



30 Days Revision Module Day 26 - Economic Survey II (UPSC Prelims 2021)

1) Which of the following is/are not a Non-Tax revenue?

1. External grants
2. Interest receipts on loans to States and Union Territories
3. Revenue from Disinvestment of Public Sector Enterprises
4. Surplus of Reserve Bank of India (RBI) transferred to GoI

Select the correct answer using the codes given below:

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

Answer : a

Non-Tax revenue comprises mainly of:

1. External grants
2. Interest receipts on loans to States and Union Territories
3. Receipts from services provided by the Central Government
4. Dividends and profits from Public Sector Enterprises including surplus of Reserve Bank of India (RBI) transferred to Government of India

2) Laffer Curve shows the relationship between which of the following?

- a. Inflation & Unemployment
- b. Economic Growth & Inequality
- c. Balance of Payment & Fiscal Deficit
- d. Average Tax Rates & Total Tax Revenue

Answer : d

Laffer Curve

- It is a curve designed by the economist Arthur Laffer in 1974.
- It links average tax rates to total tax revenue.
- It suggests that higher tax rates initially increase revenue but after a point further increases in tax rates cause revenue to fall (for instance by discouraging people from working).
- But it is tough to know whether an economy is on the Laffer curve, as higher taxation breeds evasion of taxes too.

3) Arrange the following countries in ascending order based on foreign exchange reserves as of September, 2020:

1. China
2. Japan
3. Switzerland
4. Russia
5. India

Select the correct answer using the codes given below:

- a. 3-4-5-1-2
- b. 3-5-4-2-1
- c. 5-4-3-2-1
- d. 1-2-3-4-5

Answer : c

- As at end-September 2020, India is the fifth largest foreign exchange reserves holder among all countries of the world after China, Japan, Switzerland and Russia.
- While improved current account balance has been a key factor for reserve accretion, robust capital flows, particularly FDI and FPI, in subsequent months largely drove foreign exchange reserves to an all-time high of US\$ 586.1 billion as on January 8, 2021, covering about 18 months of imports.

4) Consider the following statements

1. The current account balance, in economic terms, is synonymous with the Savings-Investment balance.
2. A current account surplus implies a higher level of national savings relative to investment.

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

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



Answer : d

- The rise in the foreign exchange reserves of the RBI has largely been due to the current account surplus which, in turn, is largely due to contraction in imports rather than increase in competitiveness of exports.
- The current account balance, in economic terms, is synonymous with the Savings-Investment balance.
- A current account surplus implies a higher level of national savings relative to investment.

5) Which of the following constitutes Revenue Expenditure?

1. Pension
2. Major Subsidies
3. Interest payments
4. Grants-in-aid to States/UTs
5. Defence Revenue expenditure

Select the correct answer using the codes given below:

- a. All except 5
- b. All except 1 and 2
- c. All except 4 and 5
- d. All of the above

Answer : d

- Revenue Expenditure, constitutes over 87 per cent of the total expenditure in India.
- Interest payments, Defence Revenue expenditure, Major Subsidies, Grants-in-aid to States/UTs, and Pension are the major items of revenue Expenditure.

6) Consider the following statements with respect to Unmet need for family planning

1. It is defined as the percentage of women of reproductive age, either married or in a union, who have an unmet need for family planning.
2. The concept of unmet need points to the gap between women's reproductive intentions and their contraceptive behaviour.

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 : c

Unmet need for family planning

- It is defined as the percentage of women of reproductive age (fecund and sexually active), either married or in a union, who have an unmet need for family planning.
- Women with unmet need are those who want to stop or delay childbearing but are not using any method of contraception.
- The concept of unmet need points to the gap between women's reproductive intentions and their contraceptive behaviour.

7) The Economic Survey of 2020-21 mentioned about the Zombie Lending. With respect to *Zombies*, consider the following statements:

1. Zombies are typically identified using Non Performing Asset (NPA) and Accumulated Interest Ratio.
2. Firms with an interest coverage ratio lower than one are categorized as Zombies.

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

- The Economic Survey, 2020-21 studies the 2008 forbearance policy on banks, firms, and the economy in general to extract important lessons for the current times.

Forbearance Policy

- It means relaxing the norms for restructuring assets, where restructured assets were no longer required to be classified as Non-Performing Assets.
- Therefore, banks prefer restructuring, as forbearance allows them to declare fewer NPAs and avoid the costs due to loan provisioning.
- Meanwhile, Banks exploited the forbearance window to restructure loans even for unviable entities (verge of defaulting), by window-dressing their books.

- The forbearance period also witnessed an increase in lending to unproductive firms, popularly referred to as “zombies”.

Zombies

- Zombies are typically **identified using the interest coverage ratio**, the ratio of a **firm's profit after tax to its total interest expense**.
- Firms with an **interest coverage ratio lower than one** are unable to meet their interest obligations from their income and are categorized as zombies.

8) Consider the following statements with respect to Multiparty Interim Arbitration (MPIA) Mechanism

1. It is a permanent body under the World Trade Organisation (WTO) intended by the Dispute Settlement Understanding (DSU).
2. India is one of the key members of MPIA.

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 : d

WTO's Appellate Body (AB)

- It is a **permanent body** intended by the Dispute Settlement Understanding (DSU) to resolve appeals on issues of law.
- It is ordinarily composed of seven members having a four-year term, with the possibility of one reappointment.
- Since July 2017, the United States has been stalling AB appointments on the pretext that it has not been functioning in accordance with the DSU norms precipitating the 'Appellate Body crisis'.
- With fewer than three members to hear any appeal since 10th December, 2019, the AB is not able to function as mandated under the DSU.

Multiparty Interim Arbitration (MPIA) Mechanism

- In the wake of this crisis, around 23 WTO members have created a Multiparty Interim Arbitration (MPIA) mechanism that closely replicates the substantive and procedural aspects of appellate review under the AB.
- EU, China, Brazil, Australia, New Zealand are some of the key members of MPIA.
- **India has not joined MPIA** yet.
- India supports the restoration and preservation of the normal functioning of the two-stage binding WTO dispute settlement mechanism.

9) Reserve Bank of India (RBI) undertook several conventional and unconventional monetary measures to manage the liquidity in the economy starting from February 2020. Which of the following is not one among them?

- a. Reduction in the CRR requirement of banks
- b. Injection of durable liquidity through Open Market Operation (OMO)
- c. Suspension of Corporate Insolvency Resolution Process (CIRP)
- d. Increasing banks' limit for borrowing overnight under the Marginal Standing Facility (MSF)

Answer : c

Monetary Measures taken by RBI since February, 2020:

1. Injection of durable liquidity of more than Rs.2.7 lakh crore through Open Market Operation (OMO) purchases between February 6-December 4, 2020.
 2. OMOs in State Development Loans (SDLs) as a special case were also introduced during the current financial year.
 3. Targeted Long Term Repo Operations (TLTROs) of up to three years' tenor for a total amount of Rs.1.13 lakh crore for investment in corporate bonds, commercial papers, and non-convertible debentures, in addition to injection of Rs.1.25 lakh crore through Long Term Repo Operations (LTROs) conducted in February-March 2020.
 4. Reduction in the CRR requirement of banks from 4 per cent of net demand and time liabilities (NDTL) to 3 per cent with effect from March 28, 2020 augmenting primary liquidity in the banking system by about Rs.1.37 lakh crore.
 5. Raising banks' limit for borrowing overnight under the MSF by dipping into their Statutory Liquidity Ratio (SLR) to 3 per cent of NDTL from 2 per cent, allowing the banking system to avail an additional Rs.1.37 crore of liquidity.
 6. Special Liquidity Facility for mutual funds for Rs.50,000 crore
 7. Refinance facility worth Rs. 75,000 crore for all India financial institutions *i.e.*, NABARD, NHB, SIDBI and EXIM Bank.
- In view of COVID-19 pandemic, initiation of *Corporate Insolvency Resolution Process (CIRP)* was suspended for any default arising on or after March 25, 2020.
 - But it is not a monetary measure to manage the liquidity in the economy.

10) Assertion (A): Core inflation has been viewed by many as the better measure of inflation for monetary policy purposes.

Reason (R): Food and fuel price shocks are transitory as well as mainly demand driven.

Select the correct answer using the codes given below:

- a. Both A and R are correct and R is the correct explanation of A
- b. Both A and R are correct and R is not the correct explanation of A
- c. A is correct but R is incorrect
- d. A is incorrect but R is correct

Answer : c

- **Core inflation** (inflation in the price index excluding food, fuel and other volatile components) has been viewed by many as the better measure of inflation for monetary policy purposes.
- This is because food and fuel price shocks are transitory as well as **mainly supply driven** and therefore not a monetary phenomenon.