

ECONOMICS

Previous Year Question Analysis
2021-2023



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PREFACE

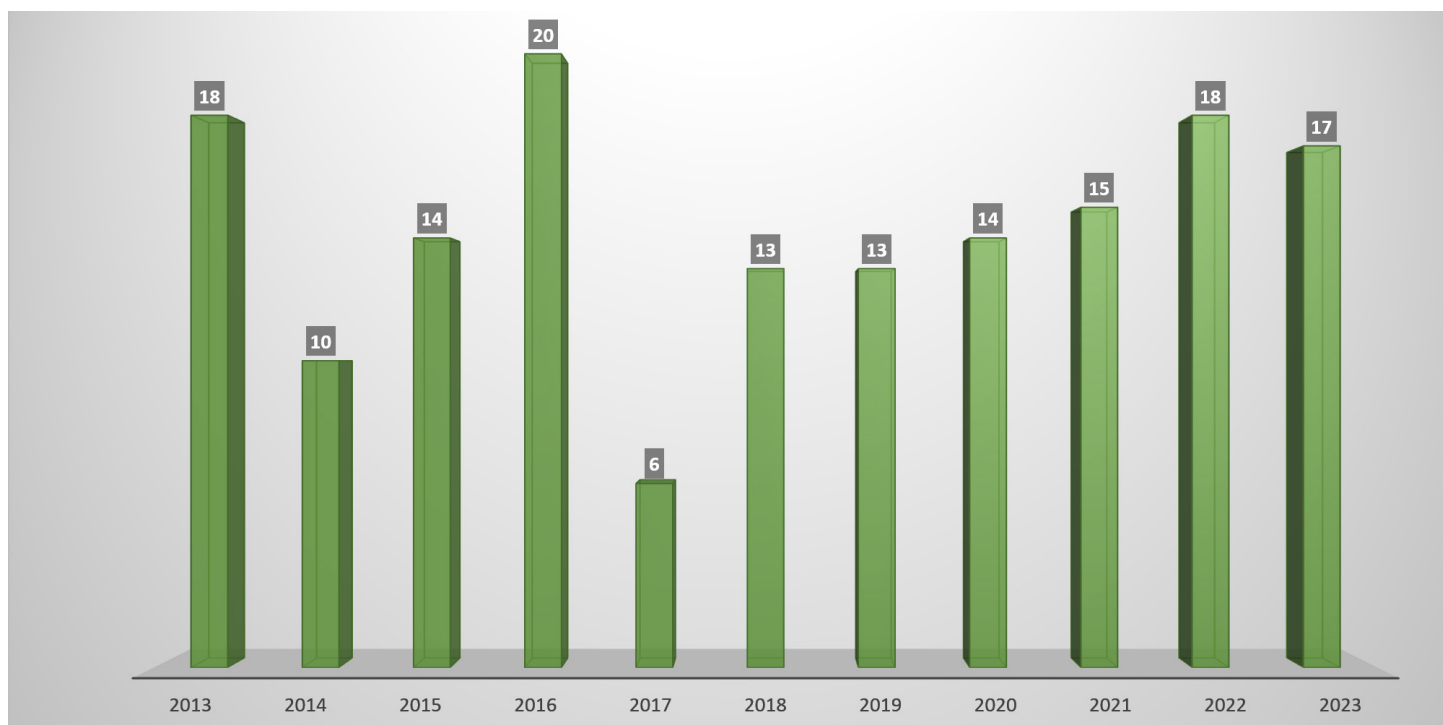
FORTUNE IAS ACADEMY

is presenting an in-depth analysis of past year's questions (from 2021 to 2023) and providing comprehensive explanations of the key terms and concepts essential for prelims preparation.

TREND ANALYSIS



The following graph examines the pattern of questions from Economics spanning from 2013 to 2023:



Topic wise analysis of previous year questions:

TOPICS/ YEARS	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
National income	3	-	3	-	-	1	1	-	-	1	-
Money supply and inflation	4	1	1	-	-	1	1	2	6	1	-
RBI and Monetary policy	2	-	2	1	1	-	2	1	2	1	1
Fiscal policy	-	1	-	-	-	1	-	-	-	-	-
Banking	4	3	1	2	2	5	3	2	1	3	3
Government schemes and Policies	-	-	-	2	-	-	-	1	1	-	-
Planning and Development	1	1	-	1	1	1	2	1	-	-	2
International economics	2	2	3	9	-	1	2	3	3	6	4
Services	-	-	-	-	-	-	-	-	-	1	-
Financial market (Money and Capital market)	-	1	-	-	-	2	1	1	2	2	3
Public finance	2	1	1	3	2	1	-	1	-	1	1
Manufacturing	-	-	1	2	-	-	-	-	-	1	1
Agriculture	-	-	2	-	-	-	1	2	-	-	2

STRATEGIC ANALYSIS



THE QUESTIONS FROM THE PAST THREE YEARS ARE DIVIDED INTO FOUR CATEGORIES:

Factual questions

It demands basic facts from static sources like NCERT, class notes, and other standard materials.

Current affairs questions

Current affairs questions demands general awareness about current events of National and International importance.

Conceptual questions

Such questions require knowledge of fundamental concepts along with conceptual clarity.

Application questions

It demands application of factual and conceptual knowledge to current events.

THE QUESTIONS ARE CLASSIFIED BASED ON ITS DIFFICULTY LEVEL:

EASY

The questions which can be answered from basics (NCERTs, and class notes) and does not need deep knowledge. Such questions are typically cracked by aspirants.

MODERATE

Moderate questions require decent level of conceptual clarity along with cognitive analysis. It can be solved through constant practice and revision.

HARD

Hard questions demand deeper understanding of concepts with critical thinking skills. Most of the aspirants leave such questions due to its increased difficulty.

Wishing you a productive and enjoyable learning experience!!

2021-PRELIMS PREVIOUS YEAR QUESTIONS

Type of the questions: Factual

1. The money multiplier in an economy increases with which one of the following?
- a) Increase in the Cash Reserve Ratio in the banks
 - b) Increase in the Statutory Liquidity Ratio in the banks
 - c) Increase in the banking habit of the people ✓
 - d) Increase in the population of the country

Difficulty level: Easy

EXPLANATION

Money multiplier

- The money multiplier is a concept which measures the **amount of money created by commercial banks with the help of deposits** after **excluding the amount set for reserves** from the deposits.
- **Example:** If we increase the monetary base by Rs. 1000 and total money supply increases by Rs. 5000, then the money multiplier is 5.
- **Money multiplier = $1/r$** , where **r is the cash reserve ratio**. This means that the smaller r is, the bigger the money multiplier is.
- When the **reserve requirement decreases**, the **money multiplier increases**, and vice versa.
- An **increase in bank lending leads to an expansion of a country's money supply**. As **bank lending is associated with banking habits of people**, an increase in banking habit increases the money multiplier in an economy.



- An increase in CRR and SLR, decrease banks' ability to lend more and thereby decrease money multiplier.
- There is **no direct correlation between the population of the country and money multiplier**. It may or may not increase the money multiplier.

- Present CRR rate- 4.5%
- Present SLR rate- 18%

[The rate can be changed]

RELATED PYQs

- Q1. When the Reserve Bank of India reduces the Statutory Liquidity Ratio by 50 basis points, which of the following is likely to happen?
- a) India's GDP growth rate increases drastically
 - b) Foreign Institutional Investors may bring more capital into our country
 - c) Scheduled Commercial Banks may cut their lending rates
 - d) It may drastically reduce the liquidity to the banking system
- [2015]
- Q2. The money multiplier in an economy increases with which one of the following?
- a) Increase in the cash reserve ratio
 - b) Increase in the banking habit of the population
 - c) Increase in the statutory liquidity ratio
 - d) Increase in the population of the country
- [2019]
- Q3. If the RBI decides to adopt an expansionist monetary policy, which of the following would it not do?
1. Cut and optimize the Statutory Liquidity Ratio
 2. Increase the Marginal Standing Facility Rate
 3. Cut the Bank Rate and Repo Rate
- Select the correct answer using the code given below:
- a) 1 and 2 only
 - b) 2 only
 - c) 1 and 3 only
 - d) 1, 2 and 3
- [2020]

2. In India, the Central Bank's function as the "lender of last resort" usually refers to which of the following?

- 1) Lending to trade and industry bodies when they fail to borrow from other sources
- 2) Providing liquidity to the banks having a temporary crisis
- 3) Lending to governments to finance budgetary deficits

Select the correct answer using the code given below:

- a) 1 and 2
- b) 2 only ✓
- c) 2 and 3
- d) 3 only

Difficulty level: Easy

EXPLANATION

What Is Lender Of Last Resort?



- A lender of last resort (LoR) is an institution, usually the country's **central bank (RBI)**, that **offers emergency credit to banks or other eligible institutions** that are experiencing **financial difficulty** or near to collapse.
- It functions **to protect individuals who have deposited funds** and to **prevent bank run** (customers withdrawing out of panic from banks with temporary limited liquidity).

Ways and Means Advance: It is a facility that allows **central and state governments to borrow from RBI**, to finance temporary budget deficits. Interest is charged at the existing repo rate.

3. Consider the following statements:

- 1) The Governor of the Reserve Bank of India (RBI) is appointed by the Central Government.
- 2) Certain provisions in the constitution of India give the Central Government the right to issue directions to the RBI in public interest.
- 3) The Governor of the RBI draws his power from the RBI Act.

Which of the above statements are correct?

- a) 1 and 2 only
- b) 2 and 3 only
- c) 1 and 3 only ✓
- d) 1, 2 and 3

Difficulty level: Easy

EXPLANATION

Reserve Bank of India (RBI)

Establishment:

- The Reserve Bank of India was established on April 1, 1935, in accordance with the provisions of the **Reserve Bank of India Act, 1934**.
- Though **originally privately owned**, since **nationalisation in 1949**, the Reserve Bank is **fully owned by the Government of India**.
- RBI is **not a constitutional body**, so the Indian Constitution does not grant the central government any power to issue directions to the RBI.



Central Board

- The Reserve Bank's affairs are governed by a **central board of directors**. The board is appointed by the **Government of India** in keeping with the **Reserve Bank of India Act**.
- The board is appointed for a period of **four years**. This board contains **official directors** and **non-official directors**. Official directors include the **RBI governor** and **deputy governors**.

Main Functions of RBI

- Monetary Authority
- Regulator and supervisor of the financial system
- Manager of Foreign Exchange



- Issuer of currency
- Developmental role
- Regulator and Supervisor of Payment and Settlement Systems
- Banker to the Government
- Banker to banks
- Lender of last resort

RELATED PYQs

- Q1. The Reserve Bank of India regulates the commercial banks in matters of
1. liquidity of assets
 2. branch expansion
 3. merger of banks
 4. winding-up of banks

Select the correct answer using the codes given below:

- 1 and 4 only
- 2, 3 and 4 only
- 1, 2 and 3 only
- 1, 2, 3 and 4

[2013]

4. Consider the following statement :

Other things remaining unchanged, market demand for a good might increase if

- 1) Price of its substitute increases.
- 2) Price of its complement increases.
- 3) The good is an inferior good and income of the consumers increases.
- 4) Its price falls.

Which of the above statements are correct ?

- 1 and 4 only ✓
- 2, 3 and 4
- 1, 3 and 4
- 1, 2 and 3

Difficulty level: Easy

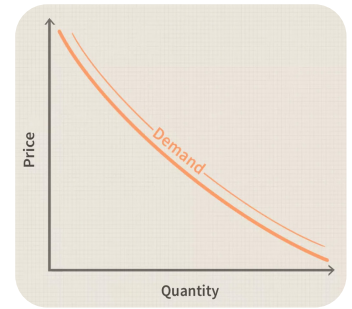
EXPLANATION

Demand

- Demand is the **quantity of a product or service that consumers are willing to purchase** at various prices.

Factors affecting demand in a market

1. **Price:** As price rises, demand tends to fall, and vice versa (Inversely proportional).



2. **Consumer Income:** Higher income often leads to increased demand for normal goods (and vice-versa). Inferior goods, on the other hand, may see their demand actually fall as income increases.

3. **Population and Demographics:** The size and composition of the population can affect demand.

4. Price of substitute goods:

- A substitute good is a product that **can replace another in satisfying a similar consumer need.**
- So if **price of substitute good increases the demand of the good also increases.**
- For example, **coffee is a substitute product for tea.** If coffee becomes more expensive, people might opt for the more affordable tea, resulting in an increase in the demand for tea.

5. Price of Complementary goods:

- A complementary good is **a product that is typically used together with another good.**
- For example, **shoelaces are complementary products to shoes.** When the price of shoelaces increases, it can lead to an increase in the price of shoes, ultimately resulting in a decrease in their demand.

RELATED PYQs

- Q1. Supply of money remaining the same when there is an increase in demand for money, there will be
- a) a fall in the level of prices
 - b) an increase in the rate of interest
 - c) a decrease in the rate of interest
 - d) an increase in the level of income and employment

[2013]

5. Consider the following:

- 1) Foreign currency convertible bonds
- 2) Foreign institutional investment with certain conditions
- 3) Global depository receipts
- 4) Non-resident external deposits

Which of the above can be included in Foreign Direct Investments?

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

Difficulty level: Easy

EXPLANATION

Foreign direct investment (FDI)

- **FDI** is when a company takes controlling ownership in a business entity in another country. With FDI, foreign companies are directly **involved with day-to-day operations** in the other country. This means they aren't just bringing money with them, but also knowledge, skills and technology.

Examples of FDI

- **Foreign currency convertible bonds:** A type of convertible bond **issued in a currency different from the issuer's domestic currency** is called foreign currency convertible bonds. These bonds are convertible into equity shares over a period of time.
- **Foreign institutional investment:** It is a short-term investment and it only includes the transfer of funds. These are registered with the Securities and Exchange Board of India.
- **Global depository receipt:** It is a bank certificate issued in more than one country for shares in a foreign company. Also known as international depository receipt.

Non-resident external deposit is considered as "debt creating flow" in balance of payment accounts and is not considered as a part of foreign direct investment. NRIs can invest in shares on the stock exchange under the portfolio investment route.

Type of the questions: Current Affairs

1. With reference to casual workers employed in India, consider the following statements :

- 1) All casual workers are entitled for Employees Provident Fund coverage.
- 2) All casual workers are entitled for regular working hours and overtime payment.
- 3) The government can by a notification specify that an establishment or industry shall pay wages only through its bank account.

Which of the above statements are correct?

- a) 1 and 2 only
- b) 2 and 3 only ✓
- c) 1 and 3 only
- d) 1, 2 and 3

Difficulty level: Hard

Relevance: Draft rules under Code on Social Security released.

EXPLANATION

Casual Workers

- Casual employment refers to a situation in which an employee is only guaranteed work when it is needed, and there is **no expectation that there will be more work in the future**. Eg: **Agricultural contract labourers**.
- Casual workers are **short-term employees** who are **not entitled to the same benefits and job security as regular workers like Employment Provident Fund coverage**.
- Their wages may be paid on an hourly basis. But **all casual workers are entitled for regular working hours and overtime payment**.
- The **Indian government can specify that wages be paid through bank accounts** to ensure transparency and compliance with labour laws.

Employees' Provident Fund Organisation (EPFO)

- The Employees Provident Fund Organisation (EPFO) is a **statutory body** (Employees' Provident Funds Act, 1952) which on a mandatory basis provides **Universal Social Security Coverage** to **all salaried employees** in India.

Schemes by EPFO

- EPF (Employees Provident Fund) Scheme 1952
- Pension Scheme 1995 (EPS-Employees' Pension Scheme)
- Insurance Scheme 1976 (EDLI-Employees' Deposit-Linked Insurance Scheme)

The Employees' Provident Fund (EPF)

The Employees' Provident Fund (EPF) is a **mandatory social security and retirement savings scheme** in India.

Both **employees and employers contribute a percentage of the employee's salary** to the EPF account.

Contributions to EPF enjoy **tax benefits under the Income Tax Act**.

Funds can be **withdrawn for various purposes**, including buying a house, medical emergencies, or after retirement.

EPF accounts **earn interest**, typically declared annually.

2. With reference to India, consider the following statements:

- 1) Retail investors through demat accounts can invest in 'Treasury Bills' and 'Government of India Debt Bonds' in the primary market.
- 2) The 'Negotiated Dealing System Order Matching' is a government securities trading platform of the Reserve Bank of India.
- 3) The 'Central Depository Services Ltd' is jointly promoted by the Reserve Bank of India and the Bombay Stock Exchange.

Which of the statements given above is/are correct?

- a) 1 only
- b) 1 and 2 ✓
- c) 3 only
- d) 2 and 3

Difficulty level: Hard

Relevance: Participation of retail investors in primary market has been in news.

EXPLANATION

Treasury bills:

Government bonds or debt securities with **maturity of less than one year** and issued to meet **short term** mismatches in receipt and expenditure.

They are issued in the **primary market** through RBI auctions.

Types of Treasury Bills

The types of T-Bills are available based on their maturity period:

- | | | |
|----------------|-----------------|-----------------|
| 1 | 2 | 3 |
| 91 days T-Bill | 182 days T-Bill | 364 days T-Bill |

Negotiated Dealing System Order Matching:

An **electronic trading platform operated by the RBI** to facilitate the issuing and exchange of government securities and other types of money market instruments.

Central Depository Services Ltd:

- Promoted by **Bombay Stock Exchange (BSE) jointly with SBI, Bank of Baroda, HDFC bank, Union bank**.
- The aim was to provide **convenient and secure depository service at affordable cost** to all market participants.

RELATED PYQs

Q1. Consider the following statements:

1. The Reserve Bank of India manages and services Government of India Securities but not any State Government Securities.
2. Treasury bills are issued by the Government of India and there are no treasury bills issued by the State Governments.
3. Treasury bills offered are issued at a discount from the par value.

Which of the statements given above is/are correct?

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

[2018]

Q2. In the context of the Indian economy, non-financial debt includes which of the following?

1. Housing loans owed by households
2. Amounts outstanding on credit cards
3. Treasury bills

Select the correct answer using the code given below:

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

[2020]

Type of the questions: Conceptual

1. Which one of the following effects of creation of black money in India has been the main cause of worry to the Government of India?

- a) Diversion of resources to the purchase of real estate and investment in luxury housing
- b) Investment in unproductive activities and purchase of precious stones, jewellery, gold etc.
- c) Large donations to political parties and growth of regionalism
- d) Loss of revenue to the State Exchequer due to tax evasion ✓

Difficulty level: Easy

EXPLANATION

Black money:

- Black money means the cash that is **not accounted in the banking system** or cash for which tax is not paid to the state.
- Black money can come from **two broad categories**:
 - a. **Illegal activity**: The money may have been **generated through illegitimate activities** that are not permissible under the law like crime, drug trade, terrorism, and corruption.
 - b. **Legal but unreported activity**: The wealth may have been generated and **accumulated by failing to pay the dues to the public exchequer**, here the **activities undertaken by the perpetrator could be legitimate**. For example, income earned by companies abroad, thereby evading tax authorities.

Impacts of Black money on Indian economy

- Uncontrollable inflation
- Loss of revenue to the state exchequer
- Underestimation of GDP

Government initiatives to counter impacts of black money

Prevention of Money Laundering Act , 2002

Demonetisation (2016)

Adherence to OECD's Global Minimum Tax (GMT)

RELATED PYQs

Q1. The term 'Base Erosion and Profit Shifting' is sometimes seen in the news in the context of

- a) mining operation by multinational companies in resource-rich but backward areas
- b) curbing of the tax evasion by multinational companies
- c) exploitation of genetic resources of a country by multinational companies
- d) lack of consideration of environmental costs in the planning and implementation

[2016]

2. Which one of the following is likely to be one of the most inflationary in its effects?

- a) Repayment of public debt
- b) Borrowing from the public to finance a budget deficit
- c) Borrowing from the banks to finance a budget deficit
- d) Creation of new money to finance a budget deficit ✓

Difficulty level: Easy

EXPLANATION

Monetisation of the deficit

- It means **printing more money to finance the government deficit**. It happens when **RBI buys government securities** directly from the primary market to fund government's expenses.
- When the economy enters the recovery path, **increased money supply could proportionately lead to a higher inflation rate**.
- Monetisation of deficit was in practice in India till 1997, but was controlled with passing of the **Fiscal Responsibility and Budgetary Management (FRBM) Act, 2003**.

- **Borrowing from the public and banks to finance the budget deficit, will not lead to inflation.** Because, it will reduce both the money in the hands of people and the money to lend for banks.
- **Repayment of public debt** means the government pays back the money which is held in its bonds. It will increase the available liquidity in the system and can cause inflation.
- But, creation of new money to finance a budget deficit will have more inflationary effect, as it will lead to an increase in total money supply in the market by creating new money.

3. With reference to the Indian economy, demand-pull inflation can be caused/increased by which of the following?

- 1) Expansionary policies
- 2) Fiscal stimulus
- 3) Inflation-indexing wages
- 4) Higher purchasing power
- 5) Rising interest rates

Select the correct answer using the code given below.

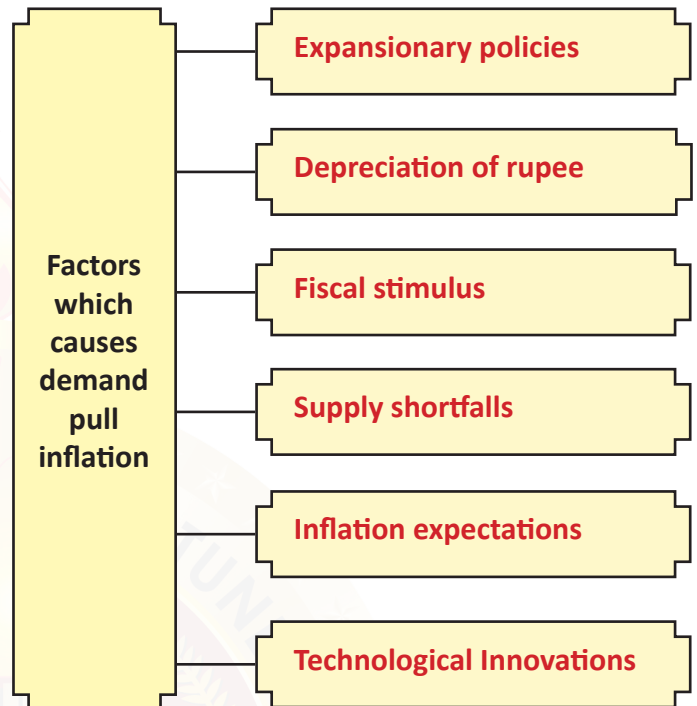
- a) 1, 2 and 4 only ✓
- b) 3, 4 and 5 only
- c) 1, 2, 3 and 5 only
- d) 1, 2, 3, 4 and 5

Difficulty level: Easy

EXPLANATION

Demand- pull Inflation

- **Demand-pull inflation** occurs when an increase in the supply of money and credit **stimulates the overall demand for goods and services to increase** which outgrows the production in the economy.



- **Inflation- indexing wages** means the **wages in the economy that are linked to the inflation**. Hence wage moves as inflation changes in the economy. This indexing helps in reducing the effect of inflation on wages.
- **Rising interest rates will reduce the money supply** in the economy, so it also reduces inflation.

4. Consider the following statements:

The effect of devaluation of a currency is that it necessarily

- 1) Improve the competitiveness of domestic exports in the foreign markets.
- 2) Increases the foreign value of domestic currency.
- 3) Improves the trade balance.

Which of the above statements is/are correct?

- a) 1 only ✓
- b) 1 and 2
- c) 3 only
- d) 2 and 3

Difficulty level: Moderate

EXPLANATION

Devaluation

- Devaluation is the **deliberate downward adjustment of the value** of a country's money relative to another currency. 
- It is a **monetary policy tool** used by countries with a fixed exchange rate or semi-fixed exchange rate.
- Devaluation makes **exports cheaper** and **imports more expensive**. This is because now they can buy more goods for the same amount of foreign currency thus **demand for Indian products increases**.
- Devaluation has an effect on the trade balance depending on various factors such as export, import, response of trading partners to devaluation etc so it may have a mixed effect on trade balance. Hence, we **cannot say devaluation necessarily improves the trade balance**.

Revaluation of a currency occurs when the value of a currency is increased relative to another currency.

5. With reference to 'Water Credit', consider the following statements:

- 1) It puts microfinance tools to work in the water and sanitation sector.
- 2) It is a global initiative launched under the aegis of the World Health Organization and the World Bank.
- 3) It aims to enable the poor people to meet their water needs without depending on subsidies.

Which of the statements given above are correct?

- a) 1 and 2 only
- b) 2 and 3 only
- c) 1 and 3 only ✓
- d) 1, 2 and 3

Difficulty level: Moderate

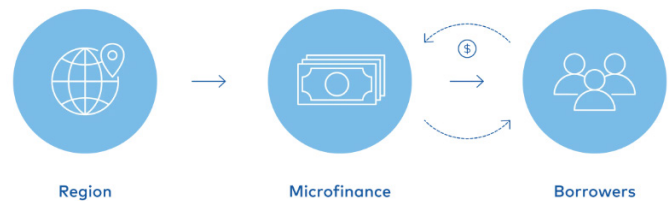
Relevance: Watercredit is one of four ways to scale up finance for India's water sector: WEF.

EXPLANATION

WaterCredit

- WaterCredit **helps to provide small loans to people who need affordable financing** and access to expert resources to turn **household water and toilet solutions** into reality.
- WaterCredit is a powerful solution and the **first to put microfinance tools to work in the water and sanitation sector**.
- Repayments on these loans are **structured based on the borrower's income** so they are affordable to poor people and help them to **meet their water needs without depending on subsidies**.
- Launched by a NGO called **Water.org**.

Every repaid loan can empower another family with safe water.



Type of the questions: Application

1. Which among the following steps is most likely to be taken at the time of an economic recession?
 - a) Cut in tax rates accompanied by increase in interest rate.
 - b) Increase in expenditure on public projects. ✓
 - c) Increase in tax rates accompanied by reduction of interest rates.
 - d) Reduction of expenditure on public projects.

Difficulty level: Easy

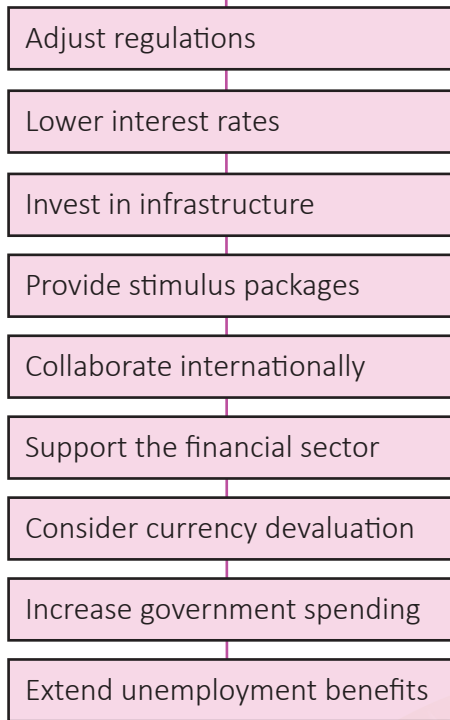
Relevance: Historic recession: On India's GDP slump

EXPLANATION

Economic recession

- An economic recession is a significant **decline in a country's economic activity**, typically characterised by **reduced growth, increased unemployment, and lower consumer spending**.

Step taken at the time of an economic recession



Current Relevance: UN's Trade and Development Report 2023 released: In 2023, there will be a global recession, like that in 2009.

2. With reference to 'Urban Cooperative Banks' in India, consider the following statements:

- 1) They are supervised and regulated by local boards set up by the State Governments.
- 2) They can issue equity shares and preference shares.
- 3) They were brought under the purview of the Banking Regulation Act, 1949 through an Amendment in 1966.

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

Difficulty level: Moderate

Relevance: RBI had made changes in their regulation and due to the failure of various banks like Punjab and Maharashtra cooperative banks.

EXPLANATION

Urban Cooperative Banks (UCBs)

- Cooperative banks have long been under dual regulation by the **State Registrar of Societies and the RBI**. As a result, these banks have escaped scrutiny despite failures and frauds.
- The **Banking Regulation Act, 1949** was amended in **1965** to bring cooperative banks under the **regulatory purview of RBI**.
- Again **Banking Regulation Act** amended in September 2020, which **brought cooperative banks under the direct supervision of the RBI**.
- The amended law has given RBI the power to **supersede the board of directors** of cooperative banks after consultations with the state government concerned. Earlier, it could issue such directions only to multi-state cooperative banks.
- Also, urban cooperative banks will now be **treated on a par with commercial banks**. **Rural cooperatives are regulated by NABARD**.
- The amendment will now **enable mergers and restructuring of banks** in public interest also they can augment capital through issuance of equity shares, preference shares and debt instruments.
- The **first urban cooperative bank** was established in **Haryana** in 1904.

RELATED PYQs

Q1. Consider the following statements:

1. In terms of short-term credit delivery to the agriculture sector, District Central Cooperative Banks (DCCBs) deliver more credit in comparison to Scheduled Commercial Banks and Regional Rural Banks.
2. One of the most important functions of DCCBs is to provide funds to the Primary Agricultural Credit Societies.

Which of the statements given above is/are correct?

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

[2020]

3. Indian Government Bond yields are influenced by which of the following?

- 1) Actions of the United States Federal Reserve
- 2) Actions of the Reserve Bank of India
- 3) Inflation and short-term interest rates

Select the correct answer using the code given below :

- a) 1 and 2 only
- b) 2 only
- c) 3 only
- d) 1, 2 and 3 ✓

Difficulty level: Moderate

Relevance: Rising yield on bonds in the US, triggered concern over the negative impact on assets especially stock markets even gold in India. So, bond yields have been regularly in the news.

EXPLANATION

Bond

- A bond is a **debt instrument** where the issuer (the borrower) is obligated **to pay fixed or floating interest rate** and the principal during a fixed period of time.



Bond yield

- Bond yield is the **return that an investor gets from bonds or government securities**. It can be calculated using the coupon rate, the current market price, or the yield to maturity. Bond yield is inversely related to Bond price.

IF INTEREST RATES RISE:



IF INTEREST RATES FALL:



Bond yields are influenced by:

- 1. Monetary policy of RBI:** Bond yields are significantly affected by monetary policy, specifically the course of interest rate. Falling interest rates make bond prices rise and bond yields fall.
- 2. Interest rates:** When **interest rates rises, prices of existing bonds tends to fall**, even though the coupon rates remain constant, and **yields go up**. When interest rates fall, prices of existing bonds tend to rise.
- 3. Fiscal policy of government:** It will cause an **impact on liquidity** and **stock market** valuations.
- 4. Global markets:** Change in interest rates of external markets will influence the **demand of bonds** results fluctuations in bond prices.
» **Example:** If interest rate in US federal market increases and interest rate in Indian market decreases there will be outflow of bonds or funds from Indian market to US federal market. This will have a negative impact on the Indian economy.
- 5. Inflation:** when inflation rate rises interest rates and bond yields will go up.

2022-PRELIMS PREVIOUS YEAR QUESTIONS

Type of the questions: Factual

1. With reference to the Indian economy, what are the advantages of “Inflation-Indexed Bonds (IIBs)”?

- 1) Government can reduce the coupon rates on its borrowing by way of IIBs.
- 2) IIBs provide protection to the investors from uncertainty regarding inflation.
- 3) The interest received as well as capital gains on IIBs are not taxable.

Which of the statements given above are correct?

- a) 1 and 2 only ✓
- b) 2 and 3 only
- c) 1 and 3 only
- d) 1, 2 and 3

Difficulty level: Moderate

EXPLANATION

Inflation- Indexed Bonds (IIBs)

- IIBs are bonds whose **interest and principal both are protected against inflation** and **considered WPI for inflation protection in IIBs**.
- Every year **principal is increased by the inflation index** and the **interest is offered on the increased principle**.
- IIBs have fixed real coupon interest rates, **only principle value adjusts for inflation**, therefore we can say government can reduce the coupon rates on its borrowing by way of IIBs.

Key Points

1. Coupon on IIBs paid on **half yearly basis**. A fixed coupon rate would be paid on the adjusted principal.
2. As they are G-secs, IIBs are **eligible for SLR status**, short-sale and repo transactions.
3. The **minimum individual investment is Rs 5000**, with a maximum of Rs 10 lakh per year. The maximum institutional investment is Rs 25 lakh per year.
4. **Low interest rates** compared to other types of bonds.

5. Foreign Institutional Investors (FIIs) are **allowed to invest in IIBs**.

- There is **no special tax treatment for these bonds**.
- The **interest received as well as capital gains on IIBs are taxable** when sold in the secondary market (through the BSE, NSE, and other stock exchanges).

2. With reference to Convertible Bonds, consider the following statements :

- 1) As there is an option to exchange the bond for equity, **Convertible Bonds pay a lower rate of interest**.
- 2) The option to convert to equity affords the bondholder a degree of indexation to rising consumer prices.

Which of the statements given above is/are correct ?

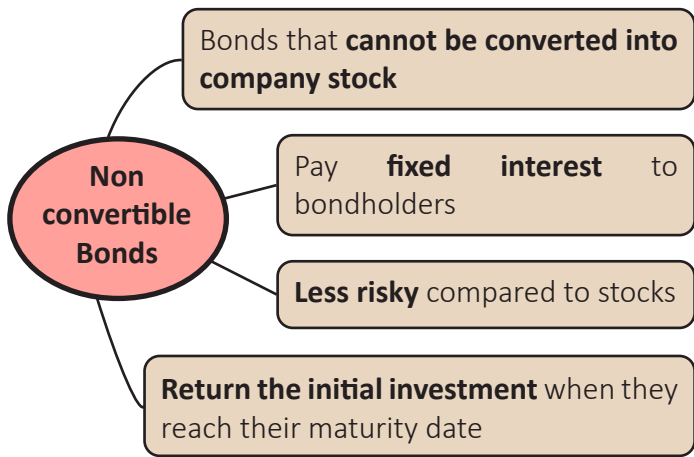
- a) 1 only
- b) 2 only
- c) Both 1 and 2 ✓
- d) Neither 1 nor 2

Difficulty level: Moderate

EXPLANATION

Convertible Bonds

- A type of **corporate bond** that gives bondholders the option to **convert their bonds into a predetermined number of the company's common stock shares**.
- Conversion of these bonds usually occurs at the bondholder's discretion and offers a **lower coupon rate**.
- It offers potential for capital appreciation if the company's stock price rises and provides regular interest payments like traditional bonds.



3. Which of the following activities constitute a real sector in the economy?

- 1) Farmers harvesting their crops
- 2) Textile mills converting raw cotton into fabrics
- 3) A commercial bank lending money to a trading company
- 4) A corporate body issuing Rupee Denominated overseas

Select the correct answer using the code given below:

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

Difficulty level: Easy

EXPLANATION

Real sector

- Real sector means the **sector that produces goods and services**. It includes **sectors such as agriculture, manufacturing, construction, and mining**.
- This sector **drives economic growth** for the long term and creates employment opportunities thus contributing to the GDP of the economy.

Financial sector

- It **consists of banks, investment companies, insurance companies, estate firms** etc.
- Financial sector supports the economy by **transferring and allocating financial capital** and **generating income** from interest rates.
- A commercial bank lending money to trading companies and corporate bodies issuing **Rupee denominated overseas** are part of the financial sector.

4. In India, which one of the following is responsible for maintaining price stability by controlling inflation?

- a) Department of Consumer Affairs
- b) Expenditure Management Commission
- c) Financial Stability and Development Council
- d) Reserve Bank of India ✓

Difficulty level: Easy

EXPLANATION

Monetary policy framework

- In May 2016, the RBI Act, 1934 was amended to support flexible inflation targeting.
- Inflation Target: (**Section 45ZA of the RBI Act**)
 - » The central government, in consultation with the RBI, determines the **inflation target every five years using the Consumer Price Index (CPI)**.
 - » **Current target is 4% of CPI inflation with a tolerance range of 2% to 6%.**

Monetary policy committee (MPC)

- **Section 45ZB** of the RBI Act provides for the constitution of a **six-member MPC** to determine the policy rate (repo rate) required to achieve the inflation target.
- Out of the six Members of MPC, **three Members will be from the Reserve Bank of India (RBI)**- Governor (ex-officio Chairperson), the Deputy Governor, RBI and one officer of RBI.
- The other three Members of MPC, will be appointed by the **Central Government** for **4 years** on the recommendations of a **Search-cum-Selection Committee** and they are **not eligible for re-appointment**.
- The MPC is required to meet **at least four times** in a year (Quorum- **4 members**).
- **Each member of the MPC has one vote**, and in the event of an equality of votes, the **Governor has a second or casting vote**.
- Each Member of the Monetary Policy Committee **writes a statement specifying the reasons for voting** in favour of, or against the proposed resolution.

Failure to Maintain Inflation Target:

- If the **MPC is unable to achieve the target of 4% (+/- 2%) for three successive quarters**, it is defined as a failure of the MPC.
- In such cases, the **RBI must report the reasons for the failure**, proposed remedial actions, and the estimated time to achieve the target.

Expenditure Management Commission

- The Government has constituted an **Expenditure Management Commission (EMC)** in **2014**. EMC will look into various aspects of expenditure reforms to be undertaken by the Government such as review of the institutional arrangements including budgeting process and **Fiscal Responsibility and Budget Management (FRBM) rules**.

Financial Stability and Development Council (FSDC)

- The Financial Stability and Development Council (FSDC) is an **autonomous body** that was established in **2010**. The FSDC was proposed by the **Raghuram Rajan Committee in 2008**. The FSDC is **not a statutory organization**.
- The Council is **chaired by the Union Finance Minister** and its members are Governor of RBI, Finance Secretary, Secretary of Department of Financial Service, Chief Economic Adviser, Chairman of SEBI, Chairman of Insurance Regulatory and Development Authority and Chairman of Pension Fund Regulatory and Development Authority.

RELATED PYQs

Q1. With reference to 'Financial Stability and Development Council', consider the following statements:

1. It is an organ of NITI Aayog.
2. It is headed by the Union Finance Minister.
3. It monitors macroprudential supervision of the economy.

Which of the statements given above is/are correct?

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

[2016]

Q2. Which of the following statements is/are correct regarding the Monetary Policy Committee (MPC)?

1. It decides the RBI's benchmark interest rates.
2. It is a 12-member body including the Governor of RBI and is reconstituted every year.
3. It functions under the chairmanship of the Union Finance Minister.

Select the correct answer using the code given below:

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

[2017]

Type of the questions: Current Affairs

1. "Rapid Financing Instrument" and "Rapid Credit Facility" are related to the provisions of lending by which one of the following?

- a) Asian Development Bank
- b) International Monetary Fund ✓
- c) United Nations Environment
- d) Programme Finance Initiative
- e) World Bank

Difficulty level: Hard

Relevance: Amidst its economic crisis, Sri Lanka had requested the IMF for rapid financial aid.

EXPLANATION

International Monetary Fund

- IMF is a global organisation that works to achieve sustainable growth and prosperity for all of its **190 member countries**.
- It was established in **1944 at the Bretton Woods Conference**, by the then 44 member countries in the **aftermath of the Great Depression of the 1930s**.
- Headquarters: **Washington D.C.**
- **India is a founding member.**

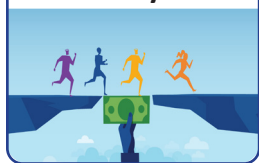
Rapid Financing Instrument (RFI)

- It is one of the facilities under the **General Resources Account (GRA)** and its major aim to provide prompt financial assistance **to any IMF member** facing an **urgent balance of payments need**.

Rapid Credit Facility (RCF)

- RCF is one of the facilities under the **Poverty Reduction and Growth Trust (PRGT)**. It provides **fast concessional financial assistance to low-income countries (LICs)** facing an urgent balance of payments need.
- All PRGT- eligible member countries are eligible for RCF. **Higher Income countries which are not PRGT-eligible can use the Rapid Financing Instrument (RFI).**

Other lending facilities by IMF:



- Extended Credit Facility (ECF)
- Extended Fund Facility (EFF)
- Stand By Arrangement (SBA)
- Resilience and Sustainability Facility (RSF)

2. With reference to foreign-owned e-commerce firms operating in India, which of the following statements is/are correct?

- 1) They can sell their own goods in addition to offering their platforms as market- places.
- 2) The degree to which they can own big sellers on their platform is limited.

Select the correct answer using the code given below:

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

Difficulty level: Hard

Relevance: India's proposed changes to consumer rules for the e-commerce sector.

EXPLANATION

Consumer Protection (E-Commerce) Rules, 2020

- It defines an e-commerce entity (also foreign owned) as any person who owns, operates or manages digital facilities for electronic commerce, but **does not include a seller offering his goods or services for sale on a marketplace e-commerce entity.**

Models of e-commerce

Marketplace model

Providing an **information technology platform** by an e-commerce entity on a digital & electronic network to act as a **facilitator between buyer and seller.**

Inventory based model

An e-commerce activity where **inventory of goods and services is owned by an e-commerce entity and is sold to consumers directly.**

- According to guidelines for FDI on e-commerce, an **e-commerce entity providing a marketplace will not exercise ownership or control over the inventory** i.e. goods purported to be sold. Such an ownership or control over the inventory will render the business into an inventory based model.
- **100% FDI under automatic route is permitted in the marketplace model** of e-commerce. But **FDI is not permitted in the inventory model.**

3. With reference to the "G20 Common Framework", consider the following statements:

- 1) It is an initiative endorsed by the G20 together with the Paris Club.
- 2) It is an initiative to support Low Income Countries with unsustainable debt.

Which of the statements given above is/are correct?

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

Difficulty level: Moderate

Relevance: The Global South is staring at a debt crisis, but the "Common Framework" created to provide debt relief has serious shortcomings.



EXPLANATION

G20 common framework

- The “Common Framework” was **established by the G20** together with the **Paris Club** in 2020 to provide **relief to debtors facing insolvency or liquidity problems and to support Low Income Countries with unsustainable debt**.
- It is a framework for debt treatment beyond the **Debt Service Suspension Initiative(DSSI)**.
- Debt Service Suspension Initiative (DSSI) - In this initiative, **bilateral official creditors will suspend debt payments from the poorest countries** if they request the suspension.

Paris club

- An **informal group of creditor nations**.
- Purpose: To provide **debt relief and restructuring** to debtor countries in financial distress.
- Members: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Israel, Japan, Netherlands, Norway, Russia, South Korea, Spain, Sweden, Switzerland, the United Kingdom and the United States.

4. Consider the following statements:

- 1) Vietnam has been one of the fastest growing economies in the world in the recent years.
 - 2) Vietnam is led by a multi-party political system.
 - 3) Vietnam’s economic growth is linked to its integration with global supply chains and focus on exports.
 - 4) For a long time Vietnam’s low labour costs and stable exchange rates have attracted global manufacturers.
 - 5) Vietnam has the most productive e-service sector in the Indo-Pacific region.
- a) Which of the statements given above are correct?
- b) 2 and 4
- c) 3 and 5
- d) 1, 3 and 4 ✓
- e) 1 and 2

Difficulty level: Hard

Relevance: Vietnam has been in the news for taking decisive steps to mitigate both the health and economic consequences.

EXPLANATION

Vietnam

- Between 2002 and 2022, **GDP per capita increased by 3.6 times**, making it one of the fastest-growing economies in the world.
- Vietnam is a **one party communist state**.
- Vietnam’s **export-led growth strategy** and **integration to global supply chains** have played a role in achieving economic growth and poverty reduction.
- **Low cost labour force** and **stable exchange rates** attracted manufacturing companies to Vietnam.
- As per Asian Development Bank Report E- services in vietnam are at a very early stage of development it is **not the most productive e-service sector in the Indo-Pacific region**.

India and Vietnam economic relations

- Signed **Comprehensive Strategic Partnership** in 2016.
- Bilateral trade between the two countries registered a significant growth since 2000 when it was only \$ 200 million reaching to 4.14 billion in 2021-2022, a **growth of 27 %**.

5. Which one of the following situations best reflects “Indirect transfers” often talked about in the media recently with reference to India?

- a) An Indian company investing in a foreign enterprise and paying taxes to the foreign country on the profits arising out of its investment
- b) A foreign company investing in India and paying taxes to the country of its base on the profits arising out of its investment
- c) An Indian company purchases tangible assets after their value increases and transfers the proceeds to India
- d) A foreign company transfers shares and such shares derive their substantial value from assets located in India ✓

Difficulty level: Hard

Relevance: Taxation laws act 2021 nullifies the retrospective taxation related to indirect transfers that was introduced with the Finance act of 2021.

EXPLANATION

Indirect transfer

- It occurs when **shares or assets of foreign entities that have holdings in India are transferred**, instead of directly transferring the underlying assets located in India.
- Under the **IT Act**, **non-residents** are required to **pay tax on the income** accruing through or arising from any business connection, property, asset, or source of income **situated in India**.
- **Taxation laws act 2021**: It aims to **withdraw the tax demand made using a 2012 retrospective legislation** to tax the indirect transfer of Indian assets. The act amended the **Income tax act, 1961** so as to provide that no tax demand shall be raised in future.

• **Retrospective tax**: A **tax imposed on transactions that have taken place in the past**. It can be a new or additional charge on transactions that were done under a different tax policy. The origin of retrospective taxation can be traced back to 2012, when **Vodafone Ltd** was taxed by the Indian tax authorities.

6. With reference to Ayushman Bharat Digital Mission, consider the following statements:

- 1) Private and public hospitals must adopt it.
- 2) As it aims to achieve universal health coverage, every citizen of India should be part of it ultimately.
- 3) It has seamless portability across the country.

Which of the statements given above is/are correct?

- a) 1 and 2 only
- b) 3 only ✓
- c) 1 and 3 only
- d) 1, 2 and 3

Difficulty level: Moderate

Relevance: Ayushman Bharat Digital Mission was launched on 27th September 2021 under **Ministry of Health and Family Welfare**.

EXPLANATION

Ayushman Bharat Digital Mission (ABDM)

- To create a **national digital health ecosystem** that supports **universal health coverage**.
- Under the mission every citizen will get a **digital health ID** and their **health record** (contain details of every test, every disease, the doctors visited, the medicines taken and the diagnosis) will be digitally protected. It has **seamless portability across the country**.
- Its **voluntary for both Public and Private hospital to adopt** it. ABDM is a **consent based program** that **does not mandates every citizen to be part of it**.
- **National Health Authority (NHA)- implementing Agency**.
- Other aspects of the programme is creating a **Healthcare Professionals' Registry (HPR)** and **Healthcare Facilities Registry (HFR)**.



Type of the questions: Conceptual

1. With reference to the Indian economy, consider the following statements:

- 1) An increase in Nominal Effective Exchange Rate (NEER) indicates the appreciation of rupee.
- 2) An increase in the Real Effective Exchange Rate (REER) indicates an improvement in trade competitiveness.
- 3) An increasing trend in domestic inflation relative to inflation in other countries is likely to cause an increasing divergence between NEER and REER.

Which of the above statements are correct?

- a) 1 and 2 only
- b) 2 and 3 only
- c) 1 and 3 only ✓
- d) 1, 2 and 3

Difficulty level: Moderate

EXPLANATION

NEER and REER

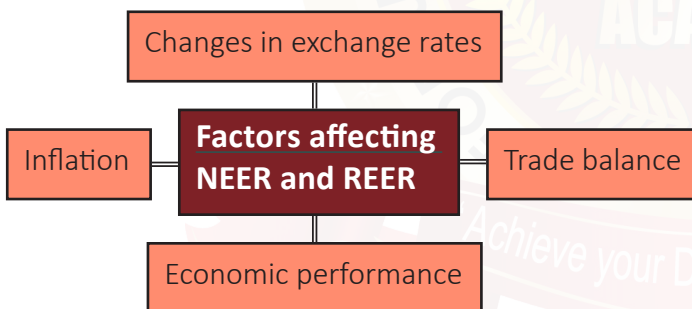
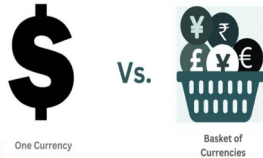
- The indices of Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER) are used as indicators of external competitiveness.

NEER

- It is the **weighted average** of bilateral **nominal exchange rates** of the home currency in terms of foreign currencies.
- That is, NEER is the **amount of domestic currency needed to purchase foreign currency**.
- An **increase in NEER indicates an appreciation of local currency** against the weighted basket of currencies of its trading partners.

REER

- A nation's NEER, **adjusted for inflation** in the home country, equals its REER.
- It is calculated as the **weighted average of the real exchange rates of all its trade partners**.
- REER is interpreted as the **quantity of domestic goods required to purchase one unit of a given basket of foreign goods**.
- An **increase in REER** implies **exports become more expensive** and **imports become cheaper**, that is a **loss in trade competitiveness**.



2. With reference to the Indian economy, consider the following statements:

- If the inflation is too high, Reserve Bank of India (RBI) is likely to buy government securities.
- If the rupee is rapidly depreciating, RBI is likely to sell dollars in the market.
- If interest rates in the USA or European Union were to fall, that is likely to induce RBI to buy dollars.

Which of the statements given above are correct?

- 1 and 2 only
- 2 and 3 only ✓
- 1 and 3 only
- 1,2 and 3

Difficulty level: Easy

EXPLANATION

- If the **inflation is too high**, RBI takes effective measures to **reduce money supply** in the economy.
- In this scenario, RBI is likely to **sell government securities** to the public via **open market operations***. By **selling g-secs**, RBI is **absorbing excess money** in the market and thereby reducing money supply. It leads to the **reduction of inflation**.
- Rupee depreciation** means the **fall in the value of rupee with respect to the dollar**.
- Depreciation** takes place when the demand for the dollar is more than supply. So, if the rupee is rapidly depreciating, **RBI is likely to sell dollars in the market**.
- If interest rates in the USA or European Union were to fall, that would decrease the value and demand of those currencies. Also, **their exchange rates with the rupee decrease**. In order to counter this, RBI is likely to buy dollars.
- *Open Market Operations (OMO)**: It is the **simultaneous buying and selling of government securities** by RBI to regulate the liquidity in the market.

RELATED PYQs

Q1. In the context of Indian economy, Open Market Operations refers to:

- borrowing by scheduled banks from the RBI
- lending by commercial banks to industry and trade
- purchase and sale of government securities by the RBI
- None of the above

[2013]

Q2. The problem of international liquidity is related to the non-availability of:

- goods and services
- gold and silver
- dollars and other hard currencies
- exportable surplus

[2015]

Q3. With reference to inflation in India, which of the following statements is correct?

- a) Controlling the inflation in India is the responsibility of the Government of India only
- b) The Reserve Bank of India has no role in controlling the inflation
- c) Decreased money circulation helps in controlling the inflation
- d) Increased money circulation helps in controlling the inflation

[2015]

Q4. With reference to the Indian economy, consider the following:

- 1. Bank rate
- 2. Open market operations
- 3. Public debt
- 4. Public revenue

Which of the above is/are component/ components of Monetary Policy?

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

[2015]

3. Consider the following statements:

- 1) In India, credit rating agencies are regulated by Reserve Bank of India.
- 2) The rating agency popularly known as ICRA is a public limited company.
- 3) Brickwork Rating is an Indian credit rating agency.

Which of the statements given above are correct?

- a) 1 and 2 only
- b) 2 and 3 only ✓
- c) 1 and 3 only
- d) 1, 2 and 3

Difficulty level: Easy

EXPLANATION

Credit Rating Agencies

- They are **organizations that assess the creditworthiness of entities like governments and corporations**, giving credit ratings based on their ability to repay debt.

- All credit rating agencies in India **are regulated by SEBI (Credit Rating Agencies) Regulations, 1999 of the SEBI Act, 1992.**

ICRA (Investment Information and Credit Rating Agency)

- It is an **independent and professional investment Information and Credit Rating Agency** and was set up in **1991**.

Brickwork Rating

- It is a **SEBI-registered Credit Rating Agency** which has also been **accredited by the RBI**.

4. With reference to the expenditure made by an organisation or a company, which of the following statements is/are correct?

- 1) Acquiring new technology is capital expenditure
- 2) Debt financing is considered capital expenditure, while equity financing is considered revenue expenditure

Select the correct answer using the code given below:

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

Difficulty level: Easy

EXPLANATION

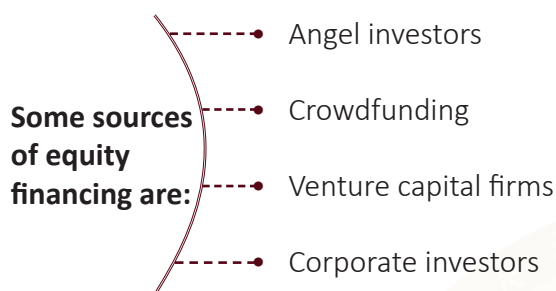
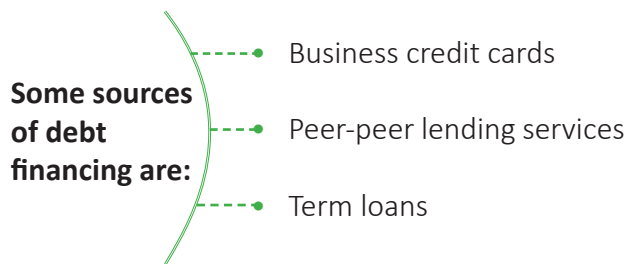
Capital expenditure

- It refers to the funds of a company **invested in acquiring, or maintaining its long-term assets or capital assets.**
- Example: research and development for long term projects, investment in infrastructure improvements.
- Capital expenditure mainly focuses on **increasing operational efficiency and increasing revenue.**

Capital receipts

- These are receipts that **create liabilities or reduce financial assets.** Capital receipts **can be both debt or non- debt receipts.**

- **Debt financing** involves the borrowing of money and to be paid back in the future with interest whereas **equity financing** involves selling a portion of equity in the company.
- **Both debt financing and equity financing are part of capital receipt.**



Revenue expenditure

- It is the expenditure that is incurred for **purposes other than the creation of physical or financial assets.**
- Example: Salaries and employee wages, utilities and rent etc.

Revenue receipts

- Money earned by a business through its **day to day operational activities** like sales of goods, interest from resources, **bad-debts recovered** and dividends. Revenue receipts **do not create any liability for the business nor does it reduces the assets.**

RELATED PYQs

Q1. Which of the following is/are included in the capital budget of the Government of India?

1. Expenditure on acquisition of assets like roads, buildings, machinery, etc.
2. Loans received from foreign governments
3. Loans and advances granted to the States and Union Territories

Select the correct answer using the code given below.

- 1 only
- 2 and 3 only
- 1 and 3 only
- 1, 2 and 3

[2017]

5. With reference to the Indian economy, consider the following statements:

- 1) A share of the household financial savings goes towards government borrowings.
- 2) Dated securities issued at market-related rates in auctions form a large component of internal debt.

Which of the above statements is/are correct?

- 1 only
- 2 only
- Both 1 and 2 ✓
- Neither 1 nor 2

Difficulty level: Moderate

EXPLANATION

Internal debt

- It is defined as **funds borrowed by the government** from various sources **within the country.**
- It also includes borrowings **through treasury bills, market loans, bonds, ways and mean advance** etc.
- **Household savings**, which form a bulk of overall savings, refers to currency, bank deposits, debt securities, mutual funds, pension funds, insurance and investment in small saving schemes.
- Any negative impact on the household savings will have adverse effects on the banks, mutual funds etc who are key investors in government securities. So, a **share of the household financial savings goes toward government borrowing.**

Dated securities

- They are **long term** securities of the government that carry a **fixed interest rate** and its term ranges from **5 years to 30 years.**
- The government mainly uses dated securities **to finance a fiscal deficit.**
- Dated securities issued at the market rate contain a **large share of internal debt.**

Type of the questions: Application

1. With reference to the Bank Board Bureau (BBB), which of the following statements are correct ?

- 1) The Governor of RBI is the Chairman of BBB
- 2) BBB recommends for the selection of heads for Public Sector Banks
- 3) BBB helps the Public Sector Banks in developing strategies and capital raising plans

Select the correct answer using the code given below:

- a) 1 and 2 only
- b) 2 and 3 only ✓
- c) 1 and 3 only
- d) 1, 2 and 3

Difficulty level: Easy

Relevance: Bank Board Bureau (BBB) was replaced by Financial Service and Institutions Bureau (FSIB).

EXPLANATION

Bank Board Bureau (BBB)

- BBB was established in **2016** on the basis of the **P.J.Nayak committee** recommendations.

Functions

- Recommends personnel for PSBs and government-owned insurance companies.
- Focuses on enhancing corporate governance in PSBs and building capacities.
- The **Ministry of Finance**, in consultation with the Prime Minister's Office, makes final decisions on appointments.

Financial Services Institutions Bureau(FSIB)

- The FSIB is an **autonomous body of Govt of India** that began its operations on July 1, **2022**.
- It **replaced Bank Boards Bureau**.
- The Bureau's Secretariat currently includes a **Secretary** and **five officers**.

Functions

- It recommends persons for **appointment as whole-time directors (WTDs) and non-executive chairpersons (NECs)** on the Boards of Directors in Public Sector Banks (PSBs), financial institutions (FIs) and Public Sector Insurers (PSIs).
- To **build a databank** containing data related to the performance of PSBs, FIs and PSIs.
- To advise the Government on **formulation and enforcement of a code of conduct and ethics** for whole-time directors in PSBs, FIs and PSIs.
- To help PSBs, FIs and PSIs in terms of **developing business strategies and capital raising plan** etc.

RELATED PYQs

Q1. The Chairman of public sector banks are selected by the

- a) Banks Board Bureau
- b) Reserve Bank of India
- c) Union Ministry of Finance
- d) Management of concerned bank

[2019]

2. With reference to Non-Fungible Tokens (NFTs), consider the following statements:

- 1) They enable the digital representation of physical assets.
- 2) They are unique cryptographic tokens that exist on a blockchain.
- 3) They can be traded or exchanged at equivalency and therefore can be used as a medium of commercial transactions.

Which of the statements given above are correct?

- a) 1 and 2 only ✓
- b) 2 and 3 only
- c) 1 and 3 only
- d) 1, 2 and 3

Difficulty level: Easy

Relevance: NFTs are frequently in news due to Government's regulation on crypto currency, verdict of Supreme court in internet and mobile association of india vs reserve bank of india case.

EXPLANATION

Non-Fungible Tokens (NFTs)

- NFTs are digital assets that can be **used to establish the ownership and value of an underlying digital asset**, such as an original image, video or audio.
- They are issued using **blockchain technology** and **smart contracts**.
- They are **traded and programmed in the same way as cryptocurrencies** like Bitcoin or Ethereum.
- Cryptocurrencies like physical money are “fungible,” meaning they may be traded or exchanged for one another. For example the value of four notes worth Rs 500 each is the same as that of a Rs. 2000 note, thereby making it replaceable.
- Each NFT contains a digital signature that prevents it from being exchanged for or compared to one another (hence, non-fungible).

CRYPTOCURRENCY

A cryptocurrency is a **digital or virtual currency secured by cryptography**, which makes it nearly impossible to counterfeit or double-spend.

Most cryptocurrencies exist on **decentralised networks using blockchain technology**.

They are **generally not issued by any central authority**, rendering them theoretically **immune to government interference** or manipulation.

3. In India, which one of the following compiles information on industrial disputes, closures, retrenchments and lay-offs in factories employing workers?
- a) Central Statistics Office
 - b) Department for Promotion of Industry and Internal Trade
 - c) Labour Bureau ✓
 - d) National Technical Manpower Information System

Difficulty level: Easy

Relevance: Labour bureau is often seen in the news for compiling unemployment data and related to dearness allowance.

EXPLANATION

Labour Bureau

- Labour Bureau, an attached office of the **Ministry of Labour & Employment** headquartered at Chandigarh.
- Collects **primary data** pertaining to several important economic indicators such as **Consumer Price Index Numbers for Industrial Workers, Agricultural and Rural Labourers**, Wage Rate Indices, absenteeism, **socio-economic conditions of workers** in the organized and unorganized sectors of industry, etc.
- Also collects **administrative statistics under the 11 Labour Acts** and nodal agency for **collection of statistical returns under all the four Labour Codes**.
- Labour Bureau is discharging its functions by implementing a continuing **Central Sector Scheme** called the “**Labour & Employment Statistical System**” (LESS).

Central Statistics Office

- Statistical arm of **Ministry of Statistics and Programme Implementation**.
- Nodal agency for planned **development of the statistical system** in the country.
- Publications: **Index of Industrial Production (IIP), Annual Survey of Industries (ASI)**.
- Conducts periodic **all-India Economic Censuses**.

Department for Promotion of Industry and Internal Trade (DPIIT)

- Under the **Ministry of Commerce and Industries**.
- Handles matters related to **Protection of Intellectual Property Rights (IPR), Foreign Direct Investment (FDI)**.
- It looks after **promotion of investments by Overseas Indians in India**, particularly in areas such as **Special Economic Zones** for Overseas Indians.

National Technical Manpower Information System (NTMIS)

- NTMIS is a scheme of the **Ministry of Human Resource Development**, Govt. of India in 1983 to provide up-to-date and meaningful manpower information on a continuing basis in the field of science and technology.
- This scheme is funded by the **All India Council for Technical Education (AICTE)**.

RELATED PYQs

- Q1. Which of the following brings out the 'Consumer Price Index Number for Industrial Workers'?
- a) The Reserve Bank of India
 - b) The Department of Economic Affairs
 - c) The Labour Bureau
 - d) The Department of Personnel and Training

[2015]

2023-PRELIMS PREVIOUS YEAR QUESTIONS

Type of the questions: Factual

1. Consider the following markets :

- 1) Government Bond Market
- 2) Call Money Market
- 3) Treasury Bill Market
- 4) Stock Market

How many of the above are included in capital markets?

- a) Only one
- b) Only two ✓
- c) Only three
- d) All four

Difficulty level: Easy

EXPLANATION



Capital Market

- The capital market deals with **long-term securities**, typically with **maturities of over one year**.
- It includes **stocks (equity shares) and long-term debt instruments** such as **bonds**.

- **Stock exchanges are a significant part of the capital market**, where investors buy and sell shares of publicly traded companies.

Money Market

- The money market deals with **short-term financial instruments**, typically with maturities of **one year or less**.
- It is used for meeting **short-term liquidity needs, managing cash, and temporary investment of funds**.
- Money market instruments include **Treasury bills, commercial paper, certificates of deposit, and short-term government and corporate bonds**.
- Money market instruments are **highly liquid** and can be **easily converted to cash**.
- **Government Bond Market** and **Stock Market** are include in capital markets. **Call Money Market** and **Treasury Bill Market** are included in Money Market.

RELATED PYQs

- Q1. Which of the following is issued by registered foreign portfolio investors to overseas investors who want to be part of the Indian stock market without registering themselves directly?
- a) Certificate of Deposit
 - b) Commercial Paper
 - c) Promissory Note
 - d) Participatory Note

[2019]

Type of the questions: Current Affairs

1. Consider the following statements:

- 1) The Government of India provides Minimum Support Price for niger (Guizotia abyssinica) seeds.
- 2) Niger is cultivated as a Kharif crop.
- 3) Some tribal people in India use niger seed oil for cooking.

How many of the above statements are correct?

- a) Only one
- b) Only two
- c) All three ✓
- d) None

Difficulty level: Moderate

Relevance: Illusive oilseed: India's niger seed cultivation is declining. Question directly taken from a Down to Earth article.

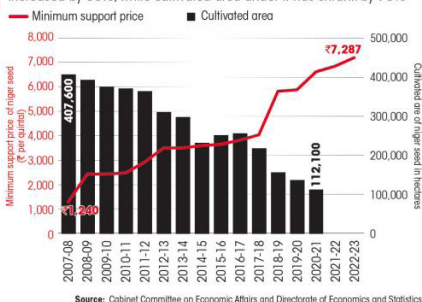
EXPLANATION

Niger or Ramtil (Guizotia abyssinica)

- Native to **Ethiopia, Eritrea and Malawi** and also grown in India.
- It is one of the 14 **kharif crops** for which the Centre releases a minimum support price (MSP) every year.
- It has traditionally been the lifeline of tribal agriculture and economy in states like **Madhya Pradesh and Chhattisgarh**.
- Niger seeds have **32-40 percent oil content and 18-24 percent protein**.
- The **area under its cultivation has been steadily shrinking over the past 3 decades**, and in 2020-21, the cultivated area became the **lowest among the kharif crops with MSP**.
- It **neither requires much water nor fertilisers and pesticides**.
- **Amarbel** (*Cuscuta chinensis*), a parasitic plant is one of the biggest **threats to niger seed** farming.

High prices, low interest

Since 2007-08, the minimum support price of niger seed has increased by 80%, while cultivated area under it has shrunk by 70%



Minimum Support Price (MSP)

- MSP is a form of **market intervention** by the Government of India to **insure agricultural producers** against any sharp fall in farm prices.
- The minimum support prices are announced by the Government of India at the beginning of the sowing season for certain crops on the basis of the recommendations of the **Commission for Agricultural Costs and Prices (CACP)**.

RELATED PYQs

- Q1. The economic cost of food grains to the Food Corporation of India is Minimum Support Price and bonus (if any) paid to the farmers plus
- a) transportation cost only
 - b) interest cost only
 - c) procurement incidentals and distribution cost
 - d) procurement incidentals and charges for godowns
- [2019]

- Q2. In India, which of the following can be considered as public investment in agriculture?
1. Fixing Minimum Support Price for agricultural produce of all crops
 2. Computerization of Primary Agricultural Credit Societies
 3. Social Capital development
 4. Free electricity supply to farmers
 5. Waiver of agricultural loans by the banking system
- [2020]

- Q3. Which of the following factors/policies were affecting the price of rice in India in the recent past?
1. Minimum Support Price
 2. Government's trading
 3. Government's stockpiling
 4. Consumer subsidies
- Select the correct answer using the code given below:
- a) 1, 2 and 4 only
 - b) 1, 3 and 4 only
 - c) 2 and 3 only
 - d) 1, 2, 3 and 4
- [2020]

2. With reference to Central Bank digital currencies, consider the following statements :

- 1) It is possible to make payments in a digital currency without using the US dollar or SWIFT system.
- 2) A digital currency can be distributed with a condition programmed into it such as a timeframe for spending it.

Which of the statements given above is/are correct?

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

Difficulty level: Moderate

Relevance: Ongoing discussions on CBDC.

EXPLANATION

Central Bank Digital currency (CBDC)

- CBDCs are **sovereign currency** in digital form **issued by a country's central bank**.

Salient features:

- Unlike cryptocurrencies, CBDCs are **centralised**.
- It is a **liability for central bank**.
- **Legal tender**- Must be accepted as a medium of payment.
- **Freely convertible** against commercial bank money and cash.
- **Fungible** (they can be traded or exchanged for one another) legal tender for which holders **need not have a bank account**.
- Expected to **lower the cost of issuance of money and transactions**.
- CBDCs could also potentially enable a more **real-time, cost-effective** seamless integration of **cross border payment** systems.
- It is possible to make payments in a digital currency without using US dollar or SWIFT system.
- A digital currency can be distributed with a condition programmed into it such as a timeframe for spending it.



Bahamas has been the first economy to launch its nationwide CBDC- **Sand Dollar** in 2020 and the latest was **Jamaica's JAM-DEX**.

RELATED PYQs

Q1. With reference to 'Bitcoins', sometimes seen in the news, which of the following statements is/are correct?

1. Bitcoins are tracked by the Central Banks of the countries.
2. Anyone with a Bitcoin address can send and receive Bitcoins from anyone else with a Bitcoin address.
3. Online payments can be sent without either side knowing the identity of the other.

Select the correct answer using the code given below.

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

[2016]

3. In the context of finance, the term 'beta' refers to:

- a) The process of simultaneous buying and selling of an asset from different platforms
- b) An investment strategy of a portfolio manager to balance risk versus reward
- c) A type of systematic risk that arises where perfect hedging is not possible
- d) A numeric value that measures the fluctuations of a stock to changes in the overall stock market ✓

Difficulty level: Hard

Relevance: Terms related to stock market.

EXPLANATION

Beta

- It is the key factor used in the **Capital Asset Price Model (CAPM)** which is a model that describes the relationship between the expected return and risk of investing in a security (simply, a model that measures the return of a stock).
- The **volatility of the stock and systematic risk can be judged by calculating beta**.

- A **positive beta value** indicates that stocks generally move in the same direction with that of the market and vice versa.

Arbitrage: Process of simultaneous buying and selling of an asset from different platforms.

Asset allocation: An investment strategy that a portfolio manager uses to balance risk and reward.

Basis Risk: It is a type of systematic risk that arises where perfect hedging is not possible.

4. Consider the following statements :

Statement-I :

Recently, the United States of America (USA) and the European Union (EU) have launched the 'Trade and Technology Council'.

Statement-II

The USA and the EU claim that through this they are trying to bring technological progress and physical productivity under their control.

Which one of the following is correct in respect of the above statements?

- Both Statement-I and Statement-II are correct and Statement-II is the correct explanation for Statement-I
- Both Statement-I and Statement-II are correct and Statement-II is not the correct explanation for Statement-I
- Statement-I is correct but Statement-II is incorrect ✓
- Statement-I is incorrect but Statement-II is correct

Difficulty level: Hard

Relevance: EU sets up Trade & Technology Council with India after similar partnership with US.

EXPLANATION

Trade and Technology Council

- It is a **strategic coordination mechanism between two countries** that will allow both partners to **tackle challenges** at the nexus of trade, trusted technology and security.

- It is expected to **facilitate exchange of critical technologies** relating to an array of domains, including artificial intelligence, quantum computing, semiconductors and cybersecurity.

- The **TTC with India is the EU's second such technology partnership** after the first one with the United States that was firmed up in June 2021. 
- **India-EU-TTC** is a **strategic coordination and engagement on trade and technology** between India and Europe and was formally announced on 25 April **2022**.
- Ministerial meetings of the TTC will rely on the preparatory work of the three working groups-
 - » **Strategic technologies, digital governance and digital connectivity.**
 - » **Green & clean energy technologies.**
 - » **Trade, investment and resilient value chains.**

5. Consider the following statements :

Statement 1 :

Interest income from the deposits in Infrastructure Investment Trusts (InvITs) distributed to their investors is exempted from tax, but the dividend is taxable.

Statement 2 :

InvIT are recognized as borrowers under the 'Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002'.

Which one of the following is correct in respect of the above statements?

- Both Statement-1 and Statement-2 are correct and Statement-2 is the correct explanation for Statement-1
- Both Statement-1 and Statement-2 are correct and Statement-2 is not the correct explanation for Statement-1
- Statement-1 is correct but Statement-2 is incorrect
- Statement-1 is incorrect but Statement-2 is correct ✓

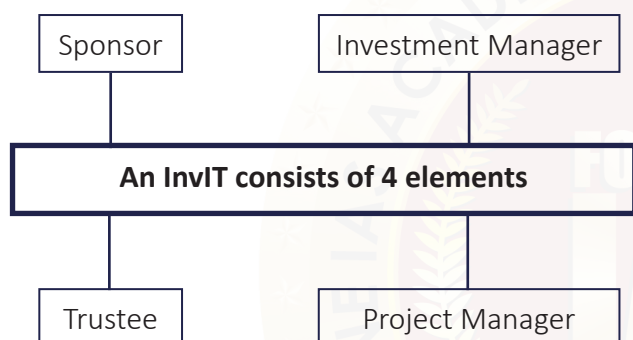
Difficulty level: Moderate

Relevance: Govt proposes taxation changes related to REITs, InVITs.

EXPLANATION

Infrastructure Investment Trusts (InvITs)

- An Infrastructure Investment Trust (InvITs) is **Collective Investment Scheme similar to a mutual fund**, which enables **direct investment of money from individual and institutional investors in infrastructure projects** to earn a small portion of the income as return.
- The InvIT is designed as a tiered structure with Sponsor setting up the InvIT which in turn **invests into the eligible infrastructure projects** either directly or via special purpose vehicles (SPVs).
- The InvITs are regulated by the **SEBI (Infrastructure Investment Trusts) Regulations, 2014**.
- The **dividend and Interest income from InvITs is completely taxable** as per the slab rate of the investor.



- InvIT are recognized as borrowers under the **SARFAESI act 2002**.

6. Consider the following statements :

Statement 1 :

In the post-pandemic recent past, many Central Banks worldwide had carried out interest rate hikes.

Statement 2 :

Central Banks generally assume that they have the ability to counteract the rising consumer prices via monetary policy means.

Which one of the following is correct in respect of the above statement?

- a) Both Statement-1 and Statement -2 are correct and Statement-2 is the correct explanation for Statement-1 ✓

- b) Both Statement-1 and Statement-2 are correct and Statement-2 is not the correct explanation for Statement-1
- c) Statement-1 is correct but Statement-2 is incorrect
- d) Statement-1 is incorrect but Statement-2 is correct

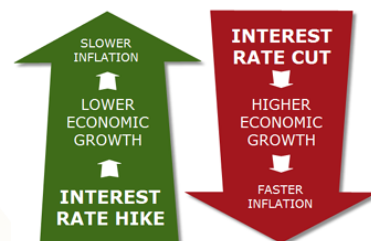
Difficulty level: Easy

Relevance: Many central Banks including the US federal Reserve Bank carried out interest rate hikes to control inflation.

EXPLANATION

Inflation and Interest rates

- Inflation and interest rates generally have an **inverse relationship**.
- Central banks, like the Reserve of India, **use interest rate hikes** as a **tool to control inflation**. By raising interest rates, they aim to **reduce consumer and business spending**, which can help **cool down the economy and lower inflation**.
- When interest rates go up, it becomes more expensive to borrow money**. This discourages people from taking out loans for things like homes, cars, or businesses, reducing overall spending.
- Higher interest rates can also impact investments. Bond prices tend to fall when interest rates rise**, which affects bondholders. Investors may also shift from stocks to bonds when interest rates are attractive, influencing stock market performance.
- On the positive side, **higher interest rates** mean that savings accounts and other fixed-income investments can offer better returns, which can **benefit savers**.



RELATED PYQs

- Q1. With reference to inflation in India, which of the following statements is correct?
- a) Controlling the inflation in India is the responsibility of the Government of India only
- b) The Reserve Bank of India has no role in controlling the inflation

- c) Decreased money circulation helps in controlling the inflation
- d) Increased money circulation helps in controlling the inflation

[2015]

7. Which one of the following best describes the concept of 'Small Farmer Large Field'?

- a) Resettlement of a large number of people, uprooted from their countries due to war, by giving them a large cultivable land which they cultivate collectively and share the produce
- b) Many marginal farmers in an area organise themselves into groups and synchronise and harmonise selected agricultural operations ✓
- c) Many marginal farmers in an area together make a contract with a corporate body and surrender their land to the corporate body for a fixed term for which the corporate body makes a payment of agreed amount to the farmers
- d) A company extend loans, technical knowledge and material inputs to a number of small farmers in an area so that they produce the agricultural commodity required by the company for its manufacturing process and commercial production

Difficulty level: Moderate

Relevance: A study conducted called small farmers large field for improving the livelihood of small farmers in India have been in news.

EXPLANATION

Small farmer large field

- This model is **participatory** and flexible and allows **small farmers to benefit from achieving economies of scale** by **organizing themselves into groups and synchronizing and harmonizing selected operations**.

The small farmers' large field was **started in two villages of Odisha**. The farmers participating in this project were able to **reduce their cost of production, increase yield** etc. and this **helped to increase their income and reduce indebtedness**.

8. Consider the following:

- 1) Demographic performance
- 2) Forest and ecology
- 3) Governance reforms
- 4) Stable government
- 5) Tax and fiscal efforts

For the horizontal tax devolution, the Fifteenth Finance Commission used how many of the above as criteria other than population area and income distance?

- a) Only two
- b) Only three ✓
- c) Only four
- d) All five

Difficulty level: Moderate

Relevance: Fifteenth finance commission has used certain criteria for horizontal tax devolution other than population area and income distance.

EXPLANATION

- The fifteenth finance commission was constituted on **27 November 2017** against the backdrop of the **abolition of the planning commission** and the introduction of the **goods and services tax** which has fundamentally redefined federal fiscal relations.

The Fifteenth finance commission used **six criteria for horizontal tax devolution**, the criteria are:

1. Income distance (45%)
2. Population (15%)
3. Area (15%)
4. Demographic performance (12.5%)
5. Forest and Ecology (10%)
6. Tax and Fiscal efforts (2.5%)

9. Consider the following infrastructure sectors:

- 1) Affordable housing
- 2) Mass rapid transport
- 3) Health care
- 4) Renewable energy

On how many of the above does UNOPS sustainable Investment in Infrastructure and Innovations (S3i) initiative focus for its investment?

- a) Only one
- b) Only two
- c) Only three ✓
- d) All four

Difficulty level: Hard

Relevance: Reports detailing abuses within the agency came out last year and found ineffective whistleblowing mechanism.

EXPLANATION

The United Nations office for project service

- It is a **UN agency** that **provides project management, procurement, and infrastructure service to support various UN initiatives and humanitarian effects** around the world.
- The **S3i initiative** aims to **invest in projects that promote sustainability** such as renewable energy, health, green buildings, water and sanitation systems and climate-resilient infrastructure.

UNOPS S3i rolling out the initiative across three focus areas:

Affordable housing

Renewable energy

Health infrastructure

10. Consider the following statements:

Statement-1:

India accounts for 3.2% of global export of goods.

Statement-II:

Many local companies and some foreign companies operating in India have taken advantage of India's Production-linked Incentive' scheme.

Which one of the following is correct in respect of the above statements?

- Both Statement-I and Statement-II are correct and Statement-II is the correct explanation for Statement-I
- Both Statement-I and Statement-II are correct and Statement-II is not the correct explanation for Statement-I
- Statement-I is correct but statement 2 is incorrect
- Statement 1 is incorrect but statement 2 is correct. ✓

Difficulty level: Moderate

Relevance: Indian exports rate declined in 2022-23 and Production-linked incentive scheme was frequently seen in news.

EXPLANATION

- India **currently account for only 2.1% of global export of goods**. India aims to raise the share of its exports in global trade to 3% by 2027 and 10% by 2047.

Production linked incentive scheme

- Keeping in view India's vision of becoming '**Atmanirbhar**', Production Linked Incentive (PLI) Schemes for **14 key sectors** have been announced with an outlay of **Rs. 1.97 lakh crore** (over US\$26 billion) **to enhance India's Manufacturing capabilities and exports**.
- The purpose of the PLI Schemes is **to attract investments in key sectors and cutting-edge technology**; ensure efficiency and bring economies of size and scale in the manufacturing sector and make Indian companies and manufacturers globally competitive.
- The scheme is **open to both Indian and foreign companies**.

The 14 sectors are: (i) **Mobile Manufacturing and Specified Electronic Components**, (ii) Critical Key Starting Materials/Drug Intermediaries & **Active Pharmaceutical Ingredients**, (iii) Manufacturing of Medical Devices, (iv) **Automobiles** and Auto Components, (v) Pharmaceuticals Drugs, (vi) Specialty Steel, (vii) Telecom & Networking Products, (viii) Electronic/Technology Products, (ix) **White Goods** (ACs and LEDs), (x) Food Products, (xi) Textile Products: Man Made Fibre segment and **technical textiles**, (xii) High efficiency **solar PV modules**, (xiii) **Advanced Chemistry Cell (ACC) Battery**, and (xiv) **Drones and Drone Components**.

RELATED PYQs

- Q1. With reference to the international trade of India at present, which of the following statements is/are correct?
- India's merchandise exports are less than its merchandise imports.
 - India's imports of iron and steel, chemicals, fertilisers and machinery have decreased in recent years.

3. India's exports of services are more than its imports of services.

4. India suffers from an overall trade/current account deficit.

Select the correct answer using the code given below:

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

[2020]

- They issue an **annual recommendation on policy measures** every year and also monitor EU countries to ensure each nation is compliant with budget regulations.
- **Countries that break the rules for three consecutive years are fined a maximum of 0.5% of their GDP**, something that in reality never happens, although the threat, particularly against southern European countries, has always loomed.
- SGP is not a treaty that makes the EU countries to share infrastructure and technology within.

11. Consider the following statements:

The 'Stability and Growth Pact' of the European Union is a treaty that

- 1) limits the levels of the budgetary deficit of the countries of the European Union
- 2) makes the countries of the European Union to share their infrastructure facilities
- 3) enables the countries of the European Union to share their technologies

How many of the above statements are correct?

- a) Only one ✓
- b) Only two
- c) All three
- d) None

Difficulty level: Hard

Relevance: stability and growth pact has been news because of the contradiction among EU members regarding its enforcement.

EXPLANATION

Stability and Growth Pact (SGP)

- The Stability and Growth Pact (SGP) is a set of rules designed to ensure that **countries in the European Union pursue sound public finances** and coordinate their fiscal policies.
- Described as the **Eurozone's fiscal rulebook**, the SGP is a set of fiscal rules designed **to prevent EU countries from spending beyond their means**.
- Since 1997, member states have agreed that they should **keep GDP ratios of deficit and debt below 3% and 60% respectively**.
- The **European Commission and the Council of finance ministers** have the main **duty of surveillance**.

12. Consider the following statements about G-20:

- 1) The G-20 group was originally established as a platform for the Finance Ministers and Central Bank Governors to discuss the international economic and financial issues.
- 2) Digital public infrastructure is one of India's G-20 priorities.

Which of the statements given above is/are correct?

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

Difficulty level: Moderate

Relevance: India takes over G20 presidency and host the summits in 2023.

EXPLANATION

Group of twenty (G20)

- The G20 was founded in **1999** after the **Asian financial crisis** as a **forum for the Finance Ministers and Central Bank Governors to discuss global economic issues**. Upgraded to the level of Heads of State/Government in the wake of the **global economic crisis of 2007 and 2009**.
- The G20 Summit is held annually, under the leadership of a **rotating Presidency supported by the Troika** (previous, current and incoming Presidency).

- G20 **comprises 19 countries** (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Türkiye, United Kingdom and United States) and **two regional bodies**: the European Union and the African Union.
- The G20 **consists of two parallel tracks**: The **Finance Track** (led by Finance Ministers and Central Bank Governors) and the **Sherpa Track** (led by sherpas- a personal emissary of the leader of a country).
- Group **does not have a permanent secretariat**.

India's G20 Priorities:

1. Green Development, Climate Finance & LiFE
2. Accelerated, Inclusive & Resilient Growth
3. Accelerating Progress on SDGs
4. Technological Transformation & Digital Public Infrastructure
5. Multilateral Institutions for the 21st century
6. Women-led Development

RELATED PYQs

Q1. The term 'Regional Comprehensive Economic Partnership' often appears in the news in the context of the affairs of a group of countries known as:

- a) G20
- b) ASEAN
- c) SCO
- d) SAARC

[2016]

Type of the questions: Conceptual

1. Which one of the following activities to the Reserve Bank of India is considered to be part of 'sterilization'?
 - a) Conducting 'Open Market Operations' ✓
 - b) Oversight of settlement and payment systems
 - c) Debt and cash management for the Central and State Governments
 - d) Regulating the functions of Non-banking Financial Institutions

Difficulty level: Moderate

EXPLANATION

Sterilization

- Sterilization is a **monetary action used by central banks** in order to **stem the negative effects emerging from capital inflows or outflows** from a country's economy.
- Sterilization most frequently involves the **purchase or sale of financial assets by a central bank** and is designed to **offset the effect of foreign exchange intervention**.
- The sterilization process is **used to manipulate the value of one domestic currency relative to another** and is initiated in the foreign exchange market.

2. Consider the investments in the following assets:

- 1) Brand recognition
- 2) Inventory
- 3) Intellectual property
- 4) Mailing list of clients

How many of the above are considered intangible investments?

- a) Only one
- b) Only two
- c) Only three ✓
- d) All four

Difficulty level: Moderate

EXPLANATION

Intangible investment

- It is the spending on assets that are **not physical in nature**, but still deliver value.
- It can be used in the production or supply of goods or services, for rental and administrative purposes etc.
- Example: Human capital, Innovative products, Intellectual property (like patents, trademarks, copyrights), Software, Datas, Organization capital.

Tangible assets

- These are physical assets that have a **physical form and can be touched or seen**.
- They are **recorded** on a company's balance sheet.
- Example: Equipment's, Buildings, Inventory, Real estate, Vehicles.

RELATED PYQs

Q1. The following statements: Human capital formation as a concept is better explained in terms of a process, which enables:

1. individuals of a country to accumulate more capital.
2. increasing the knowledge, skill levels and capacities of the people of the country.
3. accumulation of tangible wealth.
4. accumulation of intangible wealth.

Which of the statements given above is/are correct?

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

[2018]

3. Consider the following statements:

- 1) The self-help groups (SHG) programme was originally initiated by the State Bank of India by providing microcredit to the financially deprived.
- 2) In an SHG, all members of a group take responsibility for a loan that an individual member takes.
- 3) The Regional Rural Bank and Scheduled Commercial Banks support SHGs.

How many of the above statements are correct?

- a) Only one
- b) Only two ✓
- c) All three
- d) None

Difficulty level: Moderate

EXPLANATION

Self Help Groups (SHGs)

- Self Help Group is an **informal group** registered under **societies act** originated in India in **1980** which was **initiated by National Bank of Agriculture and Rural Development (NABARD)**.
- It usually contains **15-25 members of similar economic and social backgrounds** who come together to improve their living conditions by providing micro credits or subsidies.
- Example: **Jeevika of Bihar, Looms of Ladakh**.
- When a **loan** is given to the Self-help group as a whole, **each member is responsible to repay it**.

- **Regional rural banks, Commercial banks such as public sector and private sector banks, cooperative banks provide financial support to self-help groups**. They mainly use Micro finance institution-bank linkage models in providing loans.

Type of the questions: Application

1. Consider the following statements with reference to India :

- 1) According to the 'Micro, Small and Medium Enterprises Development (MSMED) Act, 2006', the 'medium enterprises' are those with investments in plant and machinery between ₹ 15 crore and ₹ 25 crore.
- 2) All bank loans to the Micro, Small and Medium Enterprises qualify under the priority sector.

Which of the statements given above is/are correct?

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

Difficulty level: Moderate

Relevance: MSME is always a hot topic in the country's economic growth.

EXPLANATION

Micro, Small and Medium Enterprises Development (MSMED) Act, 2006

- It was established to **facilitate the promotion and development and enhancing the competitiveness** of MSMEs.

Salient features of the act

- » Industry is replaced by enterprises which include **service enterprises** also.
- » **Ambit of sector enlarged** to cover medium enterprises.
- » Constitution of **MSME Board**.
- A **revision in the definition** of micro, small, and medium-sized enterprises (MSME) were made as a part of the **Atmanirbhar Bharat Abhiyaan relief package** in 2020.

- Earlier, MSMEs were categorized based on the amount invested in plant and machinery/equipment. With revised regulations effective from July 2020, **annual turnover** has also been added as a criteria.
- MSMEs are defined based on the investment criteria in plant and machinery and turnover as follows:

Types of enterprises	Investment in Plant and Machinery or Equipment	Annual Turnover
Micro enterprises	< Rs. 1 Cr	< Rs. 5 Cr
Small enterprises	< Rs. 10 Cr	< Rs. 50 Cr
Medium enterprises	< Rs. 50 Cr	< Rs. 250 Cr

Q1. Priority Sector Lending by banks in India constitutes the lending to:

- agriculture
- micro and small enterprises
- weaker sections
- All of the above

[2013]

Priority Sector Lending

- Priority Sector means those sectors which the **Government of India** and **Reserve Bank of India** consider as **important for the development of the basic needs of the country** and are to be given priority over other sectors.
- The banks are mandated to encourage the growth of such sectors with adequate and timely credit.
- In terms of Master Direction on 'Priority Sector Lending (PSL) – Targets and Classification', **all bank loans to MSMEs conforming to the conditions prescribed therein qualify for classification under priority sector lending.**

The categories of Priority Sector

- Agriculture
- Micro, Small and Medium Enterprises
- Export Credit
- Education
- Housing
- Social Infrastructure
- Renewable Energy
- Others

SUMMARY

Analyzing the trends in previous years' UPSC Prelims questions from 2021 to 2023 provides valuable insights into the distribution of questions across syllabus topics, the varying levels of question difficulty, and the extent to which current affairs play a significant role in the examination.

SUBJECT EMPHASIS:

- Money supply and Inflation
- RBI
- Monetary policy- Open Market Operation
- Banking
- Finance market- Capital and Money market instruments, SEBI
- International economics- FDI, initiatives of international grouping and organization
- Public finance- Taxation, Social sector initiatives
- Digital economy- UPI, Cryptocurrency, Central Bank Digital Currency(CBDC)

CURRENT AFFAIRS FOCUS:

- Greater attention should be directed towards topics that have remained in the news for an extended period and are closely related to both the syllabus and the foundational aspects of economics.
 - For example:
 - » International economics and organisation such as G20, IMF, World bank and WTO.
 - » Indian economic topics such as bank rates, taxation etc.
 - » Economic survey- Trends and analysis, terminologies and definitions.
 - » Important Keywords mentioned in current affairs such as Beta, Indirect transfer, Sterilization, Small farmer large field etc.

SUMMARY

TREND ANALYSIS:

- Certain topics are gaining relevance due to their current significance, and there is a possibility that these topics might be repeated in the forthcoming exams.
 - Example:
 - » Capital market instruments
 - » Initiatives from international organization
 - » Different type of banks
 - » Schemes to promote MSMEs and Sunrise Sectors
 - » Inflation- cause and effects
 - » RBI- Functions, Monetary Policy Committee (MPC)
 - » Digital payments

Prelims preparation acts as the initial gateway to our aspirations of a career in civil services. As the saying goes, the first step is often the most challenging. To reach our desired destination, it's crucial to make the right, and most importantly, smart choices. At **Fortune IAS Academy**, we aim to simplify this challenging exam stage through our test series program, leading you along the correct path to achieve your goals.