All India Civil Services Coaching Centre

(Under the aegis of Government of Tamil Nadu)

Answer Key Explanation

Economy

Maximum Questions: 100 **Maximum Marks: 200**

1. **Ans. D**
   Exp: The economic crisis led to the introduction of new set of policy measures known as 'New Economic Policy' (1991).It led to liberalisation, privatisation and globalisation of Indian economy. (**Source:** NCERT XI Indian Economic Development – Page 39).

2. **Ans. D**
   Exp: In 1996, the government chose certain public sector undertakings and declared them as 'Navaratnas' to improve their efficiency, infuse professionalism and to increase their competitiveness in the liberalised global environment. To achieve this they were given more managerial, operational and financial autonomy. (**Source:** NCERT XI Indian Economic Development –Page 44).

3. **Ans. C**
   Exp: Public investment in agriculture sector especially in infrastructure which includes irrigation, power, roads, market linkages and research and extension has been reduced in the reform period. (**Source:** NCERT XI Indian Economic Development – Page 49).

4. **Ans. D**
   Exp: Government's approach to poverty reduction was of three dimensions –
   1. growth - oriented approach (rapid industrial development and transformation of agriculture)
   2. poverty alleviation programmes (creation of additional assets, self-employment and wage employment programmes)
   3. providing minimum basic amenities (public distribution system, education, health etc) (**Source:** NCERT XI Indian Economic Development – Page 72).

5. **Ans. D**
   Exp: steps initiated to improve agricultural market :
   1. regulation of markets to create orderly and transparent marketing conditions
   2. physical infrastructure (roads, railways, warehouses, godowns, cold storages, processing units)
   3. cooperative marketing (for realising fair prices for farmers products)
   4. policy instruments (assurance of minimum support prices for agricultural products, maintenance of buffer stocks of wheat and rice by Food Corporation of India, distribution of food grains, sugar through public distribution system). (**Source:** NCERT XI Indian Economic Development – Page 104).

6. **Ans. B**
   Exp: primary sector – agriculture, mining and quarrying.
   Secondary sector – manufacturing, electricity, gas &water supply, construction.
   Tertiary sector – trade, transport & storage, services. (**Source:** NCERT XI Indian Economic Development –Page 123).

7. **Ans. C**
   Exp: Tariff may be imposed to raise government revenue, to protect domestic industries from subsidised / low-wage imports, to boost domestic employment or to ease a deficit on the balance of

payments. (**Source:** NCERT XI Indian Economic Development –Page 206).

8. **Ans. B**
Exp: (Rural Households)
Formal sector loans – source –
1. cooperative societies/banks - 25 %
2. commercial banks – 25 %
3. other institutional agencies – 5 %
4. government – 1 %
Total – 56 %

Informal sector loans – source –
1. moneylenders – 33 %
2. friends and relatives – 8 %
3. other non-institutional agencies – 2 %
4. andlords – 1 %
Total – 44 % (**Source:** NCERT X Understanding Economic Development – Chapter 3).

9. **Ans. D**
Exp: In recent years people have tried new ways of providing loans to the poor. The idea is to organise rural poor , particularly women into small Self Help Groups (SHGs) and pool (collect) their savings.

A typical SHG has 15-20 members. Members can take small loans from the group itself to meet their needs. The group charges small interest on these loans which is lesser then what money lender charges. If the group is regular in savings, it becomes eligible for bank loans. Loan is sanctioned in the name of the group and is meant to create self-employment opportunities. (**Source:** NCERT X Understanding Economic Development – Chapter 3).

10. **Ans. B**
Exp: The most common route is to buy local companies and expand production. (**Source:** NCERT X Understanding Economic Development – Chapter 4).

11. **Ans. D**
Exp: Land, Labour, Physical Capital and Human Capital are the four basic requirements for production of goods and services. (**Source:** NCERT IX Economics – Chapter 1).

12. **Ans. A**
Exp: Physical capital is one of the factors of production. It includes fixed capital and working capital. Tools, machines and buildings are called fixed capital because they can be used in production over many years. Raw materials and money in hand are called working capital because unlike tools, machines and buildings these are used up in production. (**Source:** NCERT IX Economics – - Chapter 1).

13. **Ans. D**
Exp: other causes of poverty – unemployment, illiteracy, indebtedness, unequal distribution of wealth, inequalities etc. (**Source:** NCERT IX Economics – Chapter 3).

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

There was a disheartening development in the late 1990s: employment growth started declining and reached the level of growth that India had in the early stages of planning. During these years, we also find a widening gap between the growth of GDP and employment. This means that in the Indian economy, without generating employment, we have been able to produce more goods and services. Scholars refer to this phenomenon as jobless growth.

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

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

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

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

16. Ans. A

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

17. **Ans. B**

Exp: A PPP Project means a project based on a contract or concession agreement, between a Government or statutory entity on the one side and a private sector company on the other side, for delivering a service on payment of user charges. Unlike private projects where prices are generally determined competitively and Government resources are not involved; PPP projects typically involve a transfer of public assets, a delegation of governmental authority for recovery of user charges.
Hence, statement 1 is not correct.

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

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

18. Ans. A

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

Its objective is to protect the growers of these
horticultural/agricultural commodities from making distress sale in the event of bumper crop during the peak arrival period when prices fall to very low level.

Thus it provides remunerative prices to the farmers in case of glut in production and fall in prices. Proposal of MIS is approved on the specific request of State/Union Territory (UT) Government, if the State/UT Government is ready to bear 50% loss (25% in case of North-Eastern States), if any, incurred on its implementation. Hence, Statement 2 is also correct.

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

19. Ans. D

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

The IRDA Micro-insurance Regulations, 2005 defines and enables micro-insurance.

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

20. Ans. A

Exp: All the statements are correct.

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

The Reserve Bank of India Act, 1934 (RBI Act) has been amended by the Finance Act, 2016, to provide for a statutory and institutionalised framework for a Monetary Policy Committee, for maintaining price stability, while keeping in mind the objective of growth.

The Monetary Policy Committee would be entrusted with the task of fixing the benchmark policy rate (repo rate) required to contain inflation within the specified target level. A Committee-based approach for determining the Monetary Policy will add lot of value and transparency to monetary policy decisions.

21. Ans. C

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

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

22. Ans. C

Exp: Both the statements are correct.

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

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

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

23. Ans. D

Exp: Systemically Important Financial Institutions (SIFIs) are perceived as institutions that are Too Big to Fail (TBTF). Financial Stability Board (FSB) refers Systemically Important Financial Institutions (SIFIs) as institutions —whose distress or disorderly failure, because of their size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity. In August 2015, RBI announced, for the first time, State Bank of India (SBI) and ICICI as D-SIBs; and the list is revised annually.

24. Ans. B

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

25. Ans. D

Exp:

The categories of NBFCs recognized by RBI are:

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

26. Ans. C

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

27. Ans. D

Exp: The NPAs are assets that stop generating income for a bank. Bank's assets mostly comprise of loans and when these loans are on the verge of default (that is, about to go bad), they are classified as NPA. In India, a loan is classified as NPA, if the interest or any instalment remains unpaid for a period of more than 90 days.

Stressed assets = NPAs + Restructured loans + Written off assets

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

28. Ans. A

Exp: The "balance of payments" data is not concerned with actual payments made and received by an economy, but rather with transactions. It involves both capital and current account. India's Balance of Payment varies from being surplus to deficit.

29. Ans. D

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

30. Ans. A

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

31. Ans. A

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

Hence, statement 1 is correct MAT is applicable to all corporate entities, whether public or private. MAT is levied at the rate of 18.5% of the book profits. Hence, statement 2 is not correct.

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

32. Ans. C

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

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

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

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

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

34. **Ans. A**
Exp: Green GDP is a term used generally for expressing GDP after adjusting for environmental damage. It is an index of economic growth with the environmental consequences of that growth factored into a country's conventional GDP.

Green GDP monetizes the loss of biodiversity, and accounts for costs caused by climate change. Some environmental experts prefer physical indicators (such as 'waste per capita' or 'carbon dioxide emissions per year'), which may be aggregated to indices such as the 'Sustainable Development Index'.

35. **Ans. C**
Exp: Both the statements are correct. GeM is an online marketplace launched in 2016. Its objective was to ensure that public procurement of goods and services in India which is worth more than Rs. 5 lakh crore annually is carried out through the online platform.

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

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

Statement 2 is not correct. All the international purchases and sales of assets such as money, stocks, bonds etc. are recorded under the capital account. Statement 3 is correct as fall in global oil prices will reduce imports which will increase the current account surplus.

37. **Ans. C**
Exp: Capital Account consists of capital expenditure and capital receipts. All those receipts of the government which create liability or reduce financial assets are termed as capital receipts. Capital expenditure are expenditures of the government which result in creation of physical or financial assets or reduction in financial liabilities.

Statement 1 is not correct as Salary of government employees does not change any asset of government and it is revenue expenditure. Statement 2 is correct as recovery of loans by central government reduces the asset of the central government and hence it is part of capital receipts. Statement 3 is correct as investment in shares increases the assets and it is part of capital expenditures.

38. Ans. D

Exp: Gini coefficient shows proportion of people in each income level, hence one can easily calculate the percentage of people living below a particular income level.
In 2005, the Gini coefficient for India was 0.22 and in 2014, it was 0.34. Thereby, indicating that Indian Economy has grown but development hasn't taken place (certain inequality).

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

39. Ans. B

Exp: It was developed by UNDP and Oxford Poverty & Human Development Initiative (OPHI). While both HDI and MPI use the 3 broad dimensions health, education and standard of living, HDI uses only single indicators for each dimension while MPI uses more than one indicator. This has led to the MPI only being calculated for just over 100 countries, where data is available for all these diverse indicators, while HDI is calculated for almost all countries.

40. Ans. A

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

The Finance Bill is accompanied by a Memorandum containing explanations of the provisions included in it. The Finance Bill can be introduced only in Lok Sabha. However, the Rajya Sabha can recommend amendments in the Bill. The bill has to be passed by the Parliament within 75 days of its introduction.

41. Ans. C

Exp: Preferential Trade Agreement (PTA): In a PTA, two or more partners agree to reduce tariffs on agreed number of tariff lines. The list of products on which the partners agree to reduce duty is called positive list.

India MERCOSUR PTA is such an example. However, in general PTAs do not cover substantially all trade. Free Trade Agreement (FTA): In FTAs, tariffs on items covering substantial bilateral trade are eliminated between the partner countries; however each maintains individual tariff structure for non-members.

India Sri Lanka FTA is an example. The key difference between an FTA and a PTA is that while in a PTA there is a positive list of products on which duty is to be reduced; in an FTA there is a negative list on which duty is not reduced or eliminated. Thus, compared to a PTA, FTAs are generally more ambitious in coverage of tariff lines (products) on which duty is to be reduced.

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

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

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

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

42. Ans. B

Exp: The central government increased the ceiling of Market Stabilization Scheme (MSS) bonds to Rs. 6 lakh crore, from the earlier Rs. 30000 crore. MSS is a mechanism to give more powers to RBI to suck out the over liquidity from the market. It was first used in February 2004 when the country was flushed with dollar inflows, which needed to be converted into the rupee.

Raised money goes to separate Market Stabilization Scheme Account (MSSA), not for government expenditure. MSS bonds bear an interest rate that can boost banks' income. MSS bonds can also be used to calculate banks' mandatory bond holding. MSS bonds does not increase Government's fiscal deficit.

43. Ans. C

Exp: India recently unilaterally terminated its Bilateral Investment Treaty (BIT) with Netherlands and it has also served notices to 20 EU members for termination of their respective BITs. A BIT is an agreement between two countries that help formulation of rules for foreign investment in each other's countries.

BIT offers protection to foreign investor by holding the host state accountable for exercise of their regulatory power through an independent international arbitration mechanism. India changed its model BIT treaty in 2015.

This model pays a greater emphasis to the state's regulatory power. India was one of the most sued countries in 2015. Indian signed some 70-odd BITs from 1994-2011 which were investor friendly. Post 2011, the trend has been its opposite.

44. Ans. C

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

45. Ans. C

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

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

46. Ans. D

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

47. Ans. D

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

Income tax is a revenue receipt because it is nonredeemable i.e. Government doesn't have to pay it back. Grants to state is a revenue expenditure (even if some of it is used for asset creation) Interest on government security or bond is revenue expenditure. Here, money raised through loan is capital receipt but interest paid on it would be revenue expenditure.

48. Ans. D

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

49. Ans. C

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

The WPI Food index is compiled by taking the aggregate of WPI for 'Food Products' under 'Manufacture Products' and 'Food Articles' under 'Primary Article' using weighted arithmetic mean.

(Indices for Food Articles and Food Products were being released separately in WPI (2004-05) also. But no separate estimate like WPI food index was being generated then). Together with the Consumer Food Price Index released by Central Statistics Office, this would help monitor the price situation of food items better.

50. Ans. C

Exp: SLR:

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

51. Ans. D

Exp: The marginal cost of funds based lending rate (MCLR) refers to the minimum interest rate of a bank below which it cannot lend, except in some cases allowed by the RBI. It is an internal benchmark or reference rate for the bank.

MCLR actually describes the method by which the minimum interest rate for loans is determined by a bank – on the basis of marginal cost or the additional or incremental cost of arranging one more rupee to the prospective borrower.

MCLR aims:

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

52. Ans. C

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

53. Ans. C

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

54. Ans. A

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

55. Ans. A

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

56. Ans. B

Exp: If the real exchange rate is equal to one, currencies are at purchasing power parity. The ratio of nominal to real GDP is a well-known index of prices. This is called GDP Deflator. Thus if GDP stands for nominal GDP and gdp stands for real GDP then, GDP deflator = GDP/ gdp .

57. Ans. D

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

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

The accepted average calorie requirement in India is 2400 calories per person per day in rural areas and 2100 calories per person per day in urban areas. Statement 3: A person is not declared poor if he does not possess land. However, if he has land, he will be automatically excluded from the poverty line.

58. Ans. A

Exp: Foreign Exchange Reserves include:

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

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

59. Ans. D

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

Qualitative methods are:
- Margin Requirements
- Regulation of consumer Credit
- Credit Rationing Policy
- Direct Action

Quantitative methods are:
- Open Market Operation
- Repo Rate
- Variable Reserve Ratio
- Bank Rate Policy

60. Ans. A

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

61. Ans. A

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

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

62. Ans. A

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

63. Ans. A

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

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

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

64. Ans. C

Exp: Statement 2 is incorrect: A rise in per capita Income signals economic growth in the economy.

Irrespective of the rate of economic growth, rise in per capita income means an increase in economic welfare.

Per Capita Income
- Per capita income shows only the average income. A nation may have a high Gross Domestic Product (GDP), but the distribution of income may be confined to a few rich people and the remaining population may be living under poverty.
- It is a measure of the income earned by a per person per year in a certain area. It can apply to the average per-person income for a city, region or country, and is used as a means of evaluating the living conditions and quality of life in

different areas. It can be calculated for a country by dividing the country's national income by its population.

- It counts each man, woman, and child, even newborn babies, as a member of the population. This stands in contrast to other common measurements of an area's prosperity, such as household income, which counts all people residing under one roof as a household, and family income, which counts as a family those related by birth, marriage or adoption who live under the same roof.

65. Ans. D
Exp: Both statements are correct

Monetary Policy Tools

Liquidity Adjustment Facility (LAF)

- The LAF is the key element in the monetary policy operating framework of the RBI (introduced in June 2000). On a daily basis, the RBI stands ready to lend to or borrow money from the banking system, as per the need of the time, at fixed interest rates (repo and reverse repo rates).
- Together with moderating the fund mismatches of the banks, LAF operations help the RBI to effectively transmit interest rate signals to the market.

Open Market Operations (OMOs)

- OMOs are conducted by the RBI via the sale/purchase of government securities (G-Sec) to/from the market with the primary aim of modulating rupee liquidity conditions in the market.
- OMOs are an effective quantitative policy tool in the armory of the RBI but are constrained by the stock of government securities available with it at a point in time.

66. Ans. B
Exp: Statement 1 is incorrect: It has been constituted under GST Act 2017.

National Anti-Profiteering Authority (NAA)

- The National Anti-Profiteering Authority (NAA) has been constituted under Section 171 of the Central Goods and Services Tax Act, 2017 to ensure that the reduction in rate of tax or the benefit of input tax credit is passed on to the recipient by way of commensurate reduction in prices.
- Further, the following steps have been taken by the NAA to ensure that customers get the full benefit of tax cuts:
- Holding regular meetings with the Zonal Screening Committees and the Chief Commissioners of Central Tax to stress upon consumer awareness programmes;
- Launching a helpline to resolve the queries of citizens regarding registration of complaints against profiteering.
- Receiving complaints through email and NAA portal.
- Working with consumer welfare organizations in order to facilitate outreach activities.

67. Ans. C
Exp: Statement 1 is incorrect: Steel sheets used in an automobile manufacturing plant are an example of intermediate goods. Capital Goods are final goods.

Statement 5 is incorrect: A television set is an example of consumer durable goods.

Capital Goods:

- These are tangible assets that a manufacturing sector uses to produce final goods or services. In other words, these goods are used as inputs for other businesses to produce consumer goods.
- For example, tools, implements and machines make production of other commodities feasible.
- Manufacturers of capital goods sector are the crucial backbone of any production process because their

products are used by companies involved in manufacturing, shipping and providing other services as a final goods and services.

- Packaging machine in wafer chips and wafers manufacturing factory, Warehouse in a bottling plant, Oil rig owned by oil company and Battleship owned by defence forces are the examples of Capital Goods.

68. Ans. B

Exp: Statement 1 is incorrect: NNP at Market Price = GNP at Market Price – Depreciation

Net National Product (NNP) at Market Price

- Net National Product (NNP) at Market Price of an economy is the Gross National Product (GNP) at market price after deducting the loss due to 'depreciation'.
- NNP is the Monetary Value of finished goods and services produced by a country's citizens (overseas and domestically), in a given period.

NNP at Market Price = Gross National Product (GNP) at Market Price – Depreciation
Or
NNP = Net Domestic Product (NDP) at Market Price + Net factor Income from Abroad
Or
NNP at factor cost = National Income (NI) = NNP at market prices – Net indirect taxes [Net indirect taxes =Indirect taxes – Subsidies]

69. Ans. A

Exp: Option (a) is correct: The Ministry of Tribal Affairs launched the Minimum Support Price (MSP) for Minor Forest Produce (MFP).

Minimum Support Price (MSP) for Minor Forest Produce (MFP)

- It is centrally sponsored scheme aimed to ensure fair and remunerative prices to MFP gatherers.
- It provides direct benefits to the tribal population by institutionalizing various avenues in the value chain of MFP such as training, sustainable collection, procurement, value addition, infrastructure, marketing, etc.
- The Ministry of Tribal Affairs has now issued revised guidelines to cover the gaps in its implementation process.

70. Ans. B

Exp: Statement 3 is incorrect: Ownership of factors of production by the State is a feature of either communism or extreme socialism.

Capitalist Economy

- Capitalism is an economic system based upon private ownership of the means of production and their operation for profit.
- The purest form of capitalism is free market or laissez-faire capitalism, in which private individuals are completely unrestrained in determining where to invest, what to produce or sell and at which prices to exchange goods and services, operating without checks or controls.
- Private property, capital accumulation, wage labour, voluntary exchange, a price system, and competitive markets are some of the major features of capitalism.
- In a capitalist market economy, decision making and investment are determined by private individuals, whereas prices and the distribution of goods and services are mainly determined by competition in goods and services markets.
- The main aim of capitalism is industrialization of labour from agricultural to industries, targeting to double the national income in one decade.

71. Ans. D

Exp: All statements are correct

Fiscal Consolidation in India

- A number of steps were taken by the government of India at the Centre in the direction of fiscal consolidation and there had been incessant attempts to do the same in the states' public finances too.
- Major highlights in this direction can be summed up as given below:

Cutting down expenditure –

- Cutting down the burden of salaries, pensions and the PFs (down-sizing/ rightsizing of the government, out of every 3 vacancies 1 to be filled up, interest cut on the PF, pension reforms-PFRDA, etc.);
- Cutting down the subsidies (Administered Price Mechanism in petroleum, fertilizers, sugar, drugs to be rationalised, it was done with mixed successes);
- Interest burden to be cut down (by going for lesser and lesser borrowings, pre-payment of external debts, debt swaps, promoting external lending, minimal dependence on costlier external borrowings, etc.);
- Budgetary supports to the lossmaking PSUs to be an exception than a rule;
- Expenditure reform started by the governments in different areas and departments;
- General Services to be motivated towards profit with subsidized services to the needy only (railways, power, water, etc.);
- Postal deficits to be checked by involving the post offices in other areas of profit; Higher education declared as non-priority sector; fees of institutions of professional courses revised upward; etc.

Increasing revenue receipts

- Tax reforms initiated (Cenvat, VAT, Service Tax, GST proposed, etc.);
- The PSUs to be disinvested and even privatised (if a political consensus reached which alludes today);
- Surplus forex reserves to be used in external lending and purchasing foreign high quality sovereign bonds, etc.;

State governments allowed to go for market borrowing for their plan expenditure, etc.

72. Ans. B

Exp: Statement 1 is incorrect: If a country tends to be resource-driven growth, with low-cost labor and capital, rather than productivity-driven growth, it finds itself trapped in the middle-income zone.

Middle Income Trap (MIT)

- MIT refers to countries that have experienced rapid growth and quickly reached middle-income status and are unable to compete with low-income, low wage economies in manufactured exports and unable to compete with advanced economies in high-skill innovations.
- It is associated with a relatively sustained growth slowdown with both direct effects (e.g. income losses) as well as indirect effects (e.g. social conflicts).

Causes of MIT

- If a country tends to be resource driven growth, with low-cost labor and capital, rather than productivity driven growth, it leads to the situation of a middle-income trap.
- In any economy, income inequality decreases the domestic demand, which results in stagnation. It further slows down the upward mobility of families that are at lower levels, into the middle class that is prepared to pay more for quality and differentiated products.
- Recently, a member of the PM Economic Advisory Council (PMEAC) warned that India is facing a structural slowdown and will get caught in a

'middle-income trap' such as Brazil and South Africa.

73. Ans. B

Exp:

- Statement 1 is incorrect: Washington Consensus has cut down the role of the State in the economy.
- Statement 3 is incorrect: It was a set of policy prescriptions promoted for crisis-wracked developing countries by Washington DC-based institutions such as International Monetary Fund (IMF), World Bank, and United States Department of the Treasury.

Washington Consensus

- It was coined by the US economist John Williamson.
- It was a set of ten economic policy reforms which aimed to promote for crisis-wracked developing countries by Washington DC-based institutions such as the International Monetary Fund (IMF), World Bank and United States Department of the Treasury.
- The policy prescription led to processes which are known as Liberalization, Privatization and Globalization, thus cutting down the role of the State in the economy more so in the nations which got developmental funding from the WB and IMF in times of the Balance of Payment crises as in the case of India.
- However, in coming times, the term became synonymous to neo-liberalism, market fundamentalism and even globalization across the world. It has often been used to describe an extreme and dogmatic commitment to the belief that markets can handle everything.
- It is widely believed that this signifies a set of neoliberal policies that have been imposed on hapless countries by the Washington based international financial institutions such as World Bank, IMF and WTO that have led them to crisis and misery.
- Countries like India, China, and Russia along others have been against the Washington Consensus. Also, several multilateral forums and Banks such as BRICS, AIIB, and New Development Bank have been set up in response to this.

74. Ans. A

Exp: Statement 3 is incorrect: Crop Statistics are released by the National Sample Survey Office (NSSO).

Central Statistical Office (CSO)

- It is an office under the Ministry of Statistics and Programme Implementation (MoSPI). It coordinates the statistical activities in the country and evolves statistical standards.
- It releases reports like Gross Domestic Product (GDP), Index of Industrial Production (IIP), Energy Statistics, Infrastructure Statistics, National Income Accounting, Consumer Price Indices for Urban Non-Manual Employees, Human Development Statistics, Gender Statistics, Imparting training in Official Statistics.

75. Ans. B

Exp: Statement 1 is incorrect: The bonus brought by inflation to the borrowers is known as the inflation premium.

Statement 4 is incorrect: Rising inflation premium shows depleting profits of the lending institutions.

Concepts of Inflation

- The bonus brought by inflation to the borrowers is known as the inflation premium.
- The interest banks charge on their lending is known as the nominal interest rate, which might not be the real cost of borrowing paid by the borrower to the banks. To calculate the

real cost a borrower is paying on its loan, the nominal rate of interest is adjusted with the effect of inflation and thus then interest rate we get is known as the real interest rate.

- The real interest rate is always lower than the nominal interest rate if the inflation is taking place—the difference is the inflation premium.
- Rising inflation premium shows depleting profits of the lending institutions.
- At times, to neutralize the effects of inflation premium, the lender takes the recourse to increase the nominal rate of interest.

76. Ans. D

Exp: Statement 4 is incorrect: During Recession personal disposable income reduces.

Recession

- Major traits of recession can be summed up as follows:
- There is a general fall in demand as economic activities take a downturn;
- Inflation remains lower or/and shows further signs of falling down;
- Employment rate falls/ unemployment rate grows;
- Industries resort to 'price cuts' to sustain their business.
- In the financial year 1996–97, the Indian economy was taken up by the cycle of recession— basically due to a general downturn in domestic as well as foreign demands, initiated by the South East Asian Currency Crisis of mid-1990s. The whole plan of economic reforms in India was derailed and it was only by the end of 2001– 02 that the economy was able to recover.
- Usual Remedies to rescue to economy from the phase of Recession are:
- Direct and indirect taxes should be cut down so that the consumers have higher disposable incomes (income after paying direct tax, i.e., income tax) on the one hand and the goods should become cheaper, on the other hand, thus there is hope that the demand might pick up.
- The burden of direct taxes, especially the income tax, dividend tax, interest tax are slashed to enhance the personal disposable income (i.e, income after direct tax payment)—
- Salaries and wages should be revised by the government to encourage general spending by the consumers (as the Government of India implemented the recommendations of the fifth pay commission without much deliberation in 1996–97).
- Indirect taxes such as customs duty, excise duty (cenvat), sales tax, etc., should be cut down so that produced goods reach the market at cheaper prices.
- The government usually goes on to follow a cheap money supply policy by slashing down interest rates across the board and the lending procedure is also liberalised.
- Tax breaks are announced for new investments in productive areas.

77. Ans. A

Exp: Statement 2 is incorrect: Movement of handicraft goods or goods for job-work purposes under specified circumstances also requires the e-way bill even if the value of consignment is less than fifty thousand rupees.

E-way bill

- It is a document required to be carried by a person in charge of the conveyance carrying any consignment of goods of value exceeding fifty thousand rupees as mandated by the Government in terms of Section 68 of the Goods and Services Tax Act.
- E-way bills are required to comply with Section 68 of the GST Act, and; rule 138 of CGST Rules, 2017
- The e-way bill is required to transport all the goods except exempted under

the notifications or rules. Movement of handicraft goods or goods for job-work purposes under specified circumstances also requires the e-way bill even if the value of consignment is less than fifty thousand rupees.

- The validity of the e-way bill depends upon the distance the goods have to be transported. In the case of regular vehicle or transportation modes, for every 100 KMs or part of its movement, one-day validity has been provided.
- And in the case of Over Dimensional Cargo vehicles, for every 20 KMs or part of its movement, one-day validity is provided. And this validity expires on the midnight of last day.

Who can generate the e-way bill?

- The consignor or consignee, as a registered person or a transporter of the goods, can generate the e-way bill.
- The unregistered transporter can enroll on the common portal and generate the e-way bill for the movement of goods for his clients.
- Any person can also enroll and generate the e-way bill for the movement of goods for his/ her own use.

78. Ans. C

Exp: Both statements are correct

National Commission on Farmers

- The National Commission on Farmers, chaired by Prof. M. S. Swaminathan, submitted five reports through the period December 2004 - October 2006.

Some of the recommendations related to land reforms are:

- Distribution of ceiling-surplus and wasteland among farmers, prevention of the non-agricultural use of farmland, securing grazing rights and seasonal forest access to forest trials were the mainland reforms suggested in the commission.
- It also suggested establishing a National Land Use Advisory Service, which would link land use decisions with ecological and marketing factors of season and geography-specific basis.
- To address the growing farmer suicides, affordable health insurance at primary health centers in rural areas was one of the key recommendations. The recommendations included an extension of national rural health mission to suicide-prone areas. Restructuring of microfinance policies, covering all crops by insurance and social security net for support were also sought.

79. Ans. A

Exp: Statement 2 is incorrect: The draft Marine Fisheries Regulation and Management Bill, 2019 deals with all types of fish vessels.

Marine Fisheries regulation and Management Bill, 2019

- Marine Fisheries is that branch of fisheries which deals primarily with marine fishes and other sea products.
- India is the second largest fish producer in the world with a total production of 13.7 million metric tons in 2018-19.
- The sector has been showing a steady growth in the total gross value added and accounts for 5.23 % share of agricultural GDP.
- Marine Fisheries Regulation and Management (MFRM) Bill 2019 is circulated in the public domain for discussion.
- India has proposed Marine Fisheries Regulation and Management (MFRM) Bill 2019 as per its obligation under the United Nations Convention on the Law of the Sea (UNCLOS) 1982 and the World Trade Organization (WTO) agreements.

Salient features of the bill are:

- The bill is a response to discussions on fisheries' subsidies at WTO. Developed countries argue that nations without laws to manage fisheries in their respective EEZ's are not serious about unregulated fishing. India has been defending the rights of developing nations for special and differential treatment.
- Covering the gap between centre and state: Since fisheries is a state subject, fishing in the internal waters (IW) and the territorial sea (TS) come within the purview of the states concerned. Other activities in the TS and activities, including fishing beyond the TS up to the limit of the EEZ, are in the Union list. No Central government, so far, has framed laws covering the entire EEZ.
- The Bill prohibits fishing by foreign fishing vessels, thus nationalizing EEZ.
- Any Indian fishing vessel desirous of fishing in the EEZ, outside the TS, must obtain a permit.
- It proposes social security for fish workers and calls for protection of life at sea during severe weather events.
- India has vast potential for fisheries considering long coastline of about 8118 km, and an Exclusive Economic Zone (EEZ) of 2.02 million sq. Km apart from the inland water resources. Hence the Government notified Marine Fisheries Policy in 2017 for promoting 'Blue Growth Initiative' which focus on ushering 'Blue Revolution by sustainable utilization of fisheries wealth from the marine and other aquatic resources of the country for improving the lives and livelihoods of fishermen and their families.

The overall strategy of the NPMF, 2017 is based on seven pillars, namely sustainable development, socio - economic upliftment of fishers, principle of subsidiarity, partnership, inter-generational equity, gender justice and precautionary approach.

80. Ans. C

Exp: Statement 5 is incorrect: The report suggests increasing food production through agriculture intensification rather than agricultural land expansion.

Future of Food

- Recently, World resources Institute (WRI) along with World Bank, UNEP and UNDP released report titled "World Resources Report: Creating a Sustainable Food Future".
- This World Resources Report proposes a menu of options that could allow the world to achieve a sustainable food future by meeting growing demands for food, avoiding deforestation, and reforesting or restoring abandoned and unproductive land—and in ways that help stabilize the climate, promote economic development, and reduce poverty.
- Achieving these goals requires closing three great "gaps" by 2050:
- A 56 percent food gap between crop calories produced in 2010 and those needed in 2050.
- A 593 million-hectare land gap (an area nearly twice the size of India) between global agricultural land area in 2010 and expected agricultural expansion by 2050; and
- An 11-gigaton GHG mitigation gap between expected agricultural emissions in 2050 and the target level needed to hold global warming below 2oC (3.6°F), the level necessary for preventing the worst climate impacts.
- The report also provides a roadmap for a sustainable food future:
- Raise productivity by increasing crop yields at higher rates.
- Manage demand by reducing food wastage, shifting from high meat to plant based diets, reducing fertility levels etc.
- Link agricultural intensification with natural ecosystems protection to ensure that food production is

increased through intensification and not through expansion.

- Moderate ruminant meat consumption as ruminant livestock use two-thirds of global agricultural land and contribute roughly half of agriculture's production-related emissions.
- Target reforestation and peat land restoration
- Require production-related climate mitigation to significantly reduce GHG emissions from agricultural production sources.
- Spur technological innovation like improved fertilizer forms, crop breeding through molecular biology, plant based beef substitutes etc.

81. Ans. D
Exp: All statements are correct

Direct Tax Code

- Direct taxes are the taxes paid by an individual /organization directly to the imposing entity i.e. the incidence and impact of taxation falls on the same entity.
- Direct Taxes are progressive in the sense that the proportion of tax liability rise as an individual or entity's income increases.
- Various direct taxes are income tax, wealth tax, corporate tax, securities transactions tax etc.
- Direct taxation in India is governed by the Central Board of Direct Taxes (CBDT) under the Department of Revenue in the Ministry of Finance.
- Recently, Akhilesh Ranjan headed task force to review the Income Tax Act, 1961 submitted a draft Direct Tax Code to government of India.
- The direct tax code seeks to consolidate and amend the law relating to all direct taxes, so as to establish an economically efficient, effective and equitable direct tax system which will facilitate voluntary compliance and help increase the tax-GDP ratio (i.e. higher tax buoyancy).
- Another objective is to reduce the scope for disputes and minimize litigation.

Salient features of the code are as follows:

- Rejig of personal income tax slabs
- Surcharges should be temporary
- Corporate tax cut rate to 25% for all companies with an annual turnover over 400 crores
- Common tax rate for domestic and foreign companies for ease of doing business
- Reduce compliance burden by simplification of procedures
- Litigation Management
- Negotiated Settlements to settle a dispute through mediation
- Delinking of transfer pricing assessment with regular one
- Changes in Dividend Distribution Tax and Minimum Alternate Tax

82. Ans. B
Exp: Statement 1 is incorrect: All farmers are eligible under this scheme.

PM Kisan Scheme

- To provide an assured income support to the small and marginal farmers, the Government launched the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN). Under this programme, vulnerable landholding farmer families, having cultivable land upto 2 hectares, will be provided direct income support at the rate of Rs. 6,000 per year. It is a central sector scheme.
- However Central Government recently notified a decision to extend the benefit of Rs.6,000 per year under the Pradhan Mantri Kisan Samman Nidhi scheme to all 14.5 crore farmers in the country, irrespective of the size of their landholding.
- This programme will be funded by Government of India.

83. Ans. A

Exp: Statement 2 is incorrect: Increasing the Repo Rate will not work if the price rise is taking place in items of everyday use such as salt, onion, wheat, etc. (because nobody purchases such goods by borrowing from the banks).

Statement 4 is incorrect: Reducing Cash Reserve Ratio will further increase inflation. It also won't affect the prices of items of everyday use.

Measures to check Inflation

- For Demand-Pull Inflation
- The government may go for import of goods which are in short supply— as a short-term measure (as happened in India in the case of 'onion' and meeting the buffer stock norm of wheat).
- As a long-term measure, governments go on to increase production to match the level of demand. Storage, transportation, distribution, hoarding are the other aspects of price management of this category.

For Cost-Push Inflation

- Governments may try to cool down the price by cutting down the production cost of goods showing price rise with the help of tax breaks— cuts in the excise and customs duties (as happened in June 2003 in India in the case of crude oil and steel). This helps as a short-term measure.
- In the long-term, better production process, technological innovations, etc., are helpful.
- The governments may take recourse to tighter monetary policy to cool down either the demand-pull or the cost-push inflations. This is basically intended to cut down the money supply in the economy by siphoning out the extra money. This is a short-term measure.
- In the long-run, the best way is to increase production with the help of the best production practices.

84. Ans. D

Exp: Option (d) is correct

Revenue Expenditure

- Revenue expenditure is either used in running of a productive process or running a government. A broad category of things that fall in such expenditure in India are:
- Interest payments by the government on the internal and external loans
- Salaries, Pensions and provident fund paid by the government to government Employees
- Subsidies forwarded to all sectors by the government
- Defence expenditures by the government
- Postal deficits of the government
- Law and order expenditure
- Expenditure on social services (includes all social sector expenditures as education, health care, social security, poverty alleviation, etc.) and general services (tax collection)
- Grants given by the government to Indian states and foreign countries.

85. Ans. A

Exp: Option (a) is correct: Salaries do not come under the non-tax revenue receipts of government of India.

Non-tax revenue receipts

- Interest: It comprises of interest of loans given to states and union territories for reasons like non-plan schemes (e.g. flood control) and planned schemes with maturity period of 20 years such as modernisation of police forces and also interest on loans advanced to Public Sector Enterprises (PSEs), Port Trusts and other statutory bodies etc.
- Dividends and profits: This includes dividends and profits from PSEs as well as the transfer of surplus from Reserve Bank of India (RBI).

- Petroleum license: This includes fees to get the exclusive right for exploration in a particular region. Such fees may be in the form of royalty, share of the profit earned from contact areas during a specific period, Petroleum Exploration License (PEL) fee or Production Level Payment (PLP).
- Power supply fees: This includes fees received by Central Electricity Authority from the supply of power under the Electricity (Supply) Act.
- Fees for Communication Services: This mainly includes the license fees from telecom operators on account of spectrum usage charges that licensed Telecom Service Providers pay to the Department of Telecom (DoT).
- Broadcasting fees: It includes license fee paid by DTH operators, commercial TV services, commercial FM radio services etc.
- Road, Bridges usage fees: This includes receipts through toll plazas on account of the usage of national highways, permanent bridges etc.
- Examination fees: This includes fees paid by applicants of competitive examinations conducted by the Union Public Service Commission (UPSC) and Staff Selection Commission (SSC) to fill up vacancies in government offices.

86. Ans. C

Exp: Both Statements are correct

Deficit Financing in India

- The National Planning Commission of India has defined deficit financing in the following way.
- The term 'deficit financing' is used to denote the direct addition to gross national expenditure through budget deficits, whether the deficits are on revenue or on capital account.
- The essence of such policy lies in government spending in excess of the revenue it receives.

The government may cover this deficit either by running down its accumulated balances or by borrowing from the banking system (mainly from the central bank of the country).

- To finance defence expenditures during war
- To lift the economy out of depression so that incomes, employment, investment, etc., all rise
- To activate idle resources as well as divert resources from unproductive sectors to productive sectors with the objective of increasing national income and, hence, higher economic growth
- To raise capital formation by mobilizing forced savings made through deficit financing
- To mobilize resources to finance massive plan expenditure
- Deficit financing in India is done by External aids, External grants, External Borrowing, Internal borrowing and printing currency.

87. Ans. A

Exp: Statement 2 is incorrect: Zero-based budgeting (ZBB) was implemented in India for the first time in 1986.

Zero-based budgeting (ZBB)

- Zero-based budgeting (ZBB) is a method of budgeting in which all expenses must be justified for each new period.
- The process of zero-based budgeting starts from a "zero base," and every function within an organization is analyzed for its needs and costs.
- Budgets are then built around what is needed for the upcoming period, regardless of whether each budget is higher or lower than the previous one.
- ZBB allows top-level strategic goals to be implemented into the budgeting process by tying them to specific functional areas of the organization, where costs can be first grouped and then measured against previous results and current expectations.

- Because of its detail-oriented nature, zero-based budgeting may be a rolling process done over several years, with a few functional areas reviewed at a time by managers or group leaders.
- Zero-based budgeting can help lower costs by avoiding blanket increases or decreases to a prior period's budget. It is, however, a time consuming process that takes much longer than traditional, cost-based budgeting.
- The practice also favours areas that achieve direct revenues or production, as their contributions are more easily justifiable than in departments such as client service and research and development.
- In 1986, the Indian government implemented ZBB as a system for determining Expenditure Budget.
- The government made it compulsory for all ministries to review their activities and programmes and prepare their expenditure estimations based on the concept of ZBB.

88. Ans. B

Exp: Statement 2 is incorrect: The base year for the calculation of the index is 2017-18.

National Coal index

- Based on the recommendation of the High-Powered Committee chaired by Pratyush Sinha, ex cvc, Ministry of Coal, has prepared he NCI to be used for the purpose of the auction of coal mines on commercial mining on revenue sharing basis.
- The detailed concept and methodology have been developed by ISI Kolkata.
- It is the weighted average of the change in the price level of coal based on the price level in 2017-18. The index is compiled and presented at the five sub sectors level which are groups of grades of coal. These sub sectors indices are averaged to compile the indices for coking coal and non-coking coal and finally for the whole of Indian coal sector.
- The objective is to develop a National Coal Index to reflect the movement of price of coal in the domestic coal market.
- The aim is to have an index that will truly reflect the market price of coal since presently the coal market is dominated by Public Sector CIL and SCCL.
- CIL has a system of notification of coal prices from time to time and it varies with grade of coal and is used by all in the coal sector as reference price.
- Besides using the National Coal Index for determination of Revenue and developing the market of coal, the other purpose are as follows:
- For taxation purpose, the Coal Index will be the base indicator.
- For future calculation of upfront amount and intrinsic value of mine, this Index will be helpful.
- For calculation of annual escalation (monthly payment) this index can be basis.

89. Ans. D

Exp: All statements are correct

Sunrise Industry

- Sunrise industry is a colloquial term for a burgeoning sector or business in its infancy stage showing promise of a rapid boom. Sunrise industries are typically characterized by high growth rates, numerous start-ups, and an abundance of venture capital funding.
- As a sunrise industry develops, it may transition to the maturity stage and then to the sunset stage.
- To remain relevant and on an upward trajectory, sunrise industries must prove their viability and sustainability.
- A sunrise industry is often characterized by a high degree of innovation, and its rapid emergence may threaten to push into obsolescence a competing industry

sector that is already in decline. Because of its dim long-term prospects, the competing industry sector is referred to as a sunset industry.

- Examples of sunrise industries include the alternative energy industry between 2003 and 2007 and social media and cloud computing industries in 2011 and 2012.

The following are the few other examples of the sunrise industry:

- IT industry of California and Bangalore
- Hydrogen fuel production
- Petrochemical industry
- Food processing industry
- Space tourism
- Online Encyclopaedias

90. Ans. B

Exp: Statement 1 is incorrect: While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population.

Insurance Penetration and Insurance Density

- The potential and performance of the insurance sector are generally assessed on the basis of two parameters, viz., Insurance Penetration and Insurance Density. The measure of insurance penetration and density reflects the level of development of insurance sector in a country.
- While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (measured in US$ for convenience of international comparison).
- Insurance penetration which was 2.71% in 2001, increased to 3.70% in 2018 (Life 2.74% and Non-Life 0.97%).
- The level of insurance density reached upto USD 64.4 in the year 2010 from the level of USD 11.5 in 2001. However, there was a slight decline further, but regained its position gradually and has become USD 74 in the year 2018, (USD 73 in 2017).

91. Ans. A

Exp: Option (a) is correct

The Impossible Trinity

- The impossible trinity (also known as the trilemma) is a concept in international economics which states that it is impossible to have all three of the following at the same time:
- A fixed foreign exchange rate
- Full capital mobility
- Autonomous monetary policy
- It is both a hypothesis based on the uncovered interest rate parity condition, and a finding from empirical studies where governments that have tried to simultaneously pursue all three goals have failed. The concept was developed independently by both John Marcus Fleming in 1962 and Robert Alexander Mundell in different articles between 1960 and 1963.
- One of the toughest challenges central bankers face is how to navigate the "Impossible Trinity" — maintaining monetary policy independence while allowing a steady flow of foreign capital and keeping a stable currency.
- Suppose, a country that has a fixed exchange rate raises interest rates to curb in inflation.
- Higher interest rates will attract foreign capital.
- Since the country has a fixed exchange rate, the central bank will have to buy foreign exchange to maintain the peg which will lead to injection of domestic currency in the market.
- The rise in availability of money in the market will bring down its cost (read interest rate) and defeat the central bank's idea of curbing inflation by raising interest rates.

- This is why a lot of countries like India also have capital control in place which allows them to maintain stable currency and have more authority on the monetary policy.

92. Ans. B

Exp: Statement 2 is incorrect: Refinery products have the maximum weightage in the Eight Core Industries.

Index of Industrial Production and the Core sectors

- The Index of Industrial Production (IIP) is an index which shows the growth rates in different industry groups of the economy in a stipulated period of time. The IIP index is computed and published by the Central Statistical Organisation (CSO) on a monthly basis.
- IIP is a composite indicator that measures the growth rate of industry groups classified under,
- Broad sectors, namely, Mining, Manufacturing and Electricity
- Use-based sectors, namely Basic Goods, Capital Goods and Intermediate Goods.
- The base year was changed to 2011-12 from 2004-05 in the year 2017.
- The Eight Core Industries comprise nearly 40.27% of the weight of items included in the Index of Industrial Production (IIP). These are Electricity (weight:19.85per cent), steel (weight: 17.92per cent), refinery products (weight: 28.04per cent) , crude oil (weight: 8.98per cent) , coal (weight: 10.33per cent), cement (weight:5.37per cent) , natural gas (weight:6.88per cent) and fertilizers (weight: 2.63 per cent).

93. Ans. D

Exp: Option (d) is correct

Fiscal Drag

- Fiscal drag is an economic term whereby inflation or income growth moves taxpayers into higher tax brackets. This in effect increases government tax revenue without actually increasing tax rates.
- The increase in taxes reduces aggregate demand and consumer spending from taxpayers as a larger share of their income now goes to taxes, which leads to deflationary policies, or drag, on the economy.
- Fiscal drag is a result of decreased consumer spending as a result of increased taxation that eventually reduces aggregate demand, which leads to deflationary pressures.
- Progressive taxation, whereby individuals are moved into higher tax brackets because of inflation or increased income, is a fiscal policy that results in fiscal drag.
- Progressive taxation allows for increased government taxation without actually increasing taxes.
- Fiscal drag can be seen as an automatic fiscal stabilizer as it controls a rapidly expanding economy from overheating.

94. Ans. C

Exp: Statement 2 is incorrect: It is not same as external commercial borrowings or ECBs.

Masala bonds

- It refers to a rupee-denominated bond through which Indian entities can raise money from foreign markets in rupee, and not in foreign currency
- Bonds are instruments of debt that are typically used by corporates to raise money from investors
- By issuing bonds in rupees, an Indian entity is protected against the risk of currency fluctuation, typically associated with borrowing in foreign currency.
- It also help in internationalization of the rupee and in expansion of the Indian bond markets. These bonds are usually traded on a foreign exchange like the LSE and not in India.

- HDFC is the first Indian company to issue masala bonds.
- The Reserve Bank of India (RBI) has increased corporate bond investment limit for foreign investors by taking out Masala bonds (rupee-denominated bonds) from ambit of total debt investment limit.

95. Ans. C

Exp: Option (c) is correct: Receipts on account of disinvestment of part of government equity in central public sector enterprises, proceeds from strategic disinvestment and other such transactions are part of capital receipts.

Revenue Receipts

- Revenue Budget – It consists of the Revenue Expenditure and Revenue Receipts.
- Revenue Receipts are receipts which do not have a direct impact on the assets and liabilities of the government. It consists of the money earned by the government through tax (such as excise duty, income tax) and non-tax sources (such as dividend income, profits, interest receipts).
- Revenue Expenditure is the expenditure by the government which does not impact its assets or liabilities. For example, this includes salaries, interest payments, pension, and administrative expenses.

96. Ans. B

Exp: Statement 1 is incorrect: Domestic content requirements (DCRs) compel renewable energy developers to source a specified share of equipment from local suppliers.

- The World Trade Organization's Appellate Body has declared domestic content requirement (DCRs) in India's Jawaharlal Nehru National Solar Mission (JNNSM) as illegal. Last year in Aug 2015, the WTO disputes panel also ruled that India's subsidies for solar power contravene WTO trade rules and India must remove the subsidies or face trade sanction.
- Domestic content requirements (DCRs) compel renewable energy developers to source a specified share of equipment from local suppliers.
- A principal goal of a domestic content policy is to ensure that the government's renewable energy policy produces tangible local economic benefits.
- By forcing developers of renewable energy to source from domestic suppliers, the DCR is expected to raise the cost of generating renewable electricity, at least in the shortrun.
- That is because sourcing from domestic equipment manufacturers reduces access to technology providers from outside the jurisdictions that might be lower cost than the domestic options.
- The higher equipment costs are likely to reduce the amount of renewable electricity generated. In this way, DCRs can actually work against one of the main goals of the renewable energy support policy.
- Additionally, if renewable energy equipment costs are increased by a significant enough margin as a result of the DCR, the imposition of the DCR may even reduce employment associated with manufacturing renewable energy equipment and renewable energy generation in the short-run.

97. Ans. D

Exp: Both statements are correct

General Agreement on Tariffs and Trade (GATT)

- The General Agreement on Tariffs and Trade (GATT), signed on Oct. 30, 1947, by 23 countries, was a legal agreement minimizing barriers to international trade by eliminating or reducing quotas, tariffs, and subsidies while preserving significant regulations.

- The GATT was intended to boost economic recovery after World War II through reconstructing and liberalizing global trade.
- The General Agreement on Tariffs and Trade (GATT) was created after World War II to aid global economic recovery by reconstructing and liberalizing global trade.
- The GATT went into effect on Jan. 1, 1948. Since that beginning it has been refined, eventually leading to the creation of the World Trade Organization (WTO) on January 1, 1995, which absorbed and extended it. By this time 125 nations were signatories to its agreements, which covered about 90% of global trade.
- The aim behind the GATT was to form rules to end or restrict the most costly and undesirable features of the pre-war protectionist period, namely quantitative trade barriers such as trade controls and quotas.
- The agreement also provided a system to arbitrate commercial disputes between nations, introducing a framework that enabled a number of multilateral negotiations for the reduction of tariff barriers.
- The Council for Trade in Goods (Goods Council) is responsible for the GATT and consists of representatives from all WTO member countries. The council has 10 committees that address subjects including market access, agriculture, subsidies, and anti-dumping measures.
- The GATT was regarded as a significant success in the post-war years. One of its key achievements was that of trade without discrimination.
- Every signatory member of the GATT was to be treated as equal to any other. This is known as the most-favoured-nation (MFN) principle and has been carried through into the WTO.
- A practical outcome of the MFN clause was that once a country had negotiated a tariff cut with some other countries (usually its most important trading partners), this same cut would automatically apply to all GATT signatories. Escape clauses did exist, however, meaning countries could negotiate exceptions if their domestic producers would be particularly harmed by tariff cuts.

98. Ans. C

Exp: Statement 2 is incorrect: Members of WTO agree to grant MFN to each other. Statement 3 is incorrect: It can be revoked any time.

Most Favoured Nation (MFN)

- Most Favoured Nation is a treatment accorded to a trade partner to ensure non-discriminatory trade between two countries vis-a-vis other trade partners.
- The importance of MFN is shown in the fact that it is the fi rst clause in the General Agreement on Tariffs and Trade (GATT). Under WTO rules, a member country cannot discriminate between its trade partners. If a special status is granted to a trade partner, it must be extended to all members of the WTO.

MFN at the same time allows some exemptions as well:

- Right to engage in Free Trade Agreements: This means members can participate in regional trade agreements or free trade agreements where there is discrimination between member countries and non-member countries.
- Members can give developing countries special and differential treatment like greater market access. This special concession are in different forms like reduced tariff rates from developing country imports, concessions that allows developing countries to give subsidies to their production sectors etc.

- All these exceptions are subjected to strict conditions.

99. Ans. C

Exp: Statement 1 is incorrect: Inflation is more likely to occur because imports are more expensive causing cost-push inflation and with exports becoming cheaper manufacturers may have less incentive to cut costs and become more efficient.

Devaluation of currency

- The term devaluation is used when the government reduces the value of a currency under Fixed-Rate System. When the value of the currency falls under the Floating Rate System, it is called depreciation.
- Revaluation is a term which is used when there is a rise in currency value in relation with a foreign currency in a fixed exchange rate. In the floating exchange rate regime, the correct term would be appreciation.

100. Ans. C

Exp: Statement 1 is incorrect: Trade deficit is the excess of a country's import bill over its export receipts.
Statement 2 is incorrect: Trade deficit leads to a steadily weakening of home currency.

Trade deficit

- Trade deficit is the excess of a country's import bill over its export receipts. To illustrate, the US trade deficit of $502 billion in 2016 means that the country spent $502 billion more on importing goods and services from other countries last year, than it earned by shipping stuff out.
- Running a persistent trade deficit has three key adverse effects on the economy. One, the country's demand for dollars (foreign exchange) is usually greater than the supply. This leads to a steadily weakening home currency.
- Two, a high trade deficit also forces a country to constantly look to foreign investors to make up the gap between its export earnings and its import payouts.
- Three, in a slow growing world, a rising trade deficit could be an indication that domestically produced goods are unable to compete against imports. If local factories shut down, that leads to job losses.