regarding the central sector and centrally sponsored schemes run by the Government of India, using the code given below:

1. presently, there are 950 such schemes
2. budgetary allocation on them are today around 5 per cent of country's GDP
3. in case the country goes for the 'universal basic income', it is advisable to prune them

Code:

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

ANSWER KEY WITH EXPLANATIONS

1. (a) Foreign portfolio investments and loans are part of the capital account.
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 Statistician 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. (a) Due to fall in inflation 'real cost of borrowing' increases which makes Government's loan payment costly. Other statements are written just their opposite.
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. (d) All of the statements are correct. While the product taxes are imposed on the producers they are ultimately paid by the consumers of the goods and services—these taxes are linked to the production volumes of the producers (so they are variable). Production taxes are paid by producers are not linked to the volume of their productions that is why they are 'fixed cost' of production.
13. (a) For example, in case of India, retail price index falling towards 6 per cent (that is the upper limit of India's healthy range of inflation) from above 6 per cent levels (such as 7 or 8).
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) Setting up a new PSU is not antagonistic to the process of reform. After the 'Comprehensive Management of Public Assets' started in February 2016, the orientation towards the PSUs has also gone for a change.
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. (c) This was reported by the World Happiness Report-2017. This is why the report has advised the nations to build strong 'social foundations' (healthy lives and social trust) so that happiness can be promoted among people.
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. (d) Several of the schemes are very old and fund allocation on them are also low. For example, one scheme (Livestock Health and Disease Control) is 96 years old! While suggesting the Government to think in the direction of the 'universal basic income' scheme, the *Economic Survey 2016-17* has suggested to wind up these schemes in phased manner.