



30 Days Revision Module Day 13 - Economy II (UPSC Prelims 2021)

1) With reference to monetary policies, which one of the following measures indicates accommodative monetary policy?

- a. Decrease in interest rates
- b. Making money costlier for business
- c. Crowding out of useful private investments
- d. Decrease in public spending

Answer : a

- Expansionary Monetary Policy - It is adopted when the economy is in a recession, and the unemployment is the problem.
- Its aim is to increase the aggregate demand by cutting the interest rates and increasing the supply of money in the economy.
- Anything that increases the money supply can be called as EMP. (eg) buying the government bonds, lowering the interest rates and lowering the reserve ratio, increased spending government like road construction.
- It is also called "easy monetary policy".
- Contractionary Monetary Policy - It is applied when the inflation is a problem and economy needs to be slow down by curtailing the supply of money.
- Thus, the Contractionary policy is adopted with an aim to decrease the money supply and the spendings in the economy.
- This is primarily done by increasing the interest rates so that the borrowing becomes expensive. Its also called "dear money policy".

2) With respect to Foreign Direct Investment (FDI) in Indian Textiles sector, consider the following statements:

1. Textile sector is open to FDI under 100% automatic route.
2. Nearly 80% of textile units in India are Micro Small & Medium Enterprises (MSME).
3. Japan ranks first as the major FDI investor in Indian Textiles sector.

Which of the statements given above are correct?

- a. 1 and 2 only
- b. 1 and 3 only
- c. 2 and 3 only
- d. 1, 2 and 3

Answer : d

FDI in Textiles Sector

- As per Government FDI Policy for Textiles Sector, Textiles is open to FDI under 100% automatic route.
- Nearly 80% of textiles units in India are MSME resulting in fragmented nature of industry.

- Japan has invested the maximum amount US\$ 381.47 million as FDI in textiles sector.
- There are no FDI specific incentives for artisans, weavers and labourers provided by the Government.
- Weavers, artisans, cooperative societies, handloom and handicraft agencies were being facilitated to register on Government e-Marketplace (GeM) in all States.
- This arrangement would help in marketing of their products and getting reasonable price by eliminating intermediaries.

3) Consider the following statements about Sovereign Gold Bonds (SGBs)

1. The bond is issued directly by the government of India.
2. The minimum investment will be 1 gram with a maximum limit of subscription of 4 kg for individuals and 20 kg for trusts.
3. Capital Gains Tax arising on redemption of SGB to an individual has been exempted.

Which of the Statements given above is/are correct?

- a. 1 only
- b. 1 and 2 only
- c. 1 and 3 only
- d. 2 and 3 only

Answer : d

- The Bond is issued by RBI on behalf of Government of India.
- They are government securities denominated in grams of gold which are substitutes for holding physical gold.
- The bonds are issued in denominations of 1 gram of gold and in multiples thereof.
- The minimum investment will be 1 gram, with a maximum limit of subscription of 4 kg for individuals, 4 kg for Hindu Undivided Family (HUF) and 20 kg for trusts.
- Interest on the bonds will be taxable as per the provisions of the Income-Tax Act, 1961 (43 of 1961).
- But the capital gains tax arising on redemption of SGB to an individual has been exempted.

4) Consider the following statements about 'Duty Drawback'

1. It is one of the export incentive programmes acceptable under World Trade Organisation rules.
2. Under this, duties, taxes and fees paid on exported merchandise are refunded upon the importing of qualified articles.

Select the correct answers by using the code given below

- a. 1 only
- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2

Answer : a

- Duty Drawback is the rebate of duty chargeable on imported material or excisable material used in the manufacturing of goods that are to be exported.
- The exporter may claim drawback or refund of excise and customs duties paid by his suppliers.
- It allows exporters to get a refund on customs duty paid on imported goods, where those goods are:
 1. to be treated, processed, or incorporated in other goods for export, or
 2. are exported unused since importation.
- So, first taxes/duties paid on importing of required components are reimbursed after exporting of finished product.

5) With reference to Internal Ombudsman Scheme for Scheduled Banks, consider the following statements

1. There is no provision of statutory powers under this scheme
2. Scheduled commercial Banks in India have an Internal Ombudsman and they are appointed from within bank staff
3. It is not applicable for Regional Rural Banks

Which of the statements given above is/are correct?

- a. 3 only
- b. 1 and 3 only
- c. 2 and 3 only
- d. 1, 2 and 3

Answer : a

- Reserve Bank of India (RBI) had advised all public-sector and select private and foreign banks to appoint Internal Ombudsman (IO) as an independent authority to review complaints that were partially or wholly rejected by the respective banks.
- The Scheme has been envisaged using powers under Section 35 A of the Banking Regulation Act, 1949. So it does have statutory powers.
- As per the scheme, all Scheduled Commercial Banks in India having more than ten banking outlets (excluding Regional Rural Banks), are required to appoint IO in their banks.

6) The inflationary impact of the inflow of foreign capital in India is neutralized by the Reserve Bank of India by which one of the following methods?

- a. Permitting outflow of foreign exchange
- b. Sale of securities in the open market
- c. Facilitating imports of essential commodities
- d. Permitting depreciation of Indian rupee in the foreign exchange market

Answer : b

- Increase in money supply (either from domestic or foreign sources) leads to inflationary pressures with spike in inflation. RBI then takes steps to sterilise the economy to suck out the excessive money in circulation. This is part of RBI's monetary policy.
 - Indirect instruments include sale of government securities.
 - Direct instruments include CRR/SLR and reduction in export refinance limits.
- Other measures include,
 - Increase in the minimum maturity of non-resident deposits to one year to attract stable flows.
 - Greater flexibility to corporates on pre-payment of their external commercial borrowings / and government debts.
 - Liberalisation of surrender requirements for exporters enabling them to hold up to 100 per cent of their proceeds in foreign currency accounts.
 - Extension of foreign currency account facilities to other residents.

7) The reserve money is composed of which of the following codes?

1. Currency in circulation with public
2. Deposit held with RBI by a selected group of privileged individuals like ex-governors and deputy governors of RBI and few others
3. Banker's deposit with RBI
4. Cash reserve with banks to meet the day to day cash requirements of depositors.
5. Cash Reserve Ratio

Select the correct answer by using the code given below

- a. 1, 2, 3 and 4
- b. 2, 3, 4, and 5
- c. 2, 3 and 4 only
- d. 1, 2, 3, 4 and 5

Answer : d

- Reserve Money is also called as high powered money, base money and central bank money. This entire name suggests that reserve money represents the base level for money supply or it is the high powered component of money supply.
- Reserve Money = Currency in Circulation (CIC) + Banker's deposits with RBI + Other deposits with RBI
- CIC = Notes and coins in circulation
- Bankers Deposit = CRR deposits with RBI + working funds to run day to day operations
- Other deposits = deposits of foreign banks + Deposits of multilateral institutions + deposits of other privileged individuals

8) Mr. Ram travelled to England for medical operation. He had to bear the cost of his air travel by Air India as well as the cost of hospitalization. In this context, which one of the following is true in terms of entry in India's balance of payments transactions?

- a. The cost of hospitalization is included in service imports but not the cost of air travel
- b. The cost of air travel is included in service imports but not the cost of hospitalization
- c. Both expenditures are included in the category of service imports
- d. Both expenditures are included in service exports

Answer : a

- When Mr Ram flies abroad in Air India, the money is added to the kitty of Air India (and ultimately RBI). But, when he pays for hospital, he pays from his bank account (which ultimately withdraws from Forex Reserve)
- When money is added to Forex, it's called Export of Services and when Money is withdrawn it's called Import of Services. So, hospitalization is import and flying in Air India is export.

9) A high rate of inflation tends to worsen Balance of Payments because

- a. Prices of imported goods rise
- b. Prices of exported goods rise making exports less competitive
- c. Prices of exported goods fall and hence loss amount is obtained in terms of foreign exchange
- d. Prices of imported goods fall and hence more is imported

Answer : b

- Inflation leads reduction in exports due to goods and services prove more costly in international market. This is because higher inflation has a direct impact on input costs such as materials and labor (which increases). So, Option D is incorrect
- Higher inflation leads to dear money policy due to which cost of loans increase and thereby increasing the product cost.
- Prices of import depend on manufacturing country primarily / country of origin and not based on inflationary trends in destination.

10) Which among the following is/are the likely benefit(s) of financial inclusion in Banking Sector?

1. Reduction in cash economy
2. Improvement in capital formation in the country
3. Availability of adequate and transparent credit from formal banking channels

Select the correct answer using the code given below

- a. 1 only
- b. 2 and 3 only
- c. 1 and 3 only
- d. 1, 2 and 3

Answer : d

- Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan)
- When we have more banks, the savings are channelized towards the banks and hence there are better chances of capital formation.
- By way improving access to banking, the tendency to loan from money lenders gets reduced.
- Increased banking leads to greater digitisation and hence reduced cash circulation in economy.
- By bringing low income groups within the perimeter of formal banking sector; financial inclusion protects their financial wealth and other resources.

11) Which among the following are correct with respect to NBFC?

1. They can accept demand deposits, but not time deposits.
2. Nidhi Companies are regulated by SEBI and Mutual Benefit companies are regulated by Ministry of Corporate Affairs.
3. Systemically Important Core Investment Company is an NBFC carrying on the business of acquisition of shares and securities which can accept public deposits.

Select the correct answer using the codes given below

- a. 1 only
- b. 1 and 2 only
- c. 2 and 3 only
- d. 1 and 3 only



Answer : d

- A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956.
 - In terms of RBI Act, 1934, no NBFC can commence or carry on business without obtaining a certificate of registration from the Bank.
 - It engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities
 - A non-banking institution which is a company and has principal business of receiving deposits under any scheme is also a non-banking financial company (Residuary non-banking company).
 - The difference between NBFC/ Banks are, NBFCs lend and make investments
1. NBFC cannot accept demand deposits and only time deposits are allowed
 2. NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on it;
 3. Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks
- Systemically Important Core Investment Company (CIC-ND-SI): CIC-ND-SI is an NBFC carrying on the business of acquisition of shares and securities which satisfies the following conditions
1. It holds not less than 90% of its Total Assets in the form of investment in equity shares, preference shares, debt or loans in group companies;

2. Its investments in the equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies constitutes not less than 60% of its Total Assets;
3. 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;
4. Its asset size is Rs. 100 crore or above and
5. It accepts public funds

12) Which of the following correctly describes the concept of Inflationary Gap?

- a. It is the difference between current levels of real and nominal GDP
- b. It is the difference between current level of real GDP and potential GDP when economy experiences full employment.
- c. It is the reduction in inflation caused due to low consumption expenditure.
- d. It is the minimum amount of inflation that is desired in economy to incentivise production of goods and services.

Answer : b

- An inflationary gap is a macroeconomic concept that describes the difference between the current level of real gross domestic product (GDP) and the anticipated GDP that would be experienced if an economy is at full employment. This is also referred to as the potential GDP.
- For the gap to be considered inflationary, the current real GDP must be the higher of the two metrics.

13) 'A person (named X) deposits his money in a bank. This money is in turn invested in the borrower's (named Y) business or property. The profits generated from the business is then shared between X and Y. There is no separate interest given to X.'

Which one of the following best describes the above banking transaction?

- a. Shadow Banking
- b. Islamic banking
- c. Differential banking
- d. Differential banking



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Answer : b

- Sharia banking means money can only be parked in a bank without interest and this money cannot be used for speculative trading, gambling, or trading in prohibited commodities such as alcohol or pork.

14) Indirect taxes have been left out of Wholesale Price Index mainly in order to

- a. Remove the impact of fiscal policy
- b. Avoid frequent changes in the index
- c. Reduce the influence of state government
- d. Get the actual price level of a commodity

Answer : a

- In the new and presently running WPI series, significant improvement in concept, coverage and methodology has been made. In the updated WPI basket, the number of items has been increased from 676 to 697.
- The new WPI series does not include indirect taxes in its calculation. This insulates the WPI from the effect of policy changes related to indirect taxes i.e fiscal policy and thus makes it a more accurate measurement.
- This also brings new WPI series closer to Producer Price Index and is in consonance with the global practices. The item level indices are being compiled based on statistically robust Geometric mean as compared to Arithmetic mean used in the WPI 2004-05 series.

15) The term 'helicopter money' which was seen in the news is related to which one of the following?

- a. Tax collection
- b. Reclamation of Non-Performing Assets by the banks
- c. Stimulation of economy from recession
- d. Donation of grants to lower income countries

Answer : c

- Helicopter money is an unconventional monetary policy tool that involves printing large sums of money and distributing it to the public, to stimulate the economy during a recession (decline in general economic activity) or when interest rates all to zero.
- Under such a policy, a central bank directly increases the money supply and, via the government, distributes the new cash to the population to boost demand and inflation.

16) In our economy, if market exchange rate of Dollars decreases, then

- 1. The domestic currency will depreciate
- 2. The exporters will be benefitted
- 3. The importers will be benefitted
- 4. The domestic currency will appreciate

Select the correct answer using the code given below

- a. 1 and 2 only
- b. 1 and 3 only
- c. 3 and 4 only
- d. 2 and 4 only

Answer : c

- The market rate of dollars decreases, the value of Indian rupee appreciates.
- If rupee appreciates exports will become costlier so exporters won't be benefitted. Also cost of import will reduce so importers will be benefitted.

17) Consider the following phenomena.

"Some Countries are deliberately devaluing their currency against the dollar. The practice would mean that the country is artificially lowering the value of its currency to gain an unfair advantage over others". The above action rightly indicates which one of the following phenomena?

- a. Currency depreciation
- b. Currency manipulation
- c. Countervailing Duty
- d. Quantitative Easing process

Answer : b

- Currency depreciation is the loss of value of a country's currency with respect to one or more foreign reference currencies, typically in a floating exchange rate system in which no official currency value is maintained.
- Currency manipulation is a policy used by governments and central banks to artificially lower the value of their currency (in turn lowering the cost of their exports) to gain an unfair competitive advantage.
- Countervailing duty is an additional import duty imposed on imported products (by the importing country) when such products enjoy benefits like export subsidies and tax concessions in the country of their origin (ie., where it is produced and exported).
- Quantitative Easing is a form of unconventional monetary policy in which a central bank purchases longer-term securities from the open market in order to increase the money supply and encourage lending and investment. Instead, a central bank can target specified amounts of assets to purchase.

18) A person, living in the rural region, can get the direct credit assistance from which of the following

institutions?

1. Public Sector Banks
2. Private Sector Banks
3. Cooperative Banks
4. National Bank for Agriculture and Rural Development.

Select the correct answer using the codes given below

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

Answer : b

- National Bank for Agriculture and Rural Development (NABARD) is the refinancing agency. It does not provide direct credit to rural households.
- All other banks like Public sector banks, Private sector banks and cooperative banks will provide credit to rural households.

19) Consider the following statements with reference to Exchange Traded Fund (ETF)

1. An ETF is a type of fund that owns the underlying asset.
2. ETF, typically has lower daily liquidity and higher fees than mutual funds.
3. Unlike mutual funds, ETF is an investment fund traded on stock exchanges.

Which of the statements given above is/are correct?

- a. 1 only
- b. 2 and 3 only
- c. 1 and 3 only
- d. 1, 2 and 3



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Answer : c

- An ETF, or exchange-traded fund, is a marketable security that tracks a stock index, a commodity, bonds, or a basket of assets.
- An ETF is a type of fund that owns underlying assets (shares of stock, bonds, oil futures, gold bullion, foreign currency, etc.) and divides ownership of those assets into shares.
- Although similar in many ways, ETFs differ from mutual funds because shares trade like common stock on an exchange.
- The price of an ETF's shares will change throughout the day as they are bought and sold.
- The largest ETFs typically have higher average daily volume and lower fees than mutual fund shares which makes them an attractive alternative for individual investors.
- While most ETFs track stock indexes, there are also ETFs that invest in commodity markets, currencies, bonds, and other asset classes.
- Many ETFs also have options available for investors to use income, speculation, or hedging strategies.

20) Consider the following statements about The Deposit Insurance and Credit Guarantee Corporation (DICGC) Amendment Bill, 2021

1. DICGC cannot increase the flat rate premium of 0.15% for a bank from its total outstanding deposits.
2. The maximum limit of insurance cover for bank deposits is Rs. 5 lakh per depositor.

Which of the statement(s) given above is/are correct?

- a. 1 only

- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2

Answer : b

DICGC

- It is a wholly owned subsidiary of RBI.
- It is liable to pay the insured amount to the depositors when the insured bank undergoes liquidation, reconstruction under a scheme and merger/acquisition.
- At present, it charges a flat premium rate of 0.15% from the bank out of its total outstanding deposits to meet its liability to pay the insured amount to the depositor.
- As per the amendment bill, with the approval of RBI, DICGC can increase the deposit insurance premium for a bank based on its risk profile.
- The insurance cover for bank deposits increased fivefold to Rs. 5 lakh per depositor with effect from February 2020.



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