ANSWERS TEST – 3 : ECONOMY

1. Solution D

Various methods used by central bank to control creation can be divided into quantitative and qualitative methods.

Qualitative methods are:

- Margin Requirements
- Regulation of consumer Credit
- Credit Rationing Policy
- Direct Action

Quantitative methods are:

- Open Market Operation
- Repo Rate
- Variable Reserve Ratio
- Bank Rate Policy

2. Solution A

Statement 3 is not correct. Liquidity adjustment facility (LAF) is a monetary policy tool which allows banks to borrow money through repurchase agreements or repos. LAF is used to aid banks in adjusting the day today mismatches in liquidity (frictional liquidity deficit/surplus). Both SLR and CRR are not part of Liquidity Adjustment Facility.

3. Solution A

Gross Domestic Product measures the aggregate production of final goods and services taking place within the domestic economy during a year.

GNP takes into account the economic activities performed by its citizens outside the geographic borders of the country also. GNP can be greater than, equal to or lesser than the GDP depending on the magnitude of Net Income from abroad.

4. Solution A

The law of demand is a micro-economic law that states, all other factors being equal, as the price of a good or service increases, consumer demand for the good or service will decrease, and vice versa. Hence demand of a good only depends on its own price.

5. Solution A

Statement 1 is correct- Core Inflation, also known as underlying inflation, is a measure of inflation which excludes items that face volatile price movement, notably food and energy. It is nothing but Headline Inflation minus inflation that is contributed by food and energy commodities.

Statement 2 is not correct- Unlike core inflation, headline inflation also takes into account changes in the price of food and energy. Since food and energy prices are highly volatile, headline inflation fluctuates more and may not give an accurate picture of how an economy is behaving.

Whenever core inflation rises, RBI increases policy rates to suck excess liquidity from the market and vice versa.

6. Solution C

WPI food index is a new Food price Index launched on 12 May 2017 as part of revised WPI series with **base year 2011-12**. WPI food index **measures the changes in prices of food items at the level of producers.**

The WPI Food index is compiled by taking the aggregate of WPI for 'Food Products' under 'Manufacture Products' and 'Food Articles' under 'Primary Article' using weighted arithmetic mean. (Indices for Food Articles and Food Products were being released separately in WPI (2004-05) also. But no separate estimate like WPI food index was being generated then).

Together with the Consumer Food Price Index released by Central Statistics Office, this would help monitor the price situation of food items better.

7. Solution D

The functions of the Reserve Bank of India can be categorised as follows:

Regulation and supervision of the banking and non-banking financial institutions, including credit information companies

Regulation of money, forex and government securities markets,

Debt and cash management for Central and State Governments, Management of foreign exchange reserves, current and capital account management,

Banker to banks, lender of the last resort, etc.

8. Solution C

Both the statements are correct.

Sovereign Gold Bond (SGB) Scheme was launched in 2015 to develop a financial asset as an alternative to purchasing metal gold.

SGBs are government securities denominated in grams of gold. They are substitutes for holding physical gold. The bond is issued by the RBI on behalf of the Government of India.

9. Solution B

Statement 1 is incorrect as it will be implemented for 3 years.

Statement 2 is correct.

TIES was launched in March 2017.

The objective of the scheme is to enhance export competitiveness by bridging gaps in export infrastructure, creating focused export infrastructure, first mile and last mile connectivity for export-oriented projects and addressing quality and certification measures.

10. Solution C

Statement 1 is correct. Repo rate is the rate at which the central bank of a country (Reserve Bank of India in case of India) lends money to commercial banks in the event of any shortfall of funds.

Reverse repo rate is the rate at which the central bank of a country (Reserve Bank of India in case of India) borrows money from commercial banks within the country.

Statement 2 is correct. The securities transacted here can be either government securities or corporate securities or any other securities which the Central bank permits for transaction. Non-sovereign securities are used in many global markets for repo operations. Unlike them, Indian repo market predominantly uses sovereign securities, though repo is allowed on corporate bonds and debentures.

11. Solution A

Tax buoyancy is an indicator to measure efficiency of revenue mobilization with respect to growth in national income. If it is more than one then growth in tax collection would be higher than growth in GDP.

12. Solution A

In case of rural areas, there is seasonal and disguised unemployment. Urban areas have mostly educated unemployment.

Statement 1: Seasonal unemployment happens when people are not able to find jobs during some months of the year, mainly due to agriculture.

Statement 2: In case of disguised unemployment people appear to be employed. They have agricultural plot where they find work. This usually happens among family members engaged in agricultural activity. The work requires the service of five people but engages eight people. This reduces productivity per person.

13. Solution D

While determining the poverty line in India, a minimum level of food requirement, clothing, footwear, fuel and light, educational and medical requirement etc. are determined for subsistence. These physical quantities are multiplied by their prices in rupees.

Statement 1: The present formula for food requirement while estimating the poverty line is based on the desired calorie requirement.

The accepted average calorie requirement in India is 2400 calories per person per day in rural areas and 2100 calories per person per day in urban areas.

Statement 3: A person is not declared poor if he does not possess land. However, if he has land, he will be automatically excluded from the poverty line.

14. Solution B

HDR is an annual milestone published by the Human Development Report Office of the UNDP. India ranked 131 in 2016 Human Development Index.

World Development Indicators is the primary World Bank collection of development indicators, compiled from officially-recognized international sources.

It presents the most current and accurate global development data available, and includes national, regional and global estimates.

15. Solution A

Foreign Exchange Reserves include:

- Reserves held in US Dollars, The Euro, The British Pound or the Japanese Yen.
- Foreign bank notes, foreign bank deposits, foreign treasury bills and short term and long term foreign government securities.
- Gold reserves.
- Special Drawing Rights and International Monetary Fund reserve positions.

The main purpose of holding foreign exchange reserves is to make international payments and hedge against exchange rate risks.

16. Solution B

Correct Match is as follows:

1. CPI for industrial- Labour Bureau
2. CPI (Rural) – Central Statistics Office (CSO)
3. GDP Deflator -CSO

17. Solution C

Devaluation attracts foreign investors as now they get more Indian assets by investing less in dollar or other foreign currency terms. For e.g. in 1991, as an immediate measure to resolve the balance of payments crisis, the rupee was devalued against foreign currencies. This led to an increase in the inflow of foreign exchange.

Increase in Import duty will lead to decrease in import, thereby outflow of foreign currency will reduce.

18. Solution D

Revenue account consists of Revenue receipts and revenue expenditure.

Revenue receipts are receipts of the government which are non-redeemable, that is, they cannot be reclaimed from the government. Revenue Expenditure is expenditure incurred for purposes other than the creation of physical or financial assets of the central government. It relates to those expenses incurred for the normal functioning of the government departments.

Income tax is a revenue receipt because it is non-redeemable i.e. Government doesn't have to pay it back.

Grants to state is a revenue expenditure (even if some of it is used for asset creation)

Interest on government security or bond is revenue expenditure. Here, money raised through loan is capital receipt but interest paid on it would be revenue expenditure.

19. Solution D

GST is an indirect tax that subsumed various central indirect taxes such as central excise duty, additional excise duty, service tax, additional customs duty (countervailing duty) and special additional duty of customs and state indirect taxes such as sales tax/sales value added tax (vat), entertainment tax, octroi and entry tax, purchase tax, luxury tax and taxes on lottery, betting and gambling.

20. Solution C

Government had constituted the National Investment Fund (NIF) in November, 2005 into which the proceeds from disinvestment of Central Public Sector Enterprises were to be channelized. The corpus of NIF was to be of a permanent nature and NIF was to be professionally managed to provide sustainable returns to the Government, without depleting the corpus. Selected Public Sector Mutual Funds, namely UTI Asset Management Company Ltd., SBI Funds Management Private Ltd. and LIC Mutual Fund Asset Management Company Ltd. were entrusted with the management of the NIF corpus. As per this Scheme, 75% of the annual income of the NIF was to be used for financing selected social sector schemes which promote education, health and employment. The residual 25% of the annual income of NIF was to be used to meet the capital investment requirements of profitable and revivable PSUs.

21. Solution A

This is a tax on tax, levied by the Government for a specific purpose. Generally, cess is expected to be levied till the time the govt. gets enough money for that purpose. The education cess, that is levied currently, is meant to finance basic education in the country. Few other examples are- Krishi Kalyan cess and infrastructure cess, Swachh Bharat cess (SBC) ext.

22. Solution A

The **SDR** is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves.

23. Solution D

Transfer payments are receipts which the residents of a country receive 'for free', without having to make any present or future payments in return. They consist of remittances, gifts and grants. They could be official or private.

24. Solution B

If the real exchange rate is equal to one, currencies are at purchasing power parity.

The ratio of nominal to real GDP is a well-known index of prices. This is called GDP Deflator. Thus if GDP stands for nominal GDP and gdp stands for real GDP then, GDP deflator = GDP/ gdp .

25. Solution A

Progressive tax means as the higher tax bracket for higher income levels. GST covers only indirect taxes.

26. Solution C

RBI purchases (or sells) government securities to the general public in a bid to increase (or decrease) the stock of high powered money in the economy.

This is known as "Open Market Operation"

27. Solution C

The Great Depression of 1929 and the subsequent years saw the output and employment levels in USA fall by huge amounts.

The Bretton Woods Conference held in 1944 set up the International Monetary Fund (IMF) and the World Bank and re-established a system of fixed exchange rates.

India announced the New Economic Policy in 1991.

WTO was formed in 1995 as a successor of GATT.

28. Solution D

Liquidity Trap is a situation in which injections of cash into the private banking system by a Central bank fails to lower interest rates and hence fail to stimulate economic growth making monetary policy ineffective. A liquidity trap is caused when people hoard cash because they expect an adverse event such as deflation, insufficient aggregate demand, or war. Characteristics of a liquidity trap are short-term interest rates that are near zero and fluctuations in the monetary base (printed money) that fail to translate into fluctuations in general price levels.

29. Solution B

The Mahalanobis model was implemented in 2nd five year plan (1956-1961). It focused on heavy industries.

30. Solution C

Goods which are consumed together are called complementary goods. Example: Tea and sugar. Since tea and sugar are used together, an increase in the price of sugar is likely to decrease the demand for tea and a decrease in the price of sugar is likely to increase the demand for tea.

Goods which are not consumed together and act as substitute for each other are called substitutes.

Example: Tea and Coffee. Here, if price of one good increases, then people can shift to its substitute and thus demand of alternative good increases. The demand for a good will be generally low if the price of its substitute is low.

31. Solution A

Goods and Services Tax (GST) refers to the single unified tax created by amalgamating a large number of Central and State taxes presently applicable in India.

The salient features of GST are as under:

GST comes under the broad spectrum of what is known as **Value Added Tax** which provides for input credits and taxes only the value addition that happened in the process of production / provision of service.

GST would be applicable on supply of goods or services as against the present concept of tax on the manufacture or on sale of goods or on provision of services.

GST would be a destination based tax as against the present concept of origin based tax. i.e, **tax is imposed at the point of consumption.**

It would be a dual GST with the Centre and the States simultaneously levying it on a common base.

The Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supply of goods and services. There will be seamless flow of input tax credit from one State to another. Proceeds of IGST will be apportioned among the States.

Import of goods or services would be treated as inter-State supplies and therefore, would be subject to IGST in addition to the applicable customs duties. In other words, all imported goods will be charged integrated tax (IGST) which is equivalent to Central GST + State GST. This will bring equality with taxation on local products.

32. Solution A

Real GDP is calculated in a way such that the goods and services are evaluated at some constant set of prices (or constant prices). Since these prices remain fixed, if the Real GDP changes we can be sure that it is the volume of production which is undergoing changes. Nominal GDP, on the other hand, is simply the value of GDP at the current prevailing prices.

33. Solution C

Under the repo or repurchase option, banks borrow money from the RBI via the sale of securities with an agreement to purchase the securities back at a fixed rate at a future date. The rate charged by the RBI to aid this process of liquidity injection is termed as the repo rate. Under the reverse repo operation, the RBI borrows money from the banks, draining liquidity out from the system. The rate at which the RBI borrows money is the reverse repo rate.

34. Solution A

RBI publishes figures for four alternative measures of money supply, viz. M1, M2, M3 and M4. They are defined as follows

M1 = CU + DD

M2 = M1 + Savings deposits with Post Office savings banks

M3 = M1 + Net time deposits of commercial banks

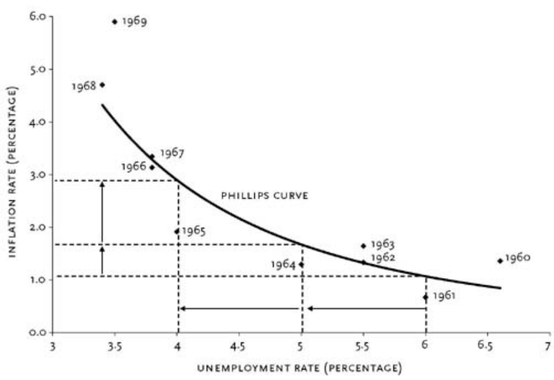
M4 = M3 + Total deposits with Post Office savings organisations (excluding National Savings Certificates) where, CU is currency (notes plus coins) held by the public and DD is net demand deposits held by commercial banks. The word 'net' implies that only deposits of the public held by the banks are to be included in money supply. The interbank deposits, which a commercial bank holds in other commercial banks, are not to be regarded as part of money supply. M1 and M2 are known as narrow money. M3 and M4 are known as broad money.

M1 is most liquid and easiest for transactions whereas M4 is least liquid of all. M2 is more liquid than M3.

35. Solution A

Price-elasticity of demand for a good is defined as the percentage change in demand for the good divided by the percentage change in its price. If at some price, the percentage change in demand for a good is less than the percentage change in the price then that good would be called price inelastic. It is not necessary that there should be no change in demand to be called inelastic. For an inelastic good the Price Elasticity of Demand is less than 1.

36. Solution B



Phillips Curve describes- the inverse relationship between rate of inflation and rate of unemployment. Some level of inflation could be considered desirable in order to minimize unemployment.

37. Solution C

Banks are broadly classified into two types- Scheduled Banks and Non-Scheduled Banks.

Scheduled banks are those banks which are included in the second schedule of the Reserve Bank Act, 1934. They satisfy two conditions under the RBI Act:

- Paid up capital and reserves of an aggregate value of not less than Rs. 5 lakh.
- It must satisfy RBI that its affairs are not conducted in a manner detrimental to the depositors.

Scheduled banks are eligible for loans from the Reserve Bank of India at bank rate, and are given membership to clearing houses.

38. Solution D

Stagflation is a combination of inflation and rising unemployment due to recession.

Deflation is when there is a general fall in the level of prices.

Disinflation, which is the reduction of the rate of inflation.

Skewflation refers to rise in price of one or small group of commodities over a sustained period of time, along with decreasing prices in others.

39. Solution C

Bhutan is the first country in the world to come up with the concept of GNH. The concept of GNH is based on the premise that true development takes place when material and spiritual development occurs side by side to complement and reinforce each other. The four dimensions of GNH are the promotion of equitable and sustainable socio-economic development, preservation and promotion of cultural values, conservation of the natural environment and establishment of good governance.

Madhya Pradesh is the first state in the India to have "Happiness Department".

40. Solution D

The objective of PSL is to ensure that adequate institutional credit flows into some of the vulnerable sectors of economy. Export credit, renewable energy, agriculture, micro and small enterprises, education, housing etc. come under the PSL.

41. Solution C

SLR:

- The ratio of liquid assets to demand and time liabilities.
- SLR limits the influences that banks have in putting more money into the economy. It also effectively regulates the credit growth in the Indian economy.
- It is maintained in liquid form with banks themselves.
- They can meet the SLR by cash, gold or approved securities.

42. Solution D

The marginal cost of funds based lending rate (MCLR) refers to the minimum interest rate of a bank below which it cannot lend, except in some cases allowed by the RBI. It is an internal benchmark or reference rate for the bank. MCLR actually describes the method by which the minimum interest rate for loans is determined by a bank – on the basis of marginal cost or the additional or incremental cost of arranging one more rupee to the prospective borrower.

MCLR aims:

- To improve the transmission of policy rates into the lending rates of banks.
- To bring transparency in the methodology followed by banks for determining interest rates on advances.
- To ensure availability of bank credit at interest rates which are fair to borrowers as well as banks.
- To enable banks to become more competitive and enhance their long run value and contribution to economic growth.

43. Solution C

Currently, four different forums-High Courts, Company Law Board (CLB), Board for Industrial and Financial Reconstruction (BIFR) and Debt Recovery Tribunal (DRT)-have overlapping jurisdiction, which gives rise to systemic delays and complexities in the process. The Insolvency and Bankruptcy Code overcomes these challenges and would reduce the burden on the courts as all litigation will be filed under the code before the National Company Law Tribunal (NCLT) for corporate insolvency and insolvency of LLPs, and before DRT for individual insolvency and insolvency of unlimited partnership firms.

44. Solution C

Statement 1 is correct: Capital receipts are those monetary receipts which create liability for the government and also cause reduction in assets of the government. For example, loans taken by the government become a liability for the government as these are to be paid back. However, sale of shares in PSUs reduces assets of government.

Statement 2 is correct: Capital expenditures not only create asset for the Government but also reduce liabilities of the government. For example, Money spent on infrastructure project would create an asset and repayment of loans reduces liability of the government.

45. Solution A

Statement 1 is correct.

Statement 2 is incorrect.

It has been launched to reduce the direct physical interface between assesses and tax assessing authority.

46. Solution B

Recently, the government increased the ceiling of Market Stabilization Scheme (MSS) bonds to Rs. 6 lakh crore, from the earlier Rs. 30000 crore. MSS is a mechanism to give more powers to RBI to suck out the over liquidity from the market. It was first used in February 2004 when the country was flushed with dollar inflows, which needed to be converted into the rupee. Raised money goes to separate Market Stabilization Scheme Account (MSSA), not for government expenditure. MSS bonds bear an interest rate that can boost banks' income. MSS bonds can also be used to calculate banks' mandatory bond holding. MSS bonds does not increase Government's fiscal deficit.

47. Solution A

Fiscal Responsibility and Budget Management Act (FRBMA), 2003 concerns with both fiscal and revenue deficit.

Under this Act, the FRBM rule specifies **reduction of fiscal deficit to 3% of the GDP by 2008-09 with annual reduction target of 0.3% of GDP per year** by the Central government. Similarly, **revenue deficit has to be reduced by 0.5% of the GDP per year with complete elimination to be achieved by 2008-09.**

Vide the Finance Act, 2015, there have been amendments in FRBM Act, 2003 - Concept of "Effective Revenue Deficit" and "Medium Term Expenditure Framework" statement are the two important features of amendment to FRBM Act in the direction of expenditure reforms.

Effective Revenue Deficit is the difference between revenue deficit and grants for creation of capital assets. This will help in reducing consumptive component of revenue deficit and create space for increased capital spending. Effective revenue deficit has now become a new fiscal parameter. —Medium term

Expenditure Framework statement will set forth a three-year rolling target for expenditure indicators. Now, the target dates for achieving the prescribed rates of effective deficit and fiscal deficit were further extended. The effective revenue deficit which had to be eliminated by March 2015 will now need to be eliminated only after 3 years i.e., by March 2018. The 3% target of fiscal deficit to be achieved by 2016-17 has now been shifted by one more year to the end of 2017-18.

48. Solution D

The broad contours of Vision-2018 revolve around the 5 Cs:

- Coverage - by enabling wider access to a variety of electronic payment services.
- Convenience - by enhancing user experience through ease of use and of products and processes.
- Confidence - by promoting integrity of systems, security of operations and customer protection.
- Convergence - by ensuring interoperability across service providers.
- Cost - by making services cost effective for users as well as service providers.

The regulatory framework, based on consultative approach, aims at achieving enhanced coverage of the payment systems coupled with convenience for end-users. A key objective would be ensure a robust payments infrastructure in the country to increase accessibility, availability, interoperability and security. The oversight and supervisory framework would focus on strengthening the resilience of both large value and retail payment systems in the country. Customer centric initiatives envisaged include streamlining of customer grievance redressal mechanism and building customer awareness and education.

49. Solution C

India recently unilaterally terminated its Bilateral Investment Treaty (BIT) with Netherlands and it has also served notices to 20 EU members for termination of their respective BITs. A BIT is an agreement between two countries that help formulation of rules for foreign investment in each other's countries. BIT offers protection to foreign investor by holding the host state accountable for exercise of their regulatory power through an independent international arbitration mechanism. India changed its model BIT treaty in 2015. This model pays a greater emphasis to the state's regulatory power. India was one of the most sued countries in 2015. Indian signed some 70-odd BITs from 1994-2011 which were investor friendly. Post 2011, the trend has been its opposite.

50. Solution C

The Multilateral Investment Guarantee Agency (MIGA), an arm of World Bank, was set up in 1988 to encourage foreign investment in developing economies by offering insurance (guarantees) to foreign private investors against loss-caused by non-commercial (i.e. Political) risks, such as currency transfer, expropriation, war and civil disturbance.

51. Solution A

It is an initiative launched by Ministry of Human Resource development to encourage, create awareness and motivate all people to use a digitally enabled cashless economic system for transfer of fund. It emphasizes upon cashless economy and appealed to faculty of higher institutions to make their respective campus cashless.

Ministry particularly appeals to youth, who can easily and quickly adapt to technology to proactively involve by becoming agent of change by spreading awareness among senior citizens, shopkeeper, small vendors, etc.

52. Solution A

The "balance of payments" data is not concerned with actual payments made and received by an economy, but rather with transactions.

It involves both capital and current account. India's Balance of Payment varies from being surplus to deficit.

53. Solution D

Exp: Member countries can't claim on IMF. SDRs instead represent a claim to currency held by IMF member countries for which they may be exchanged.

54. Solution C

Chit funds are essentially saving institutions. They are of various forms and lack any standardized form. Chit funds have regular members who make periodical subscriptions to the fund. The periodic collection is given to some member of the chit funds selected on the basis of previously agreed criterion.

The beneficiary is selected usually on the basis of bids or by draw of lots or in some cases by auction or by tender. In any case, each member of the chit fund is assured of his turn before the second round starts and any member becomes entitled to get periodic collection again. **Hence, statement 1 is correct.**

Chit funds are **included in the definition of Non-Banking Financial Companies by RBI** under the subhead *miscellaneous non-banking company* (MNBC). **Hence, statement 2 is correct.**

Chit fund business currently is regulated under the Central Act of Chit Funds Act, 1982 and the Rules framed under this Act by the various State Governments for this purpose.

55. Solution A

Department of Revenue deals with direct and indirect taxes. Trade Policy is the task of Department of Commerce.

56. Solution D

Gini coefficient shows proportion of people in each income level, hence one can easily calculate the percentage of people living below a particular income level.

In 2005, the Gini coefficient for India was 0.22 and in 2014, it was 0.34. Thereby, indicating that Indian Economy has grown but development hasn't taken place (certain inequality).

If redistribution of wealth and opportunities had taken place, everyone would have almost similar income levels.

57. Solution B

It was developed by UNDP and Oxford Poverty & Human Development Initiative (OPHI).

While both HDI and MPI use the 3 broad dimensions health, education and standard of living, HDI uses only single indicators for each dimension while MPI uses more than one indicator. This has led to the MPI only being calculated for just over 100 countries, where data is available for all these diverse indicators, while HDI is calculated for almost all countries.

58. Solution A

The proposals of the government for levy of new taxes, modification of the existing tax structure or continuance of the existing tax structure beyond the period approved by Parliament are submitted to Parliament through this bill.

The Finance Bill is accompanied by a Memorandum containing explanations of the provisions included in it. The Finance Bill can be introduced only in Lok Sabha.

However, the Rajya Sabha can recommend amendments in the Bill. The bill has to be passed by the Parliament within 75 days of its introduction.

59. Solution C

Both statements are correct.

60. Solution C

Preferential Trade Agreement (PTA): In a PTA, two or more partners agree to reduce tariffs on agreed number of tariff lines. The list of products on which the partners agree to reduce duty is called positive list. India MERCOSUR PTA is such an example. However, in general PTAs do not cover substantially all trade.

Free Trade Agreement (FTA): In FTAs, tariffs on items covering substantial bilateral trade are eliminated between the partner countries; however each maintains individual tariff structure for non-members. India Sri Lanka FTA is an example. The key difference between an FTA and a PTA is that while in a PTA there is a positive list of products on which duty is to be reduced; in an FTA there is a negative list on which duty is not reduced or eliminated. Thus, compared to a PTA, FTAs are generally more ambitious in coverage of tariff lines (products) on which duty is to be reduced.

Comprehensive Economic Cooperation

Agreement (CECA) and Comprehensive Economic Partnership Agreement (CEPA): These terms describe agreements which consist of an integrated package on goods, services and investment along with other areas including IPR, competition etc. The India Korea CEPA is one such example and it covers a broad range of other areas like trade facilitation and customs cooperation, investment, competition, IPR etc.

Custom Union: In a Customs union, partner countries may decide to trade at zero duty among themselves, however they maintain common tariffs against rest of the world. An example is Southern African Customs Union (SACU) amongst South Africa, Lesotho, Namibia, Botswana and Swaziland. European Union is also an outstanding example.

Common Market: Integration provided by a Common market is one step deeper than that by a Customs Union. A common market is a Customs Union with provisions to facilitate free movements of labour and capital, harmonize technical standards across members etc. European Common Market is an example.

Economic Union: Economic Union is a Common Market extended through further harmonization of fiscal/monetary policies and shared executive, judicial & legislative institutions. European Union (EU) is an example.

61. Solution B

The Eight Core Industries comprise nearly 38 % of the weight of items included in the Index of Industrial Production (IIP). These are Electricity, steel, refinery products, crude oil, coal, cement, natural gas and fertilisers.

Coal production (weight: 4.38 %), Crude

Oil production (weight: 5.22 %), Natural

Gas production (weight: 1.71 %), Petroleum Refinery production (weight: 5.94%), Fertilizer production (weight: 1.25%), Steel production (weight: 6.68%), Cement production (weight: 2.41%) and Electricity generation (weight: 10.32%).

62. Solution B

Fiscal deficit is the difference between the Government's total expenditure and its total receipts excluding borrowing. A large share of revenue deficit in fiscal deficit indicates that consumption expenditure is more than investment expenditure as revenue expenditure is concerned with consumption and capital expenditure is concerned with investment

63. Solution D

The categories of NBFCs recognized by RBI are:

- Asset Finance Company (AFC).
- Investment Company (IC).
- Loan Company (LC).
- Infrastructure Finance Company (IFC).
- Core Investment Company (CIC).
- Infrastructure Debt Fund- Non- Banking Financial Company (IDF-NBFC).
- Non-Banking Financial Company – Micro Finance Institution (NBFC-MFI).

64. Solution C

The Economic survey 2016-17 acknowledges that one of the critical challenges confronting Indian economy is the twin balance sheet problem. The balance sheet of both public sector bank and some corporate houses are in bad shape and it has been seen as major obstacle to investment and reviving growth.

65. Solution D

The NPAs are assets that stop generating income for a bank. Bank's assets mostly comprise of loans and when these loans are on the verge of default (that is, about to go bad), they are classified as NPA.

In India, a loan is classified as NPA, if the interest or any instalment remains unpaid for a period of more than 90 days.

Stressed assets = NPAs + Restructured loans + Written off assets

Written off assets are those the bank or lender doesn't count the money borrower owes to it. The financial statement of the bank will indicate that the written off loans are compensated through some other way. There is no meaning that the borrower is pardoned or got exempted from payment.

66. Solution C

It was established in the year 1988 and given statutory powers on 30 January 1992 through the SEBI Act, 1992.

67. Solution C

Both the statements are correct.

GeM is an online marketplace launched in 2016. Its objective was to ensure that public procurement of goods and services in India which is worth more than Rs. 5 lakh crore annually is carried out through the online platform.

Directorate General of Supplies and Disposal (DGS&D) is an organization under Ministry of Commerce & Industry. It was established in 1951. It is the nodal organization for hosting Government e-Marketplace (GeM).

68. Solution B

Statement 1 is correct as the transfer payments which include the remittances, gifts and grants are the part of the capital account of the Balance of Payments. Any increase in them would likely lead to a surplus in the current account.

Statement 2 is not correct. All the international purchases and sales of assets such as money, stocks, bonds etc. are recorded under the capital account.

Statement 3 is correct as fall in global oil prices will reduce imports which will increase the current account surplus.

69. Solution C

Capital Account consists of capital expenditure and capital receipts.

All those receipts of the government which create liability or reduce financial assets are termed as capital receipts.

Capital expenditure are expenditures of the government which result in creation of physical or financial assets or reduction in financial liabilities.

Statement 1 is not correct as Salary of government employees does not change any asset of government and it is revenue expenditure.

Statement 2 is correct as recovery of loans by central government reduces the asset of the central government and hence it is part of capital receipts.

Statement 3 is correct as investment in shares increases the assets and it is part of capital expenditures.

70. Solution D

Statement 1 is not correct. Where an investor has a stake of 10 percent or less in a company, is treated as FII and, where an investor has a stake of more than 10 percent, is treated as FDI.

Statement 2 is not correct. As per Section 15 (1) (a) of the SEBI FII Regulations, 1995, a Foreign Institutional Investor (FII) may invest in the securities in the primary and secondary markets including shares, debentures and warrants of companies unlisted, listed or to be listed on a recognized stock exchange in India.

71. Solution C

A capital gains tax is a type of tax levied on capital gains, profits an investor realizes when he sells a capital asset for a price that is higher than the purchase price.

A capital gain is the difference between the purchase price (the basis) and the sale price of an asset. The tax levied on it is Capital gains Tax.

72. Solution C

Both the statements are correct.

Real Estate investment Trusts or REITs are mutual fund like institutions that enable investments into the real estate sector by pooling small sums of money from multitude of individual investors for directly investing in real estate properties so as to return a portion of the income (after deducting expenditures) to unit holders of REITs, who pooled in the money.

REITS are regulated by the securities market regulator in India- Securities and Exchange Board of India (SEBI). In September 2014, SEBI notified the SEBI (Real Estate Investment trusts) Regulations, 2014 for providing a framework for registration and regulation of REITs in India.

REIT can invest in commercial real estate assets, either directly or through Special Purpose Vehicle (SPVs) which invests more than 80% of its assets in properties. If REIT is investing through an SPV, REIT has to hold controlling interest with not less than 50% of the equity share capital or interest in SPV.

73. Solution D

In pursuance of the announcement made in the Union Budget 2010-11 and with a view to strengthen and institutionalize the mechanism for maintaining financial stability and enhancing inter-regulatory coordination, Indian Government has setup an apex-level Financial Stability and Development Council (FSDC). **Hence, statement 1 is correct.**

It will focus on financial literacy and financial inclusion. **Hence, statement 2 is correct.**

The Chairman of the FSDC is the Finance Minister of India and its members include the heads of the financial sector regulatory authorities (i.e, SEBI, IRDA, RBI, PFRDA and FMC) , Finance Secretary and/or Secretary, Department of Economic Affairs (Ministry of Finance), Secretary, (Department of Financial Services, Ministry of Finance) and the Chief Economic Adviser. **Hence, statement 3 is correct.**

74. Solution D

Systemically Important Financial Institutions (SIFIs) are perceived as institutions that are Too Big to Fail (TBTF). Financial Stability Board (FSB) refers Systemically Important Financial Institutions (SIFIs) as institutions —whose distress or disorderly failure, because of their size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity.

In August 2015, RBI announced, for the first time, State Bank of India (SBI) and ICICI as D-SIBs; and the list is revised annually.

75. Solution D

National Investment and Infrastructure Fund (NIIF) is a fund created by the Government of India for enhancing infrastructure financing in the country. This is different from the National Investment Fund.

NIIF was proposed to be set up as a Trust, to raise debt to invest in the equity of infrastructure finance companies such as Indian Rail Finance Corporation (IRFC) and National Housing Bank (NHB). The idea is that these infrastructure finance companies can then leverage this extra equity, manifold. In that sense, NIIF is a banker of the banker of the banker. National investment fund (NIF) was setup to receive and invest disinvestment proceeds of Central public sector enterprises (CPSEs).

Hence, statement 2 is not correct.

NIIF is envisaged as a fund of funds with the ability to make direct investments as required. As a fund of fund it may invest in other SEBI registered funds.

Its creation was announced in the Union Budget 2015-16. The operational framework was approved on 20 August 2015.NIIF got registered with SEBI as Category II Alternative Investment Fund (AIF) on December 28, 2015.

The objective of NIIF would be to maximize economic impact mainly through infrastructure development in commercially viable projects, both green field and brown field, including stalled projects. It could also consider other nationally important projects, for example, in manufacturing, if commercially viable. Hence, statement 1 is not correct.

76. Solution A

Green GDP is a term used generally for expressing GDP after adjusting for environmental damage. It is an index of economic growth with the environmental consequences of that growth factored into a country's conventional GDP. Green GDP monetizes the loss of biodiversity, and accounts for costs caused by climate change. Some environmental experts prefer physical indicators (such as 'waste per capita' or 'carbon dioxide emissions per year'), which may be aggregated to indices such as the **'Sustainable Development Index'.**

77. Solution C

Professor Rajkrishna, an Indian economist, coined the term 'Hindu rate of growth' in 1978 to characterise the slow growth and to explain it against the backdrop of socialistic economic policies. The Hindu rate of growth is a term referring to the low annual growth rate of the planned economy of India before the liberalisations of 1991, which stagnated around 3.5% from 1950s to 1980s, while per capita income growth averaged 1.3%.

78. Solution C

Operation Clean Money was launched in January 2017 to create a tax compliant society. In the 2nd phase of OCM launched in May 2017, the Income Tax Department identified 5.5 lakh inconsistent accounts (accounts with cash deposits made during demonetization inconsistent with their tax profile).

79. Solution B

Fiscal deficit is the difference between the government's total expenditure and its total receipts excluding borrowing.

Gross fiscal deficit = Total expenditure - (Revenue receipts + Non-debt creating capital receipts)

It indicates total borrowing requirements of the government from all sources.

Gross fiscal deficit= Net borrowing at home + Borrowing from RBI + Borrowing from abroad

Borrowings of private sector is not accounted in fiscal deficit. Hence, statement 3 is incorrect.

Net borrowing at home includes that directly borrowed from the public through debt instruments (for example, the various small savings schemes) and indirectly from commercial banks through Statutory Liquidity Ratio (SLR).

80. Solution A

Micro Units Development Refinance Agency (MUDRA) Bank is a refinance institution for micro finance institutions. MUDRA is conceived not only as a refinance institution and but also as a regulator for the micro finance institutions (MFIs).

In lending, MUDRA gives priority to enterprises set up by the under-privileged sections of the society particularly those from the scheduled caste / tribe (SC/ST) groups, first generation entrepreneurs and existing small businesses. **Hence, all the statements are correct.**

81. Solution A

Market Intervention Scheme (MIS) is a price support mechanism implemented on the request of State Governments for procurement of perishable and horticultural commodities in the event of a fall in market prices. **Hence, Statement 1 is correct.**

Its objective is to protect the growers of these horticultural/agricultural commodities from making distress sale in the event of bumper crop during the peak arrival period when prices fall to very low level. Thus it provides remunerative prices to the farmers in case of glut in production and fall in prices. Proposal of MIS is approved on the **specific request of State/Union Territory (UT) Government**, if the State/UT Government is ready to bear 50% loss (25% in case of North-Eastern States), if any, incurred on its implementation. **Hence, Statement 2 is also correct.**

The Scheme is implemented when there is at least 10% increase in production or 10% decrease in the ruling rates over the previous normal year. **Hence, Statement 3 is also correct.**

82. Solution D

Micro-insurance policies are a special category of insurance policies created to promote insurance coverage among economically vulnerable sections of society. These policies are regulated by the Insurance Regulatory Development Authority of India (IRDA). **Hence, statements 1 and 2 are correct.**

The IRDA Micro-insurance Regulations, 2005 defines and enables micro-insurance. Micro insurance can be either a general insurance policy (which can ensure health, belongings, house, tools, personal accident contract, livestock etc) or life insurance policy with a sum assured of Rs 50,000 or less. Micro- insurance business is done through the NGOs, SHGs & Micro Finance Institutions. **Hence, statement 3 is correct.**

83. Solution B

Corporate Social Responsibility (CSR) is generally understood in a broader sense, as a self-regulator mechanism, whereby a business entity monitors and ensures its active compliance with the spirit of the law, ethical standards and international norms.

India is considered as the first country to have made **CSR a statutory liability for the corporate entities under the Companies Act, 2013**. Unlike many other countries wherein CSR activities are voluntary, the same is mandated by law in India.

CSR spending is applicable to every company incorporated in India, including its holding or subsidiary, and a **foreign company having its branch office or project office in India**. CSR norms are applicable only to companies(including foreign companies) registered under the Companies Act, 2013 and not to other forms of body corporate like limited liability partnerships.

CSR fund can be utilized by companies only in India and not abroad. Activities which are related to normal course of business are excluded from the purview of CSR activities.

84. Solution C

Hydrocarbon Exploration and Licensing Policy (HELP) is a policy indicating the new contractual and fiscal model for award of hydrocarbon acreages towards exploration and production (E&P). HELP is applicable for all future contracts to be awarded.

Four main aspects of HELP are:

Uniform License: It provides for a uniform licensing system to cover all hydrocarbons such as oil, gas, coal bed methane etc. under a single licensing framework. Hence, **statement 1 is correct.**

Open Acreages: It gives the option to a hydrocarbon company to select the exploration blocks throughout the year without waiting for the formal bid round from the Government.

Revenue Sharing Model: Present fiscal system of production sharing contract (PSC) is replaced by an easy to administer —revenue sharing model . Hence, **statement 2 is correct.**

Other features of HELP are:

Exploration is allowed through-out the contract period. Exploration Phase for onshore areas have been increased from 7 years to 8 years and for offshore increased from 8 years to 10 years.

Objectives of HELP

The major Guiding Principles behind HELP are to:

- enhance domestic oil and gas production
- bring substantial investment
- generate sizable employment
- enhance transparency and
- reduce administrative discretion

85. Solution A

All the statements are correct.

The Monetary Policy Committee (MPC) is a committee of the Central Bank in India (Reserve Bank of India), **headed by its Governor**, which is entrusted with the task of fixing the **benchmark policy interest rate (repo rate)** to contain inflation within the specified target level.

The Reserve Bank of India Act, 1934 (RBI Act) has been amended by the Finance Act, 2016, to provide for a statutory and institutionalised framework for a Monetary Policy Committee, for maintaining price stability, while keeping in mind the objective of growth. The Monetary Policy Committee would be entrusted with the task of fixing the benchmark policy rate (repo rate) required to contain inflation within the specified target level. A Committee-based approach for determining the Monetary Policy will add lot of value and transparency to monetary policy decisions.

86. Solution D

The major objectives of setting up a SEZ are:

- **to attract Foreign Direct Investment (FDI),**
- earn foreign exchange and contribute to exchange rate stability,
- **boost the export sector especially non traditional exports,**
- **to create employment opportunities,**
- introduce new technology,
- develop backward regions etc. by stimulating sectors as electronics, information technology, R & D, tourism, infrastructure and human resource development that are regarded as strategically important to the economy.

87. Solution C

Both functions are performed by NITI Aayog.

88. Solution D

India Brand Equity Foundation (IBEF) is a Trust established by the Department of Commerce, Ministry of Commerce and Industry, Government of India. **Hence, statement 1 is not correct.**

It is established as an Investment Promotion Agency for creating the ―brand India . **Hence, statement 2 is correct.**

Structure and Mandate:

Set up in 1996, IBEF is fully funded, owned and controlled by Union Government. **Hence, statement 3 is correct.**

89. Solution D

Invest India operationalized in early 2010, is set up as a joint venture company between the Department of Industrial Policy & Promotion (DIPP), Ministry of Commerce & Industry (35% equity), Federation of Indian Chambers of Commerce and Industry (FICCI) (51% equity), and State Governments of India (0.5% each) in 2010.Thus, essentially, Invest India is a private company set up by the Ministry of Commerce & Industry. **Hence, statement 1 is correct**.

The core mandate of Invest India is investment promotion and facilitation. It provides sector-specific and state-specific information to a foreign investor, assists in expediting regulatory approvals, and offers hand-holding services. Its mandate also includes assisting Indian investors to make informed choices about investment opportunities overseas. **Hence, statement 2 is correct.**

Invest India is intended to become the first reference point for the global investment community – both domestic and foreign. Make in India campaign is managed by Invest India. **Hence, statement 3 is correct.**

90. Solution B

NITI Aayog, was formed via a resolution of the Union Cabinet on January 1, 2015. NITI Aayog is the premier policy 'Think Tank' of the Government of India, providing both directional and policy inputs. Hence, **statement 1 is incorrect.**

At the core of NITI Aayog's creation are two hubs – **Team India Hub** and the **Knowledge and Innovation Hub**. The Team India Hub leads the engagement of states with the Central government, while the Knowledge and Innovation Hub builds NITI's think-tank capabilities. These hubs reflect the two key tasks of the Aayog.

Hence, **statement 2 is correct**.

91. Solution A

Minimum Alternate Tax (MAT) is a tax levied on profit-making entities that do not pay corporate income tax because of exemptions and incentives. It facilitates the taxation of zero tax companies. A zero tax company is a business that shows a book profit and pays dividends to investors but does not pay taxes. **Hence, statement 1 is correct**

MAT is applicable to all corporate entities, whether public or private. MAT is levied at the rate of 18.5% of the book profits. **Hence, statement 2 is not correct.**

The government amended the respective section of the Income Tax Act to ensure that MAT provisions are not applicable to a foreign company that does not have a permanent establishment in the country and is a resident of a nation having a double taxation avoidance agreement (DTAA) with India. **Hence, statement 3 is not correct.**

92. Solution C

e-Biz is one of the integrated services projects and part of the 31 Mission Mode Projects (MMPs) under the National E-Governance Plan (NEGP). It aims to create a business and investor friendly ecosystem in India by making all business and investment related regulatory services across Central, State and local governments available on a single portal. This project aims at creating an investor-friendly business environment in India by encouraging ease of doing business. **Hence, statement 1 is not correct and statement 2 is correct.**

e-Biz is being implemented by Infosys Technologies Limited (Infosys) under the guidance and aegis of Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce & Industry, Government of India. **Hence, statement 3 is correct.**

93. Solution C

MSF is a penal rate. MSF would be the last resort for banks once they exhaust all borrowing options including the liquidity adjustment facility by pledging government securities, where the rates are lower in comparison with the MSF.

Statement 1 is correct- MSF has been introduced by RBI with the main aim of reducing volatility in the overnight lending rates in the inter-bank market and to enable smooth monetary transmission in the financial system.

Statement 2 is correct- MSF is always fixed above the repo rate. It represents the upper band of the interest corridor with repo rate at the middle and reverse repo as the lower band.

94. Solution B

Statement 1 is not correct: Inflation targeting is a monetary tool used by central banks (not the central government) to stabilize the economy. Doing this the RBI aims to bring in more predictability and transparency in deciding monetary policy, ensure price stability and control inflation in a systematic and planned approach.

Statement 2 is correct: The RBI has been using headline Consumer Price Index (Combined) inflation as the benchmark for all monetary policy stance from April 2014 onwards.

95. Solution B

Assertion is correct but Reason is not the correct explanation because it is the cause of low per capita income that a sizeable proportion of the population of India is still living below the poverty line and not the reason of low per capita income.

96. Solution A

In a jobless growth economy, **unemployment remains stubbornly high even as the economy grows**. This tends to happen when a relatively large number of people have lost their jobs and the ensuing recovery is insufficient to absorb the unemployed, under-employed and new members entering the work force.

There was a disheartening development in the laten1990s: employment growth started declining and reached the level of growth that India had in the early stages of planning. During these years, we also find a widening gap between the growth of GDP and employment. This means that in the Indian economy, without generating employment, we have been able to produce more goods and services. Scholars refer to this phenomenon as jobless growth.

97. Solution C

Nidhi in the Indian context / language means —treasure . However, in the Indian financial sector it refers to any mutual benefit society notified by the Central / Union Government as a Nidhi Company.

They are created mainly for cultivating the habit of thrift and savings amongst its members. **Hence, statement 1 is correct.**

The companies doing Nidhi business, viz. borrowing from members and lending to members only, are known under different names such as Nidhi, Permanent Fund, Benefit Funds, Mutual Benefit Funds and Mutual Benefit Company. **Hence, statement 2 is not correct.**

Nidhi's are companies registered under section 620A of the Companies Act, 1956 (Section 406 of the new Companies Bill 2012, as passed by Lok Sabha) and is regulated by Ministry of Corporate Affairs (MCA). **Hence, statement 3 is correct.**

98. Solution A

Sterilization refers to the process by which the RBI takes away money from the banking system to neutralise the fresh money that enters the system. By selling the government securities, RBI sucks out the liquidity from the market and hence sterilizes the economy against adverse external shocks.

99. Solution C

Inclusive growth is 'broad-based growth', 'shared growth', and 'pro-poor growth'. It excludes the capital markets which is left to operate by itself in the open market.

100. Solution B

A PPP Project means a project based on a contract or concession agreement, between a Government or statutory entity on the one side and a private sector company on the other side, for delivering a service on payment of user charges. Unlike private projects where prices are generally determined competitively and

Government resources are not involved; PPP projects typically involve a transfer of public assets, a delegation of governmental authority for recovery of user charges. **Hence, statement 1 is not correct.**

The rationale for promoting PPP lies in its potential to improve the quality of service at lower costs, besides attracting private capital to fund public projects. **Hence, statement 2 is correct.**

At present, PPP is allowed in various sectors like a development of infrastructure projects, delivery of public services like healthcare, municipal water supply etc. **Hence, statement 3 is not correct.**