All India Civil Services Coaching Centre

(Under the aegis of Government of Tamil Nadu)

Answer Key Explanation

Test 6 – NCERT Economy

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

1. **Correct Answer: (b)**
   Oligopoly
   - Oligopoly is a market structure with a small number of firms, none of which can keep the others from having significant influence.
   - A monopoly is one firm, the duopoly is two firms and oligopoly is two or more firms. There is no precise upper limit to the number of firms in an oligopoly, but the number must be low enough that the actions of one firm significantly influence the others.
   - The economic and legal concern is that an oligopoly can block new entrants, slow innovation, and increase prices, all of which harm consumers.
   - Firms in an oligopoly set prices, whether collectively – in a cartel – or under the leadership of one firm, rather than taking prices from the market.
   - Cooperation happens during Cartel Behaviour.
   - There are entry barriers; else there would be too many firms.

2. **Correct Answer: (c)**
   - When an industry has increasing returns on sale, it has a decreasing cost with an increase in size and scale and hence, the producer will be able to sell more even for a lower price.
   - While the short-run supply curve of the industry always slopes upwards to the right, the long-run supply curve may be a horizontal straight line, sloping upwards or sloping downwards depending upon the fact whether the industry in question is a constant cost industry, increasing cost industry or decreasing cost industry. But the long-run upward sloping curve is more typical of the actual world.

3. **Correct Answer: (c)**
   Shoeleather Costs
   - Shoeleather cost refers to the cost of time and effort that people spend trying to counteract the effects of inflation, such as holding less cash, investing in different currencies with lower levels of inflation, and having to make additional trips to the bank.
   - The term comes from the fact that more walking is required (historically, although the rise of the Internet has reduced it) to go to the bank and get cash and spend it, thus wearing out shoes more quickly.
   - A significant cost of reducing money holdings is the additional time and convenience that must be sacrificed to keep less money on hand than would be required if there were less or no inflation

4. **Correct Answer: (d)**
   Economic Activities
   - For economic activities, a financial transaction needed to be done for a work done by a person.
   - Tutor teaching a student free of cost. In this, no money is involved. So this is not an economic activity.
   - Money is not paid for the work done by the student. It is a charity kind of thing.
   - Philanthropists giving out charity to NGOs. Money is not earned, it's a charity. It cannot be grouped under economic activity.

5. **Correct Answer: (c)**
Income Elasticity of Demand
- Income elasticity of demand refers to the sensitivity of the quantity demanded a certain good to a change in the real income of consumers who buy this good, keeping all other things constant.
- The formula for calculating income elasticity of demand is the percent change in quantity demanded divided by the percent change in income.
- With income elasticity of demand, you can tell if a particular good represents a necessity or a luxury.
- Depending on the values of the income elasticity of demand, goods can be broadly categorized as inferior goods and normal goods.
- Normal goods have a positive income elasticity of demand; as incomes rise, more goods are demanded at each price level.
- Inferior goods have a negative income elasticity of demand; as consumers' income rises, they buy fewer inferior goods.
- A typical example of such type of product is margarine, which is much cheaper than butter. As the income of the consumer increases, the demand for an inferior good falls, and as the income decreases, the demand for an inferior good rise.

6. **Correct Answer: (a)**
Fixed Costs vs Variable Costs
- Companies incur two types of costs: variable costs and fixed costs.
- A variable cost is a company's cost that is associated with the number of goods or services it produces. A company's variable cost increases and decreases with its production volume.
- Examples of variable costs include labour costs, utility costs, commissions, and the cost of raw materials that are used in production.
- A fixed cost is the other cost incurred by businesses and corporations. Unlike the variable cost, a company's fixed cost does not vary with the volume of production. It remains the same even if no goods or services are produced, and therefore, cannot be avoided.
- The most common examples of fixed costs include lease and rent payments, utilities, insurance, certain salaries, and interest payments.

7. **Correct Answer: (a)**
Production Function
- In simple words, production function refers to the functional relationship between the quantity of a good produced (output) and factors of production (inputs).
- It expresses the relationship between the quantities of productive factors (such as labour and capital) used and the amount of product obtained.
- It states the amount of product that can be obtained from every combination of factors, assuming that the most efficient available methods of production are used.
- The production function can thus measure the marginal productivity of a particular factor of production (i.e., the change in output from one additional unit of that factor). It can also be used to determine the cheapest combination of productive factors that can be used to produce a given output.

8. **Correct Answer: (a)**
Implicit Cost
- An implicit cost is any cost that has already occurred but is not necessarily shown or reported as a separate expense.
- It represents an opportunity cost that arises when a company allocates internal resources toward a project without any explicit compensation for the utilization of resources.
- This means that when a company allocates its resources, it always forgoes the ability to earn money off the use of the resources elsewhere.

9. **Correct Answer: (d)**
Factors of Production
- Factors of production describe the inputs that are used in the production of goods or services in order to make an economic profit. The factors of production include land, labour (Skilled Professionals), capital (Tools & Machines), and entrepreneurship.
- In the absence of indirect taxes or subsidies, the total value of the final goods output is distributed among different factors of production – wages to labour, interest to capital, rent to land, etc.

10. **Correct Answer: (d)**
Virtuous Cycle
- Economic Survey has highlighted the importance of the "Virtuous Cycle" of savings, investment, and exports. It is catalysed and supported by a favourable demographic phase required for sustainable growth.
- It is said to be present when an improvement in one economic indicator pushes others in a positive manner leading to an overall economic boom.
- The survey departs from traditional Anglo-Saxon thinking by viewing the economy as being either in a virtuous or a vicious cycle and thus, never in equilibrium.

Key ingredients for a self-sustaining virtuous cycle:
- Presenting data as a public good
- Emphasizing legal reforms
- Ensuring policy consistency
- Encouraging behaviour change using principles of behavioural economics
- Nourishing MSMEs to create more jobs and become more productive
- Reducing the cost of capital
- Rationalizing the risk-return trade-off for investments

11. **Correct Answer: (c)**
Indicators of the State of an economy
- The rate of GDP growth is a major indication of the state of the economy of a country. Economic growth is the increase in the market value of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in gross domestic product.
- Gross domestic product (GDP) is the market value of all officially recognized final goods and services produced within a country in a year, or another given period of time.
- Gross Domestic Product, or GDP, is the measure of how many finished goods and services were produced in a country over the course of a year. This is the biggest estimator of how the economy as a whole is doing – the total value of everything that was produced, ready for consumption.
- The fact that it only measures finished products is important – this means that goods that are produced to be added to a different product later are not counted. An example of this is raw steel that is later used to build a car that is not counted as part of GDP, but the car itself is.
- Macroeconomic Vulnerability Index, as mentioned in the Mid-Year Economic Analysis 2014-2015, released by the Ministry of Finance recently, adds together the rate of inflation, current account deficit and fiscal deficit of a country.
- The Index value can be compared across countries for different time periods to gauge their relative vulnerability and state of the economy.
- Number of Banks in a country is not the major indicators of the state of the economy of a country.

12. **Correct Answer: (b)**
Roles of State in an economy
- There can be three kinds of roles for the state in an economy viz. regulator, producer/supplier of private goods and services and Producer/ supplier of public goods and services.
- The role of a state, ideologies, and models of the economy are interrelated but it is not rigid for instance, China is a market socialist country but ideologically a politically communist.

Regulator

- By this, the state regulates both the production network as well as the distribution network by announcing policy guidelines rules and regulations punishing the offenders.
- For example, financial market regulation by the Securities and Exchange Board of India (SEBI).

Producer of private goods and services

- The state earns profit as a private enterprise and produces all those goods and services which constitute the part of the market and which will be distributed among the needy according to the principles of the market mechanism.

Producer of public goods and services

- The state produces goods and services which look essential from the perspective of social justice and well-being for the people. For example- Education, healthcare, sanitation, drinking water, nutrition, caring for the differently-abled and old, etc. at subsidized rates.

Combination of a state having different roles

- The economy which selects both the roles of a producer of public and private goods for the state under monopoly is a state economic system. Ex- Erstwhile USSR.
- The economy which selects both the roles of a producer of public and private goods for the private sector called the capitalistic economic system. Here the state had almost no economic role but played a passive role as the regulator. Ex-Western Economies.
- Mixed economies had at least kept one economic role fixed for the state i.e. of supplying public goods to the needy people. Ex- India.
- In some of the mixed economies, the state went on to take some of the roles of supplying private goods even by carrying a heavy burden of subsidies. Ex-India from 1947 to 1991.

13. Correct Answer: (d)

Menu Costs

- Menu cost is an economic term used to describe the cost incurred by firms in order to change their prices.
- Menu costs are the costs that come with changing prices. The implied example is the cost of a restaurant having to reprint all its menus.
- Menu costs are part of what makes prices sticky. Consumers are accustomed to a certain price, as are suppliers and distributors.
- When menu costs are high in the industry, price adjustments will usually be infrequent and generally only when the profit margin begins to erode to a point where avoiding the menu costs is costing the business more in terms of lost revenue.

14.Correct Answer: (b)

How to Price Inelasticity Affects Total Revenue

(a.) For price inelastic goods or services, the change in the amount demanded is minimal with respect to the change in price. This can affect demand and total revenue for the business as:

(b.) If the price for an inelastic good is increased and the demand does not change, the total revenue increases due to the higher price and static quantity demanded.

(c.) However, price increases typically do lead to a small decrease in quantity demanded.

(d.) This means that firms that deal with inelastic goods or services can increase prices, selling a little less but making higher revenues. Therefore, businesses that deal in goods that are price inelastic are better equipped for profit maximization and are better protected against economic downturns.

(e.) Similarly, If the price for an inelastic good is lowered, the demand for that good does not increase, resulting in less overall revenue due to the lower price and no change in demand.

15. Correct Answer: (d)

Population Growth and Productivity

- Thomas Malthus famously argued that population growth would depress living standards in the long run. The theory was simple: given that there is a fixed quantity of land, population growth will eventually reduce the number of resources that each individual can consume, ultimately resulting in disease, starvation, and war.
- However, he didn't foresee the technological advances that would raise agricultural productivity and reduce the toll of infectious diseases—advances that have enabled the world's population to grow from 1 billion in 1798 to 7.4 billion today.
- In underdeveloped countries, the rapid growth of the population diminishes the availability of capital per head which reduces the productivity of its labour force. Their income, as a consequence, is reduced and their capacity to save is diminished which, in turn, adversely affects capital formation.

16. Correct Answer: (a)

Requirements for Economic Development

- Temperate Climate is not a necessary condition as a lot of non –temperate countries like Singapore, Malaysia, Taiwan, etc. have registered development in the tropical climate. It was considered necessary up to the 19th century.
- Natural Resources is not a necessary condition as countries like Japan, Singapore, UK, Germany, etc, gained great growth without too many natural resources.

17. Correct Answer: (c)

Measures to Increase Growth

- Higher savings can help finance higher levels of investment and boost productivity over the long term which can boost economic growth. If people save more, it enables the banks to lend more to firms for investment.
- An economy where savings are very low means that the economy is choosing short-term consumption over long-term investment. To starve the economy of investment can lead to future bottlenecks and shortages.
- Nationalization of major industries may not lead to higher growth because of the inefficiency of the public sector and increased government interference in the businesses which prevents them from making profits which can further hurt private investments thus impacting the growth.
- Dear Money Policy will restrict the money supply in the market making it expensive to borrow by raising interest rates. This would have an adverse impact on growth in the economy because the investment would reduce when the rate of interest is high.
- Investments in research and development (R&D) have large payoffs in terms of growth. R&D yields new products, improving the quality of life, and new processes, enabling firms to reduce costs of production and become more competitive.
- Free trade increases prosperity for the citizens of all participating nations—by allowing consumers to buy more, better-quality products at lower costs. It drives economic growth, enhanced efficiency, increased innovation, and the greater fairness that accompanies a rules-based system.

18. Correct Answer: (b)

Rostow's Model

- There are five stages in Rostow's Stages of Development: Traditional society
- Preconditions to take-off
- Take-off
- Drive to maturity
- Age of high mass consumption
- In the 1960s, an American economist called W.W. Rostow developed this theory. It is based on the models of economic activities.

- The primary criticism levelled at Rostow's model by contemporary geographers is that it presumes that the experience of western economies—and their path of development— can be universally applied.
- Modern evidence suggests that there are multiple paths to development; furthermore, evidence suggests that development can take on numerous forms.

19. Correct Answer: (d)

Development of Underdevelopment by Andre Gunder Frank

- Frank is of the view that the world capitalist system involves both development and underdevelopment as the two aspects of the same system.
- Development in one area is a direct result of underdevelopment in some other area. Frank opines that the world system negates the significance of national boundaries and that countries are structured into the metropolitan-satellite relationship.
- This relationship is found not only between the rich metropolitan countries of the West and the poor satellite countries of the world but within a country too where the hinterland supplies to the city and is exploited by it. In the global economic system, according to Frank, metropolitan countries develop by expropriating the economic surpluses of the satellites and perpetuate their underdevelopment.
- Frank has made a periodic presentation of the history of the world system. Both the processes of development and underdevelopment commenced in the mercantile period (1500- 1770), carried through into industrial capitalism (1770-1870) and culminated in imperialism (1870-1930).
- Throughout the process, the colonies, semi-colonies, and neo-colonies existed primarily for the benefit of the capitalist metropolis and as a direct result became underdeveloped.

20. Correct Answer: (b)

Liberalisation, Privatisation, and Globalisation (LPG) Reforms in Agriculture

- LPG Reforms have not been able to benefit agriculture, where the growth rate has been decelerating. Public investment in the agriculture sector especially in infrastructure, which includes irrigation, power, roads, market linkages and research and extension (which played a crucial role in the Green Revolution), has fallen in the reform period.
- Further, the removal of fertilizer subsidy has led to an increase in the cost of production, which has severely affected the small and marginal farmers.
- This sector has been experiencing a number of policy changes such as the reduction in import duties on agricultural products, and lifting of quantitative restrictions on agricultural products; these have adversely affected Indian farmers as they have to face increased international competition.
- Moreover, because of export-oriented policy strategies in agriculture, there has been a shift from production for the domestic market towards production for the export market focusing on cash crops in lieu of production of food grains. This puts pressure on the prices of food grains.

21. Correct Answer: (a)

What is growth?

- Growth refers to the increase in the country's capacity to produce the output of goods and services within the country.
- It implies either the stock of productive capital, or a larger size of supporting services like transport and banking, or an increase in the efficiency of productive capital and services.
- It is assessed by the market value of goods and services produced in the economy and it does not guarantee an equitable distribution of the income from this production.

What is equity?

- Equity reflects that the benefits of economic prosperity reach the poor sections as well instead of being employed only by the rich.
- It aims to provide every person his or her basic needs such as food, a decent house, education, and health care and inequality in the distribution of wealth should be reduced so that the benefits of higher economic growth can be passed on to all sections of the population to bring about social justice.

Growth with Equity

- Both growth and equity are the two important goals of Indian planning. Growth is desirable but in itself, it does not guarantee the welfare of society.
- Hence, growth with equity is a rational and desirable objective of planning. This objective ensures that the benefits of high growth are shared by all the people equally and hence inequality of income is reduced along with growth in income.

22. Correct Answer: (c)

Economic Reforms in India

- It has compromised the welfare and identity of people belonging to poor countries.
- Market-driven globalisation has widened the economic disparities among nations and people.
- The crisis that erupted in the early 1990s in India was basically an outcome of the deep-rooted inequalities in Indian society and the economic reform policies initiated as a response to the crisis by the government, with externally advised policy package, further aggravated the inequalities.
- Further, it has increased the income and quality of consumption of only high-income groups and the growth has been concentrated only in some select areas in the services sector such as telecommunication, information technology, finance, entertainment, travel and hospitality services, real estate and trade, rather than vital sectors such as agriculture and industry which provide livelihoods to millions of people in the country.

23. Correct Answer: (b)

Growth and Changing Structure of Employment

- Jobless growth refers to a situation when an economy is able to produce more goods and services without a proportionate increase in employment opportunities.
- India has been witnessing 'jobless growth' since the last few decades.
- Sixty years of planned development have been aimed at the expansion of the economy through an increase in national output and employment.
- During the period 1950–2010, the Gross Domestic Product (GDP) of India grew positively and was higher than the employment growth.
- However, during this period, employment grew at the rate of not more than 2 percent.
- In the late 1990s, employment growth started declining.
- During these years, there was 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.

24. Correct Answer: (c)

Difference between Economic Growth and Economic Development

- Economic growth is a narrow concept (It studies only increase in real per capita income) while economic development is a broad concept (it studies increase in real per capita income as well as economic welfare).
- Economic growth is only a quantitative concept whereas economic development

is both a quantitative as well as a qualitative concept.

- Economic growth ignores the distribution of income. Economic development studies the distribution of income.
- Economic growth is an essential element of the progress of developed countries. Economic development is an essential element of the progress of underdeveloped countries.
- Economic development accounts for the structural, institutional and technical changes in the economy while economic growth does not.

25. Correct Answer: (d)

National Income Accounting

- GDP Per capita is a measure of the total output of a country. It takes into consideration the Gross Domestic Product (GDP) and divides it by the number of people in the country. It is especially useful when comparing one country to another because it shows the relative performance of the countries.
- A rise in GDP per capita signals growth in the economy and tends to reflect an increase in productivity. GDP Per capita can also be used to measure the productivity of a country's workforce, as it measures the total output of goods and services per each member of the workforce in a given nation.
- Personal Income includes personal taxes and nontax payments. It serves as a measurement of wealth creation within an economy.
- Gross Value Added (GVA) is the measure of the value of goods and services produced in an area, industry or sector of an economy.
- GVA gives a picture of the state of economic activity from the producers' side or supply side, the GDP gives the picture from the consumers' side or demand perspective.
- It does not include the value of an intermediate good produced by a fi rm. Disposable income is calculated by adding subsidies and deducting taxes from personal income.

26. Correct Answer: (d)

Causes of Poverty

- The causes of poverty lie in the institutional and social factors that mark the life of the poor. The poor are deprived of quality education and unable to acquire skills that fetch better incomes. Also, access to health care is denied to the poor.
- The main victims of caste, religious and other discriminatory practices are poor. These can be caused as a result of: Social, economic and political inequality Social exclusion Unemployment Indebtedness Unequal distribution of wealth.
- Aggregate poverty is just the sum of individual poverty. Poverty is also explained by general, economy-wide problems, such as:
  - ➢ Low capital formation
  - ➢ Lack of infrastructure
  - ➢ Lack of demand
  - ➢ Pressure of population
  - ➢ Lack of social/ welfare nets.

27. Correct Answer: (c)

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 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 new born 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.

28. Correct Answer: (c)

National Income

- National Income is the total value of all final goods and services produced by the country in the given accounting year.
- The circular flow of income and expenditure exists within an economy, where factor income is earned from the production of goods and services, and the income is spent on the purchase of produced goods.
- Thus, there are three alternative methods of computing national income. This includes:
  - Product/ Value Added Method
  - Income/Factor income Method
  - Expenditure Method
  - Product/Value Added Method
- This approach is also called output method or inventory method as it measures income from the output side.
- In this approach, the specific value of the flows of output is added up arising from each sector of the economy.
- As per this method, the economy is divided into different industrial sectors to show the contribution made by each sector to GDP. Then, the national income is calculated by adding the value of final goods from all the sectors of an economy during a given accounting year.
- Final goods are those goods which are directly consumed and not used in the further production process.

29. Correct Answer: (d)

Central Statistical Organization

- It is under the Ministry of Statistics and Programme Implementation, which coordinates the statistical activities in the country and evolves statistical standards.
- It is headed by a Director-General assisted by 5 Additional Director Generals.
- Consumer Price Index (CPI) and Index of Industrial Production (IIP) is released by the Central Statistical Organization.

30. Correct Answer: (b)

Net Domestic Product

- Net Domestic Product (NDP) is the GDP calculated after adjusting the of 'depreciation'.
- This is, basically, the net form of the GDP, i.e., GDP minus the total value of the 'wear and tear' (depreciation) that happened in the assets while the goods and services were being produced.
- Every asset (except human beings) goes for depreciation in the process of their uses, which means they 'wear and tear'.
- The governments of the economies decide and announce the rates by which assets depreciate (done in India by the Ministry of Commerce and Industry) and a list is published, which is used by different sections of the economy to determine the real levels of depreciation in different assets.
- NDP is not used in comparative economics, i.e., to compare the economies of the world. This is due to different rates of depreciation which is set by the different economies of the world.

31. Correct Answer: (b)

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]

32. Correct Answer: (c)

Deflationary Effect

- If deflation is exacerbated, it can throw an economy into a deflationary spiral. This happens when price decreases lead to lower production levels, which, in turn, leads to lower wages, which leads to lower demand by businesses and consumers, which leads to further decreases in prices.
- While it may seem like lower prices are good, deflation can ripple through the economy, such as when it causes high unemployment.
- It can turn a bad situation, such as a recession, into a worse situation, such as depression.
- Demand for goods decreases since consumers delay purchases, expecting lower prices in the future. This compounds itself as prices drop further in response to decreasing demand.
- Bank lending drops since borrowing money makes less sense in regards to the real cost. This is because the loan would be paid back with money that is worth more than it is now.

33. Correct Answer: (c)

Headline Inflation

- It is the raw inflation figure reported through the Consumer Price Index (CPI) that is released monthly by the Bureau of Labour Statistics.
- As it includes all aspects within an economy that experience inflation, it is not adjusted to remove highly volatile figures, including those that can shift regardless of economic conditions.
- It is often closely related to shifts in the cost of living, which provides useful information to consumers within the marketplace.

34. Correct Answer: (c)

Escrow Account

- It is a separate bank account to hold money that belongs to others and where the money parked will be released only under the fulfillment of certain conditions of a contract. It is a third-party account.
- The term escrow is derived from the French term 'escroue' meaning a scrap of paper or roll of parchment, an indicator of the deed that was held by a third party till a transaction is completed.
- An escrow account is an arrangement for safeguarding the 'seller' against its 'buyer' from the payment risk for the goods or services sold by the former to the latter. This is done by removing the control over cash flows from the hands of the buyer to an independent agent.
- RBI has also permitted Banks (Authorised Dealer Category I) to open escrow accounts on behalf of Non-Resident corporates for acquisition/transfer of shares / convertible shares of an Indian company.

35. Correct Answer: (d)

SWIFT Norms

- It stands for the Society for Worldwide Interbank Financial Telecommunications.
- The SWIFT is a secure financial message carrier through a standardized system of codes.
- In other words, it transports messages from one bank to its intended bank recipient. Its core role is to provide a secure transmission channel so that Bank A knows that its message to Bank B goes to Bank B and no one else. Bank B, in turn, knows that Bank A, and no one other than Bank A, sent, read or altered the message en route. Banks, of course, need to have checked in place before actually sending messages.
- It assigns each financial organization a unique code or SWIFT code that has either eight characters or 11 characters.
- Aimed at services around financial crime compliance, SWIFT offers reporting and

utilities like Know Your Customer (KYC), Sanctions, and Anti-Money Laundering (AML).

- The SWIFT is a global member-owned cooperative that is headquartered in Brussels, Belgium. It was founded in 1973 by a group of 239 banks from 15 countries which formed a co-operative utility to develop a secure electronic messaging service and common standards to facilitate cross-border payments.
- The Rs.14,000-crore Punjab National Bank (PNB) fraud perpetrated by Nirav Modi was a case of misuse of this SWIFT software.
- After the fraud, PNB adopted strict SWIFT controls. It has created a separate unit to reauthorize most messages sent over SWIFT by branches. Many other banks are expected to fast-track the integration between SWIFT and their backend systems.

36. Correct Answer: (d)

Insolvency and Bankruptcy Code, 2016 (IBC)

- The IBC is the bankruptcy law of India which seeks to consolidate the existing framework by creating a single law for insolvency and bankruptcy.
- The code aims to protect the interests of small investors and make the process of doing business less cumbersome.
- The Code proposes two separate tribunals to oversee the process of insolvency resolution, for individuals and companies:
- National Company Law Tribunal for Companies and Limited Liability Partnership firms
- The Debt Recovery Tribunal for individuals and partnerships
- Before the enactment of the IBC, the recovery mechanisms available to the lenders were through Lok Adalat, Debt Recovery Tribunal, and SARFAESI Act.
- These mechanisms are recovery-focused as compared to the IBC which aims at the turnaround of the debtor while maximizing returns for the creditors.
- Predictably, these earlier mechanisms have resulted in an average recovery of 23 percent to lenders as against nearly 43 percent under the IBC.

37. Correct Answer: (d)

Bank Nationalization

- The Indian financial sector underwent a tectonic shift, when Indira Gandhi government nationalized the 14 biggest commercial banks in 1969.
- According to many economists nationalization of banks was the single-most-important economic policy decision taken by any government after 1947. The impact of this decision is considered by some to be, even more than the economic reforms of 1991.
- During that time many Asian countries were switching to more market-oriented policies, India on the other hand, supported the socialist policies.

Objectives of Bank Nationalization

Bank nationalization aimed to attain three primary objectives:

- To break the nexus between the banks and the big businesses who were disproportionately cornering bank finance for their narrow, selfish ends and rapidly expand the banking network to the unbanked regions, especially rural areas and deliver institutional credit to the farmers, small businesses and other weaker sections of society, many of whom were caught in a vicious trap of usury.
- To ensure the balanced flow of credit to all the productive sectors, across various regions and social groups of the country.
- To provide stability to the banking system by preventing bank failures and speculative activities.

38. Correct Answer: (c)

Policy Tools to Control the Money Supply

- The RBI controls the money supply in the economy in various ways. The tools used by the Central bank to control the money supply can be quantitative or qualitative.

- Quantitative tools, control the extent of the money supply by changing the CRR, or bank rate or open market operations.
- Qualitative tools include persuasion by the Central bank in order to make commercial banks discourage or encourage lending which is done through moral suasion, margin requirement, etc.
  - Quantitative Measures Bank Rate Policy
  - Open Market Operations
  - Cash Reserve Ratio
  - Statutory Liquidity Ratio
  - Qualitative Measures
  - Margin requirements
  - Consumer Credit Regulation
  - RBI Guidelines
  - Rationing of credit
  - Moral Suasion
  - Direct Action

39. Correct Answer: (b)

Statutory Liquidity Ratio (SLR)

- The banks and other financial institutions in India have to keep a fraction of their total net time and demand liabilities in the form of liquid assets such as G-secs, precious metals, approved securities, etc.
- The Ratio of these liquid assets to the total demand and time liabilities is called Statutory Liquidity Ratio. This ratio was prescribed by Section 24 (2A) of the Banking Regulation Act 1949, which initially mandated for a 23% SLR.
- Section 24 and Section 56 of the Banking Regulation Act 1949 mandates all scheduled commercial banks, local area banks, Primary (Urban) co-operative banks (UCBs), state co-operative banks and central co-operative banks in India to maintain SLR.

Components of SLR

- Components of SLR include cash in hand, gold owned by the bank, balance with RBI, Net balance in current account & Investment in Government securities.
- SLR has to be maintained at the close of business every day.

40. Correct Answer: (b)

Cash Reserve Ratio (CRR)

- It is the number of funds that the banks are bound to keep with the Reserve bank of India as a portion of their Net Demand and Time Liabilities (NDTL).
- The objective of CRR is to ensure the liquidity and solvency of the Banks. The CRR is maintained fortnightly average basis.
- RBI does not pays interest on CRR balances.

Impacts of Reducing CRR

- When CRR is reduced, more funds are available to banks for deploying in other businesses because they need to keep fewer amounts with RBI. This means that the banks would have more money to play and this leads to a reduction of interest rates on loans provided by the Banks.
- A reduction in CRR leads to an increase in the money supply in the system. This may lead to inflation in the economy.
- When money supply increases, too much money chases too few goods and this leads to rise in inflation.

Impacts of Increasing CRR

- When RBI increases the CRR, fewer funds are available with banks as they have to keep larger portions of their cash in hand with RBI. This means that banks will now have less money to play with. Moreover, Reserve Bank does not pay any interest on the CRR balances.
- Since commercial banks don't earn any interest, the banks are left with no option than to increase the interest rates. If RBI hikes this rate substantially, banks will have to increase the loan interest rates. The home loans, car loans and EMI of floating Rate loans increase.
- Thus hike in CRR leads to an increase of interest rates on loans provided by the Banks.

41. Correct Answer: (d)

Call Money Rate

- Banks have to maintain a minimum level of cash to meet the daily transaction level and also maintain the Cash Reserve Ratio i.e. the minimum cash balance that has to be maintained by banks. It is decided by the Reserve Bank of India from time to time.
- When the cash in banks falls below this minimum requirement due to the sudden rise in demand caused by either festival season, holidays etc. they need a quick supply of cash. Also, during such times, the ATMs need to be fully funded.
- Call money rate is the rate at which short term funds are borrowed and lent in the money market.
- Call money deals with day to day cash requirement of banks. Banks that are faced with cash shortage borrow from other commercial banks for a period of 1-14 days. When banks borrow for one day it is known as call-money. Any money borrowed for more than 1 day but a maximum of 14 days is known as notice money.
- The rate at which these transactions take place is known as the call rate. Thus, banks resort to call money to fill temporary mismatches in funds and maintain short-term liquidity. It is the central point by which RBI is able to influence interest rates.
- RBI, banks, primary dealers, etc are the participants of the call money market. The demand and supply of liquidity affect the call money rate.
- A tight liquidity condition leads to a rise in call money rate and vice versa.

42. Correct Answer: (c)

Marginal Standing Facility (MSF)

- Marginal Standing Facility (MSF) was announced by the Reserve Bank of India (RBI) in its Monetary Policy (2011-12) and refers to the penal rate at which banks can borrow money from the central bank over and above what is available to them through the LAF window.
- Marginal standing facility (MSF) is a window for banks to borrow from the Reserve Bank of India in an emergency situation when interbank liquidity dries up completely.
- Banks borrow from the central bank by pledging government securities at a rate higher than the repo rate under a liquidity adjustment facility or LAF in short. The MSF rate is pegged 100 basis points or a percentage point above the repo rate. Under MSF, banks can borrow funds up to one percent of their net demand and time liabilities (NDTL).
- The banks under MSF can borrow funds by pledging government securities within the limits of the statutory liquidity ratio. Only scheduled commercial banks can borrow under this window.
- The objective of MSF is to reduce volatility in the overnight lending rates in the inter-bank market and to enable a smooth monetary transmission in the financial system.
- MSF represents the upper band of the interest corridor with repo rate at the middle and reverses repo as the lower band.

43. Correct Answer: (d)

Functions of Financial Market

- Financial markets play an important role in the allocation of scarce resources in an economy by performing the following four important functions:
- Mobilization of Savings and Channelling them into the most Productive Uses
- A financial market facilitates the transfer of savings from savers to investors. It gives savers the choice of different investments and thus helps to channelize surplus funds into the most productive use.

Facilitating Price Discovery

- In the financial market, the households are suppliers of funds and business firms represent the demand. The interaction between them helps to establish a price for the financial asset which is being traded-in that particular market.

Providing Liquidity to Financial Assets

- Financial markets facilitate the easy purchase and sale of financial assets. They provide liquidity to financial assets so that they can be easily converted into cash whenever required.

Reducing the Cost of Transactions

- Financial markets provide valuable information about securities being traded in the market. It helps to save time, effort and money that both buyers and sellers of a financial asset would have to otherwise spend to try and find each other.

44. Correct Answer: (a)

Methods of Floatation

- There are various methods of floating new issues in the primary market:

Offer through Prospectus

- It is the most popular method of raising funds by public companies in the primary market. This involves inviting subscriptions from the public through the issue of prospectus.
- A prospectus makes a direct appeal to investors to raise capital, through an advertisement in newspapers and magazines.
- The issues may be underwritten and also are required to be listed on at least one stock exchange.
- The contents of the prospectus have to be in accordance with the provisions of the Companies Act and SEBI disclosure and investor protection guidelines.

Offer for Sale

- Under this method, securities are not issued directly to the public but are offered for sale through intermediaries like issuing houses or stockbrokers.
- In this case, a company sells securities at an agreed price to brokers who, in turn, resell them to the investing public.

Private Placement

- A private placement is the allotment of securities by a company to institutional investors and some selected individuals.
- It helps to raise capital more quickly than a public issue.
- Access to the primary market can be expensive on account of various mandatory and non-mandatory expenses. Some companies, therefore, cannot afford a public issue and choose to use private placement.

Rights Issue

- This is a privilege given to existing shareholders to subscribe to a new issue of shares according to the terms and conditions of the company.
- The shareholders are offered the 'right' to buy new shares in proportion to the number of shares they already possess.

E-IPOs

- A company proposing to raise capital from the public through the on-line system of the stock exchange has to enter into an agreement with the Stock exchange. This is called an Initial Public Offer (IPO).
- Companies can raise equity capital with the help of an IPO by issuing new shares to the public or the existing shareholders can sell their shares to the public without raising fresh capital.
- SEBI registered brokers have to be appointed for the purpose of accepting applications and placing orders with the company.
- The issuer company should also appoint a registrar to the issue of having electronic connectivity with the exchange. The issuer company can apply for listing of its securities on any exchange other than the exchange through which it has offered its securities. The lead manager coordinates

all the activities amongst intermediaries connected with the issue.

45. Correct Answer: (c)

Development Financial Institutions (DFIs)

- DFIs were started by the government to give sector-specific loans to various sectors. Agro Housing Industry Import-Export
- NABARD National SIDBI EXIM Bank
- Housing Bank IDBI ICICI IFCI IIBI
- The first DFI was the Industrial Finance Corporation of India (IFCI) launched in 1948.
- IDBI, SIDBI, NHB, EXIM Bank, etc. are the other major DFIs.
- Later, several of them were converted into banks as the industry got the opportunity to avail funds from the capital market (equity and debt) with the development of the capital market. E.g. ICICI was started in 1955 to provide finance to industries and in 1994, ICICI bank was also started which was merged in 2002.
- In the beginning, these organizations started as "All India financial institutions" (AIFI), their job was to provide medium / long term finance to companies.
- But after the LPG reforms in the 90s, the capital market becomes popular and these All India financial institutions (AIFI) lost their original glamour and government converted them into Development banks (as per Narasimham Committee's recommendation).
- Now only four AIFI left: NABARD, SIDBI, EXIM, and NHB. They are regulated by RBI.
- DFIs provide long-term finance to fund activities in sectors that are risky for commercial banks to finance. Thus DFIs are not mere lenders but companions in the development of some of the sectors in the economy.
- Recently the government proposed to set up a development financial institution (DFI) which is expected to solve the infrastructure financing needs of the country since banks do not have the long-term funds to finance such projects.

46. Correct Answer: (a)

Primary Market

- The primary market is also known as the new issues market. It deals with new securities being issued for the first time.
- The essential function of a primary market is to facilitate the transfer of investible funds from savers to entrepreneurs seeking to establish new enterprises or to expand existing ones through the issue of securities for the first time.
- The investors in this market are banks, financial institutions, insurance companies, mutual funds, and individuals.
- A company can raise capital through the primary market in the form of equity shares, preference shares, debentures, loans, and deposits.
- Funds raised may be for setting up new projects, expansion, diversification, modernization of existing projects, mergers and takeovers.

47. Correct Answer: (a)

Bear market

- During bear market periods, investing can be risky even for the most seasoned of investors. A bear market is a period marked with falling stock prices. In a bear market, investor confidence is extremely low.
- Many investors opt to sell off their stocks during a bear market for fear of further losses, thus fuelling a vicious cycle of negativity. Although the financial implications of bear markets can vary, typically, bear markets are marked by a 20% downturn or more in stock prices over at least a two-month timeframe.
- The causes of a bear market often vary, but in general, a weak or slowing or sluggish economy will bring with it a bear market. The signs of a weak or slowing economy are typically low employment, low disposable income and a drop in business profits.
- A bear market occurs when there are more sellers than buyers. In any free market system, when supply exceeds

demand, prices fall. In a bear market, for example, the sellers are the supply, while the buyers are the demand.

- Hence, when the market is bearish, seller numbers are high, but buyer numbers are comparatively low.

48. Correct Answer: (d)

- **Scrip Share:** A share is given to the existing shareholders without any charge—also known as bonus share.
- **Sweat Share:** A share is given to the employees of the company without any charge.
- **Badla:** When the buyers want postponement of the transaction—in the Western world called Contango.
- **Undha Badla:** When the sellers want postponement of the transaction—also known as the reverse badla or backwardation.
- **Futures**: A trading allowed in shares where a future price is quoted for the shares and the payment and delivery take place on the pre-determined dates.
- **Spread:** The difference between the buying and selling prices of a share is called the spread. Higher the liquidity of a share lowers its spread and vice versa. Also known as Jobber's Turn or Margin or Haircut.

49. Correct Answer: (c)

The primary market and secondary market

- When a company publicly sells new stocks and bonds for the first time, it does so in the primary capital market.
- In many cases, this takes the form of an initial public offering (IPO). When investors purchase securities on the primary capital market, the company offering the securities has already hired an underwriting firm to review the offering and create a prospectus outlining the price and other details of the securities to be issued.
- Companies issuing securities via the primary capital market hire investment bankers to obtain commitments from large institutional investors to purchase the securities when first offered.
- Small investors are not often able to purchase securities at this point because the company and its investment bankers seek to sell all of the available securities in a short period of time to meet the required volume and must focus on marketing the sale to large investors who can buy more securities at once.
- Marketing the sale to investors can often include a "roadshow" or "dog and pony show," in which investment bankers and the company's leadership travel to meet with potential investors and convince them of the value of the security being issued.
- The secondary market: The secondary market is where securities are traded after the company has sold all the stocks and bonds offered on the primary market. Markets such as the New York Stock Exchange (NYSE), London Stock Exchange or Nasdaq are secondary markets.
- On the secondary market, small investors have a better chance of buying or selling securities, because they are no longer excluded from IPOs due to the small amount of money they represent. Anyone can purchase securities on the secondary market as long as they are willing to pay the price for which the security is being traded.
- Primary markets help in capital formation, while the secondary market provides liquidity to the investors.

50. Correct Answer: (d)

Securities and Exchange Board of India (SEBI):

- Securities and Exchange Board of India (SEBI) was established in 1988, however, it got statutory mandate and powers under the SEBI Act, 199
- Its objective is to protect the interests of investors in securities and to promote the development and regulation of the securities market.
- Promoting and regulating self-regulatory organizations and prohibiting fraudulent

and unfair trade practices relating to securities markets.

- Registering and regulating stock exchanges, merchant banks, mutual funds, underwriters, registrars to the issues, brokers, sub-brokers, transfer agents and others.
- Levying various fees and other charges on investors and traders (as 1 percent of the issue amounts of every company issuing shares are kept by it as caution money in the concerned stock exchange where the company is enlisted).
- Inspection and audit of stock exchanges and various intermediaries.
- Performing other concerned functions as may be prescribed from time to time

51. Correct Answer: (a)

Financial Sector Regulators

- Funds of PFRDA are generally invested in diversified portfolios consisting of government bonds, bills, corporate debentures, and shares, based on subscribers' choice. Subscribers also have an option, at the time of exit, to purchase a life annuity by using accumulated pension funds.
- The Forward Markets Commission (FMC) was the chief regulator of commodity futures markets in India. It is headquartered in Mumbai and this financial regulatory agency is overseen by the Ministry of Finance. The Commission allows commodity trading in 22 exchanges in India, of which 6 are national. On 28 September 2015, the FMC was merged with the Securities and Exchange Board of India (SEBI). Hence, now commodity markets are subject to the jurisdiction of SEBI.
- A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 of India, engaged in the business of loans and advances, acquisition of shares, stock, bonds, hire-purchase insurance business or chit-fund business but does not include any institution whose principal business includes agriculture, industrial activity or the sale, purchase or construction of immovable property. The working and operations of NBFCs are regulated by the Reserve Bank of India (RBI) (not by SEBI).

52. Correct Answer: (a)

Objectives of Fiscal Policy

- To maintain and achieve full employment
- To stabilize the price level
- To stabilize the growth rate of the economy
- To maintain equilibrium in the Balance of Payments
- To promote the economic development of underdeveloped countries

53. Correct Answer: (c)

Revenue deficit

- Revenue deficit is concerned with the revenue expenditures and revenue receipts of the government It refers to an excess of revenue expenditure over revenue receipts during the given fiscal year
- Revenue Deficit = Revenue Expenditure – Revenue Receipts
- Revenue deficit signifies that the government's own revenue is insufficient to meet the expenditures on the normal functioning of government departments and provisions for various services

Implications of Revenue Deficit

- It indicates the inability of the government to meet its regular and recurring expenditure in the proposed budget
- It implies that the government is dissaving, ie the government is using up savings of other sectors of the economy to finance its consumption expenditure
- It also implies that the government has to make up this deficit from capital receipts, ie through borrowings or disinvestments It means, revenue deficit either leads to an increase in liability in the form of borrowings or reduces the assets through disinvestment

- Use of capital receipts for meeting the extra consumption expenditure leads to an inflationary situation in the economy Higher borrowings increase the future burden in terms of loan amount and interest payments
- A high revenue deficit gives a warning signal to the government to either curtail its expenditure or increase its revenue
- According to a far-sighted approach, revenue receipts should always be more than revenue expenditures so that surplus can be used for development projects However, the Indian Budget is facing a revenue deficit for the past several years

54. Correct Answer: (a)
Capital Budget

- Capital Budget consists of capital receipts and capital payments
- The capital receipts are loans raised by Government from the public, called market loans, borrowings by Government from Reserve Bank and other parties through the sale of Treasury Bills, loans received from foreign Governments and bodies, disinvestment receipts and recoveries of loans from State and Union Territory Governments and other parties
- Capital payments consist of capital expenditure on acquisition of assets like land, buildings, machinery, equipment, as also investments in shares, etc, and loans and advances granted by Central Government to State and Union Territory Governments, Government companies, Corporations, and other parties
- Salaries of govt. employees are included in the revenue budget of the govt. of India

55. Correct Answer: (b)
Government Budget

- There is a constitutional requirement in India (Article 112) to present before the Parliament a statement of estimated receipts and expenditures of the government in respect of every financial year This 'Annual Financial Statement' constitutes the main budget document of the government
- Although the budget document relates to the receipts and expenditure of the government for a particular financial year, the impact of it will be there in subsequent years
- There is a need therefore to have two accounts-those that relate to the current financial year only are included in the revenue account (also called revenue budget) and those that concern the assets and liabilities of the government into the capital account (also called a capital budget)

The Budget contains the following elements:

- Estimates of revenue and capital receipt
- Ways and Means to raise revenue
- Estimates of expenditure
- Details of the actual receipt and expenditure of the closing financial year

56. Correct Answer: (a)
Fiscal Deficit

- The fiscal deficit is defined as the excess of total budget expenditure over total budget receipts excluding borrowings during a fiscal year In simple words, it is the amount of borrowing the government has to resort to meet its expenses
- A large deficit means a large amount of borrowing The fiscal deficit is a measure of how much the government needs to borrow from the market to meet its expenditure when its resources are inadequate
- Fiscal deficit = Total expenditure – Total receipts excluding borrowings
- If we add borrowing in total receipts, the fiscal deficit is zero Clearly, fiscal deficit gives the borrowing requirements of the government
- High fiscal deficit results in high government borrowing which leads to lowering the amount of available money to be borrowed by private investors, increasing the interest rates and lowering the private investments

- The central bank no longer finances the deficits of Government It is a facilitator of borrowings from the market

57. Correct Answer: (b)

Budget deficit

- A budget deficit is an annual shortfall between government spending and tax revenue The deficit is the annual amount the government needs to borrow

Effects of a budget deficit:

- Rise in national debt
- Higher debt interest payments
- Fall in value of the currency
- Increase in currency circulation
- Increase in Aggregate Demand (AD)
- Possible increase in public sector investment
- May cause crowding out and higher bond yields

58. Correct Answer: (b)

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/ right-sizing 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

59. Correct Answer: (b)

Revenue expenditure

- Revenue Expenditure is that part of government expenditure that does not result in the creation of assets Payment of salaries, wages, pensions, subsidies and interest fall in this category
- Revenue expenses are incurred by the government for its operational needs
- The Union government's revenue expenditure comprises money spent on revenue account — the amount spent on running its elaborate machinery
- All grants given to state governments and Union territories are also treated as revenue expenditure, even if some of these grants may be used for the creation of capital assets

  In India, the payment of subsidies is also included in revenue expenditure The central government pays subsidy under three major heads – food subsidy, fertiliser subsidy, and fuel subsidy

60. Correct Answer: (b)

- Receipts from recoveries of loans granted by the government is a part of capital receipt
- Money held by government in trust are kept in the Public Account
- Provident Funds
- Small Savings collections
- The income of the Government set apart for expenditure on specific objects such as road development, primary education, Reserve/ Special Funds etc.

61. Correct Answer: (b)

Impact of Taxes

- Taxes have a direct bearing on people's income affecting their levels of personal disposable incomes, purchase of goods and services (purchasing power), consumption and ultimately their standard of living.
- Taxes directly affect the savings of individuals, families, and firms which affect investment in the economy—as investment affects the output (GDP) thereby influencing the per capita income.
- Taxes affect the prices of goods and services as factor cost (production cost) is affected thereby affecting incentives and behaviour of economic activities, etc.

62. Correct Answer: (d)

Goods and Service Tax (GST)

- GST is applicable to the supply of goods or services. It is a destination-based consumption tax.
- It is a dual GST with the Centre and States simultaneously levying tax on a common tax base. The GST is levied by the Centre on intra-State supply of goods or services would be called the Central tax (CGST).
- The one levied by the States including Union territories with legislature/Union Territories without legislature would be called the State tax (SGST)/ Union territory tax (UTGST) respectively.

The GST replaced the following taxes levied and collected by the Centre:

- Central Excise Duty
- Duties of Excise (Medicinal and Toilet Preparations)
- Additional Duties of Excise (Goods of Special Importance)
- Additional Duties of Excise (Textiles and Textile Products)
- Additional Duties of Customs (commonly known as CVD)
- Special Additional Duty of Customs (SAD)
- Service Tax Central Surcharges and Cesses so far as they relate to supply of goods and services

State taxes that subsumed under the GST are: State VAT

- Central Sales Tax
- Luxury Tax
- Entry Tax (all forms)
- Entertainment and Amusement Tax (except when levied by the local bodies)
- Taxes on advertisements
- Purchase Tax
- Corporate tax and Security transaction taxes are direct taxes and do not come under the GST scheme.

63. Correct Answer: (c)

Economic Reforms

- A total of three generations of reforms have been announced to date, while experts have gone to suggest the fourth generation, too.
- First Generation Reforms (1991–2000)

The broad coordinates of the First Generation of reforms may be seen as under:

- Promotion to Private Sector
- Public Sector Reforms
- External Sector Reforms
- Financial Sector Reforms
- Tax Reforms
- It was in the year 2000–01 that the government, for the first time, announced the need for the Second Generation of economic reforms and it was launched in the same year.

- The ones which had been initiated by then (i.e., from 1991 to 2000) were called by the government as the reforms of the First Generation.

64. Correct Answer: (c)

Capital Gains Tax (CGT)

- Any profit or gain that arises from the sale of a 'capital asset' (movable or immovable) is a capital gain. It is one of the examples of a corporate tax, which is a direct tax in nature.
- Hence, CGT is also a direct tax. This gain or profit is considered as income and hence charged to tax in the year in which the transfer of the capital asset takes place. This is called the capital gains tax, which can be short-term or long-term.
- Short-term capital asset: An asset that is held for a period of 36 months or less like equity or preference shares in a company listed on a recognized stock exchange in India, securities (debentures, bonds, government securities), equity-oriented mutual funds, zero-coupon bonds.
- Long-term capital asset: An asset that is held for more than 36 months (24 months for an immovable property like land, building). The Long-term capital gain is taxable at 20%.
- If the asset is sold by the person who inherits it, capital gains tax will be applicable. Capital gains are not applicable when an asset is inherited because there is only a transfer, not a sale.

65. Correct Answer: (b)

Ad - Valorem Duty

- An ad valorem tax is a tax whose amount is based on the value of a transaction or of property.
- It is typically imposed at the time of a transaction, as in the case of a sales taxor value-added tax (VAT).
- An ad valorem tax may also be imposed annually, as in the case of a real or personal property tax, or in connection with another significant event (e.g. inheritance tax, expatriation tax, or tariff).
- In some countries, stamp duty is imposed as an ad valorem tax.

66. Correct Answer: (b)

Features of Tax Haven Nations

- Tax Havens provide taxpayers with opportunities for tax avoidance, while their secrecy and opacity also serve to hide the origin of the proceeds of illegal and criminal activities.
- Features of these Tax Havens include low or zero taxation, fictitious residences (with no bearing on reality) and tax secrecy.

67. Correct Answer: (a)

Tax Avoidance, Tax Planning, Tax Evasion

- Tax Avoidance means an attempt to reduce tax liability through legal means, i.e. to regulate one's financial affairs in such a way that one pays the minimum tax imposed by the law.
- Tax Avoidance is legal management to avoid tax, tax evasion is illegal means to reduce tax liabilities, i.e. falsification of books, suppression of income, overstatement of deductions, etc.
- Similarly, Tax planning is an accepted practice, whereby the taxpayer uses provisions of law to minimize his tax liability

68. Correct Answer: (c)

- Major recommendations of the Shome panel on the General Anti-Avoidance Rule (GAAR)
- Postponement of the implementation of the GAAR: The committee recommended to postpone the implementation of GAAR by 3 years on administrative grounds.
- Tax benefit threshold: The panel recommended that the provisions of GAAR should be made applicable if the tax benefit crosses the threshold limit of Rs 3 crores. The Income Tax rules 1962 needs to be amended for this purpose to ensure that smaller tax conflicts are filtered out.
- Mauritius' investment issue: The committee suggested that the provisions of GAAR should not be used for examining

the genuineness of the residency of foreign institutional investors from Mauritius.

- Implementation of GAAR: It should be invoked only in cases of abusive, contract and artificial arrangements. The Income Tax Act needs to be amended to ensure that only the arrangements with the main purpose of obtaining tax benefits should be included under GAAR.
- To increase the Securities Transaction Tax (STT) and do away with short term capital gains tax
- A panel of the GAAR: The panel for approving the implementation of GAAR provisions should include five members, headed by a retired High Court judge. Two of the members should be persons of eminence either from accountancy, business or Economics, or a person with Income Tax matters knowledge.
- The other two members of the panel should include two chief Commissioners of the Income Tax Department, or one chief Commissioner and one Commissioner.
- Foreign institutional investors: The provisions of GAAR would not apply against the non-resident foreign institutional investors. Also, GAAR provisions would not be invoked against those Foreign Institutional Investors who do not claim the benefits under the double taxation avoidance treaty.
- Tax treaties of India: If any arrangement which is found impermissible under the GAAR, it can be denied the treaty benefits by invoking the GAAR provisions. Treaty benefits would be available to Indian residents.

69. Correct Answer: (b)

Planning in India

- India emphasized the public sector as well as allowed for the active participation of the private sector. It planned for a socialist society with a strong public sector with private property and democracy.
- Its vision was to develop an economy with a strong private sector. Here, the Industrial Policy Resolution of 1948 and the Directives Principles of the Indian Constitution reflected this outlook.

70. Correct Answer: (d)

Role of Public Sector in Industrialization

- Public sector enterprises are owned and managed by the government. At the time of independence, the state of the Indian economy was backward and underdeveloped.
- During the planning period, the public sector was given a leading role in industrial development because of the following reasons:
- **Lack of capital:** Private entrepreneurs lacked capital for setting industries as a huge amount was required. The government took the responsibility of developing industries in the economy.
- **Lack of incentive:** The Indian market was comparatively small which discouraged Indian industrialists to invest in major projects (even though they had sufficient capital to invest). The government promoted the industrial sector.
- **Development of India on socialist base:** Indian planners wanted to develop the Indian economy on a socialist base, so they focused on government-funded major projects.
- Social welfare: In India, there were certain projects in which the profit margin was negligible. Thus, the private sector was not interested in such projects, and it was only the public sector that could bring balanced regional growth with the establishment of government units in the backward areas. This move could increase the employment and income of the people.
- Basic Infrastructure: An important ideology that was inherited in the initial Five Year Plans was that the public sector should lay down the basic infrastructure required for Industrialization that would encourage and facilitate the private sector at the later stage of industrialization.
- Reduce Exploitation: It is believed that in public sector units, the labour is not

exploited as it is protected by the government. The consumers are also not exploited by charging high prices or serving low-quality goods as PSUs do not operate with the profit motive.

- Generate Employment: The private sector does not have the inducement to invest and create employment opportunities during periods of low demand. During such phases, PSUs are needed to generate employment opportunities with the help of government investment.

71. Correct Answer: (d)

Five Year Plans in India

- A plan spells out how the scarce resources of a nation should be put to use.
- It should have some general goals as well as specific objectives that are to be achieved within a specified period of time.
- In India, plans which are of five years duration are known as the Five Year Plans (this idea has been borrowed from the former Soviet Union).
- Every Five Year Plan has specified goals that are the ultimate targets and their achievement ensures the success of the plans.
- Without specific goals, a plan would be directionless and resources would not be utilised in a proper manner without wastage.

Following goals are focused in every Five Year Plan:

- **Growth:** To increase the country's capacity to produce the output of goods and services within the country. It implies either the stock of productive capital, or a larger size of supporting services like transport and banking, or an increase in the efficiency of productive capital and services.
- **Modernisation:** To increase the production of goods and services, the producers have to adopt new technology.
- **Self-reliance:** This goal aims to reduce India's dependence on foreign countries especially for food and to retain India's sovereignty that was vulnerable to foreign interference in our policies.
- **Equity:** This goal aims to provide every Indian his or her basic needs such as food, a decent house, education, and health care and inequality in the distribution of wealth should be reduced.

72. Correct Answer: (d)

Regular Salaried Employees

- When a worker is engaged by someone or an enterprise and paid his or her wages on a regular basis, they are known as regular salaried employees.
- The regular salaried employees are those who have proper professional skills and a particular level of educational qualification. These skills are acquired through training and education process which are not available in rural areas.
- The rural population is primarily engaged in the agricultural sector and they are not willing to take the risk of becoming regular salaried employees.
- Agriculture is not a major source of employment in urban areas where people are mainly engaged in the service sector.
- The presence of the service sector provides great opportunities for a regular salaried job. For example MNCs.
- The MNCs are concentrated only in the urban areas due to the various supportive facilities like infrastructure development, transportation and communication facilities, etc. This provides more job facilities in urban areas.
- The rural population is primarily engaged in the agricultural sector and they are not willing to take the risk of becoming regular salaried employees.

73. Correct Answer: (d)

The Poverty Line

- There are many ways of measuring poverty. One way is to determine it by the monetary value (per capita expenditure) of the minimum calorie intake.
- It was estimated at 2,400 calories for a rural person and 2,100 for a person in the

urban area. Based on this, in 2011-12, the poverty line was defined for rural areas as consumption worth Rs 816 per person a month and for urban areas it was Rs 1,000.

- Though the government uses Monthly Per Capita Expenditure (MPCE) as a proxy for the income of households to identify the poor, various economists state that there are some problems with this mechanism:
- One is that it groups all the poor together and does not differentiate between the very poor and the other poor.
- This mechanism takes into account expenditure on food and only a few selected items as a proxy for income.
- This mechanism is helpful in identifying the poor as a group to be taken care of by the government, but it would be difficult to identify who among the poor need help the most.
- The existing mechanism for determining the Poverty Line also does not take into consideration social factors that trigger and perpetuate poverty such as illiteracy, ill health, lack of access to resources, discrimination or lack of civil and political freedoms.
- The aim of poverty alleviation schemes should be to improve human lives by expanding the range of things that a person could be and could do, such as to be healthy and well-nourished, to be knowledgeable and to participate in the life of a community.

74. Correct Answer: (c)

Self-employed Worker

- Workers who own and operate an enterprise to earn their livelihood are known as self-employed. For example cement shop owner. In the given question shoeshine boy is a self-employed as he owns his tools and is not paid any wages on a regular basis.

Casual worker

- A worker who does not work throughout the year. The casual workers work for a few months and get remuneration for the work done they are not hired by the employers on a regular basis. They are generally unskilled workers. For example a construction worker, mechanic shop worker.

Regular salaried employees

- When a worker is engaged by someone or an enterprise and paid his or her wages on a regular basis, they are known as regular salaried employees.
- They are those who have proper professional skills and a particular level of educational qualification, these skills are required through training and education process which are not available in rural areas. For example civil engineers.

75. Correct Answer: (a)

Distribution of Working Women

- Women's participation is higher in rural areas than in urban areas.
- Rural women are more insecure than urban women because the family size in rural areas is bigger than urban areas and the source of earning is limited.
- Rural women mostly work in fields and other activities related to agriculture and such activities do not require a high degree of specialization as the jobs in the urban sector do. The poverty rate of the rural sector is higher than in the urban sector.

Worker-Population Ratio in India, 2011- 12

Sex	Worker-Population Ratio		
	Total	Rural	Urban
Men	54.4	54.3	54.6
Women	21.9	24.8	14.7
Total	38.6	39.9	35.5

- Women engaged in household activities are not categorized as workers as they are not paid wages in cash or in the form of grains. The activities they are involved in are cooking, fetching water and fuelwood and participate in farm labour

76. Correct Answer: (d)

Fifth Five Year Plan

- It proposed to achieve two main objectives: 'removal of poverty' (Garibi Hatao) and 'attainment of self-reliance'.
- Promotion of a high rate of growth, better distribution of income and significant growth in the domestic rate of savings were seen as key instruments.
- Due to high inflation, cost calculations for the Plan proved to be completely wrong and the original public sector outlay had to be revised upwards.
- After promulgation of emergency in 1975, the emphasis shifted to the implementation of Prime Ministers 20 Point Programme.
- FYP was relegated to the background and when Janta Party came to power in 1978, the Plan was terminated.

77. Correct Answer: (a)

Primary Sector

- This sector includes all those economic activities where there is the direct use of natural resources as agriculture, forestry, fishing, fuels, metals, minerals, etc.
- In some of the economies, mining activities are considered as part of the secondary sector, though we see direct use of natural resources here. Broadly, such economies term their agricultural sector as the primary sector. This is the case in India.

Secondary Sector

- This sector is rightly called the manufacturing sector, which uses the produce of the primary sector as its raw materials.
- Since manufacturing is done by the industries, this sector is also called the industrial sector— examples are the production of bread and biscuits, cakes, automobiles, textiles, etc.

Tertiary Sector

- This sector includes all economic activities where different 'services' are produced such as education, banking, insurance, transportation, tourism, etc. This sector is also known as the services sector.

78. Correct Answer: (a)

Fisheries Sector in India

- Marine Fisheries is a branch of fisheries that 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 steady growth in the total gross value added and accounts for a 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.

79. Correct Answer: (d)

Green Revolution

- Dependence on monsoon was also a major setback for Indian farmers. Thus, in this scenario, the introduction of High Yielding Varieties (HYV) of seeds and the increased use of fertilizers, pesticides and irrigation facilities was the major breakthrough and the use of these measures was collectively known as the Green Revolution.
- It was implemented to make India a self-sufficient country by increasing the production of food-grains by using HYV seeds and to ensure food security in India and to upgrade the mode of technology used in agriculture. It also aimed to enhance the marketed surplus in India.

Green Revolution benefited farmers in the following ways:

- **Increase in Income:** It helped in raising the income of the farmers and hence their living standard because now the large production of food grains and the farmers had a marketable surplus to sell in the market.

- **Improvement in Irrigation facilities:** The use of HYV seeds necessitated the improvement in irrigation facilities by the government which made the farmers less dependent on rainfall and hence more secure.
- **Loan and Subsidy Facility:** The government provided loans at a low-Interest rate to small farmers and subsidised fertilizers so that small farmers could also have access to the required inputs.

Green revolution benefited the government in the following ways:

- Increase in Production: Green Revolution led to an increase in the production of food grains.
- Use of modern technology, use of HYV seeds, the spread of marketed surplus, abolition of the Zamindari system and shift of ownership of land to tenants were the other major contributing factors.

80. Correct Answer: (c)

Where most of the people are employed?

- The primary sector continues to be the largest employer even now. It is because not enough jobs were created in the secondary and tertiary sectors.
- While production in the service sector rose by 14 times, employment in the service sector rose around five times.
- More than half of the workers in the country are working in the primary sector, mainly in agriculture, producing only a quarter of the GDP.
- In contrast to this, the secondary and tertiary sectors produce four-fifths of the product whereas they employ less than half the people.

81. Correct Answer: (a)

Minimum Support Price (MSP)

- Minimum Support Price (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).

Procurement Price:

- The procurement price of a commodity refers to the price at which govt. procures the commodity from producers/manufacturers for maintaining the buffer stock or the public distribution system.
- These prices are announced by the government of India on the recommendations of the Commission for Agricultural Costs and Prices before the harvest season of the crop.
- Procurement prices are fixed generally at a level, which is somewhat higher than the level of minimum support prices but lower than the prevailing market prices.
- Procurement prices are announced before the sowing season. As a result, the procurement price itself becomes the support price at which the government purchased all the foodgrains offered for sale.

82. Correct Answer: (d)

Loans

- Credit (or loans) refers to an agreement in which the lender supplies the borrower with money, goods or services in return for the promise of future payment.

Types of Loans

- Loans can be categorized as formal sector loans and informal sector loans.
- Among the former are loans from banks and cooperatives. Informal lenders include

moneylenders, traders, employers, relatives, friends, etc.

- Compared to the formal lenders, most of the informal lenders charge much higher interest on loans. Thus, the cost to the borrower of informal loans is much higher.
- The higher cost of borrowing means a larger part of the earnings of the borrowers is used to repay the loan. Hence, borrowers have less income left for themselves.
- In certain cases, the high-interest rate for borrowing can mean that the amount to be repaid is greater than the income of the borrower. This could lead to an increasing and debt trap.
- Getting a loan from a bank is much more difficult than taking a loan from informal sources as bank loans require proper documents and collateral.

83. Correct Answer: (a)

Unorganised Sector

- The unorganised sector is characterized by small and scattered units which are largely outside the control of the government.
- There are rules and regulations but these are not followed. Jobs here are low-paid and often not regular.
- There is no provision for overtime, paid leave, holidays, leave due to sickness, etc. Employment is not secure.
- People can be asked to leave without any reason. When there is less work, such as during some seasons, some people may be asked to leave.
- A lot also depends on the whims of the employer.
- This sector includes a large number of people who are employed on their own doing small jobs such as selling on the street or doing repair work.
- Similarly, farmers work on their own and hire labourers as and when they require.

84. Correct Answer: (c)

Disinvestment

- Disinvestment can also be defined as the action of an organization (or government) selling or liquidating an asset or subsidiary.
- It is also referred to as 'divestment' or 'divestiture.'

The following main objectives of disinvestment were outlined:

- To improve the performance of units
- To reduce budgetary deficits and Public Debt.
- To overcome the problem of political involvement in PSUs
- Enable the government to concentrate on Social development
- To provide better service to customers
- Releasing public resources locked up in non-strategic PSEs.
- To ensure proper planning and execution
- To overcome the problem of corruption
- To fix the responsibility on management
- To make efficient use of disinvestment proceeds.
- To reduce the financial burden on the Government
- To improve public finances
- To introduce, competition and market discipline
- To fund growth
- To encourage wider share of ownership
- To depoliticize non-essential services

85. Correct Answer: (c)

The Theory of Absolute Advantage

- According to Adam Smith, who is regarded as the father of modern economics, countries should only produce goods that they have an absolute advantage.
- A country is said to have an absolute advantage if the country can produce a good at a lower cost than another.
- Furthermore, this means that fewer resources are needed to provide the same amount of goods as compared to the other country.

- This efficiency in production creates "an absolute advantage," which allows for beneficial trade.

86. Correct Answer: (d)

Terms of trade in developing countries

- The terms of trade of a nation are defined as the ratio of the price of its exports to the price of its imports. Since in a two-nation world, the exports of a nation are the imports of its trade partner, the terms of trade of the latter are equal to the inverse, or reciprocal, of the terms of trade of the former.
- In a world of many (rather than just two) traded commodities, the terms of trade of a nation are given by the ratio of the price index of its exports to the price index of its imports. This ratio is usually multiplied by 100 in order to express the terms of trade in percentages. These terms of trade are often referred to as the commodity or net barter terms of trade to distinguish them from various other measures of the terms of trade.
- An improvement in a nation's terms of trade is usually regarded as good for the nation in the sense that the prices that the nation receives for its exports rise relative to the prices that it pays for imports.

87. Correct Answer: (a)

Tariff and Non-tariff Barriers

Tariff Barriers:

- It refers to the tax imposed on imports by the country to protect its domestic industries.
- It includes custom duties, export-import duties etc.
- It is imposed on physical units (like per tonne) or on the value of the goods imported.
- They are imposed at reasonable prices by member countries of the World Trade Organization.
- Tariff barriers are more explicit in nature as compared to Non-tariff barriers.

Non-tariff Barriers:

- It refers to the restrictions other than taxes, imposed on imports by a country.
- It includes quotas and licenses.
- It imposed on the quantity and quality of the goods imported.
- They are completely abolished (import quotas and voluntary export restraints) by the World Trade Organization.

88. Correct Answer: (a)

Trade Barriers

- Trade barriers are raised for protection for domestic manufacturers, and not for rapid growth, in fact, protection reduces growth rate as trade is known to be an engine of growth and its absence will affect growth negatively.

89. Correct Answer: (b)

Foreign Exchange Reserves/Forex Reserves

- The total foreign currencies (of different countries) an economy possesses at a point of time is its 'foreign currency assets/reserves'.
- The Forex Reserves of an economy is its 'foreign currency assets' added with its gold reserves, SDRs (Special Drawing Rights) and Reserve Tranche in the IMF.
- Reserve Tranche is like an emergency account from which a portion of member country's quota can be withdrawn without agreeing to conditions or paying a service fee.
- In a sense, the Forex reserves are the upper limit up to which an economy can manage foreign currency in normal times if need be.
- The adequacy of Forex Reserves is measured by Import Cover.
- The Import Cover for India at present is around 9.5 months meaning the country's foreign exchange reserves are enough to cover only 9.5 months long imports.
- As per the latest RBI data, forex reserves for India are $430.5bn.

90. Correct Answer: (c)

Exchange Rate

- Exchange Rate is defined as the rate at which a country's currency can be exchanged with another country's currency. In other words, it is the value of one country's currency w.r.t. to another country's currency.

Types of Exchange Rates

Fixed Exchange Rate:

- In this system, the government or central bank ties the country's currency official exchange rate to another country's currency (currency peg) or the price of gold (gold standard).
- Fixed rates provide greater certainty for exporters and importers and also helps the government maintain low inflation.
- The purpose of a fixed exchange rate system is to keep a currency's value within a narrow band.

Floating/Flexible Exchange Rate:

- Such exchange rates are also called as market-driven or based exchange rates, which are regulated by factors such as the demand and supply of domestic and foreign currencies in the concerned economy.
- In the floating exchange rate system, a domestic currency is left free to float against a number of foreign currencies in its foreign exchange market and determine its own value.
- Failure of the gold standard and the Bretton Woods Agreement led to the increased popularity of this system.

Managed Exchange Rate:

- A managed-exchange-rate system is a hybrid or mixture of the fixed and flexible exchange rate systems in which the government of the economy attempts to affect the exchange rate directly by buying or selling foreign currencies or indirectly, through monetary policy (by lowering/raising interest rates on foreign currency bank accounts, etc.)

91. Correct Answer: (a)

Major Trading Partners in 2018-19

- India's largest export destination country continues to be the United States of America (USA), which accounted for 16 percent of India's exports (in value terms) in 2018-19, followed by United Arab Emirates (UAE), China and Hong Kong.
- However, in 2018-19, the growth of India's exports to the Netherlands was the highest (40.7 percent), followed by China (25.6 percent) and Nepal (17.4 percent).

Top 10 Export Destinations of India in 2018- 2019

1. USA
2. UAE
3. China
4. Hong Kong
5. Singapore
6. United Kingdom
7. Bangladesh
8. Germany
9. Netherland
10. Nepal

92. Correct Answer: (c)

Floating Exchange Rate System

- The system of the exchange rate in which the rate of exchange is determined by forces of demand and supply of foreign exchange market is called the Floating Exchange Rate System.
- Here, the value of a currency is allowed to fluctuate or adjust freely according to change in demand and supply of foreign exchange.
- Generally, there is no official intervention in the foreign exchange market. Under this system, the central bank, without intervention, allows the exchange rate to adjust so as to equate the supply and demand for foreign currency
- The deficit or surplus in BOP is automatically corrected. There is no need

for the government to hold any foreign exchange reserve.

- It helps in optimum resource allocation and frees the government from the problem of BOP

Demerits

- It encourages speculation leading to fluctuations in the foreign exchange rate, wide fluctuation in exchange rate hampers foreign trade and capital movement between countries.
- It generates inflationary pressure when prices of imports go up due to the depreciation of the currency.

93. Correct Answer: (b)

Asia-Pacific Trade Agreement (APTA)

- It is a preferential regional trade agreement formerly known as the Bangkok Agreement. APTA aims to promote the economic development of its members through the adoption of mutually beneficial trade liberalization measures that contribute to regional trade expansion and economic cooperation.
- Members include Bangladesh; China; India; Republic of Korea; Lao People's Democratic Republic; Sri Lanka and Mongolia.
- Asia-Pacific Economic Cooperation (APEC)
- It is a regional economic forum established in 1989 to leverage the growing interdependence of the Asia-Pacific. APEC's 21 members aim to create greater prosperity for the people of the region by promoting balanced, inclusive, sustainable, innovative and secure growth and by accelerating regional economic integration.
- APEC Members: Australia; Brunei Darussalam; Canada; Chile; People's Republic of China; Hong Kong, China; Indonesia; Japan; Republic of Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; The Philippines; Russia; Singapore; Chinese Taipei; Thailand; The United States; Vietnam.

94. Correct Answer: (a)

World Bank (WB)

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

Smithsonian Agreement (1971)

- It widened the permissible band of movements of the exchange rates to 2.5 percent above or below the new 'central rates' with the hope of reducing pressure on deficit countries, which lasted only 14 months.
- The developed market economies, led by the United Kingdom and soon followed by Switzerland and then Japan, began to adopt floating exchange rates in the early 1970s.
- In 1976, revision of IMF Articles allowed countries to choose whether to float their currencies or to peg them (to a single currency, are no rules governing pegged rates and no de facto supervision of floating exchange rates.

European Monetary Union

- Many countries currently have fixed exchange rates. The creation of the European Monetary Union in January 1999, involved permanently fixing the exchange rates between the currencies of the members of the Union and the introduction of a new common currency, the Euro, under the management of the European Central Bank.
- From January 2002, actual notes and coins were introduced. So far, 12 of the 25 members of the European Union have adopted the euro.

Adoption of Dollarization by Ecuador

- Ecuador adopted dollarization in 2000 when it abandoned the domestic currency and adopted the US dollar.
- All prices are quoted in dollar terms and the local currency is no longer used in transactions. Although uncertainty and risk

can be avoided, Ecuador has given control over its money supply to the Central Bank of the US – the Federal Reserve – which will now be based on economic conditions in the US.

95. Correct Answer: (b)

CPTPP

- The TPP was signed on 4 February 2016 but never entered into force as a result of the withdrawal of the United States.
- All original TPP signatories except the U.S. agreed in May 2017 to revive it and reached an agreement in January 2018 to conclude the CPTPP.
- The formal signing ceremony was held on 8 March 2018 in Santiago, Chile.

96. Correct Answer: (a)

International Monetary Fund (IMF)

- IMF (along with World Bank) was created in 1944 when representatives from 44 nations met at Bretton Woods, New Hampshire to draw up a plan for post-WWII economic order.
- The International Monetary Fund (headquartered in Washington DC) is an organization of 189 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

The IMF's primary purpose is to ensure the stability of the international monetary system by:

- Keeping track of the global economy and the economies of member countries
- Lending to countries with balance of payments difficulties
- Giving practical help to members
- Its flagship publications are: World Economic Outlook
- Global Financial Stability Report

Special Drawing Right (SDR)

- The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. So far SDR 204.2 billion (equivalent to about US$291 billion) has been allocated to members, including SDR 182.6 billion allocated in 2009 in the wake of the global financial crisis.
- The value of the SDR is based on a basket of five currencies—the U.S. dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling.

97. Correct Answer: (c)

Trade-in Services

- Trade-in services denoted as invisible trade (because they are not seen to cross national borders) includes both factor income (net income from compensation of employees and net investment income, the latter equals, the interest, profits and dividends on our assets abroad minus the income foreigners earn on assets they own in India) and net non-factor income (shipping, banking, insurance, tourism, software services, etc.).

General Agreement on Trade in Services (GATS)

- The WTO's General Agreement on Trade in Services (GATS) entered into force in 1995.
- It remains the only set of multilateral rules covering international trade in services.
- The Agreement reflects the gradual transfer of responsibility for many services from government-owned suppliers to the private sector and the benefits arising from the advances in information and communication technology.
- The only obligation that applies across all services covered by the GATS is the most-favoured-nation (MFN) principle, meaning suppliers of services from all countries are treated in the same way.

98. Correct Answer: (d)

Balance of Trade

- It is a financial statement that captures the nation's import and export of commodities with the rest of the world.

- It records only merchandise (i.e., goods) transactions.
- It does not record transactions of capital nature. Hence, it is a component of the Current Account of the Balance of Payment.
- It can either be favourable, unfavourable or balanced.
- It is not a true indicator of a nation's economic status.

99. Correct Answer: (a)

Balance of Payments (BoP)

- It records the transactions in goods, services, and assets between residents of a country with the rest of the world for a specified time period, typically a year.
- There are two main accounts in the BoP – the current account and the capital account.
- The current account records exports and imports in goods and services and transfer payments.
- The capital account records all international purchases and sales of assets such as money, stocks, bonds, etc.
- When exports exceed imports, there is a trade surplus and when imports exceed exports there is a trade deficit.
- Trade-in services denoted as invisible trade (because they are not seen to cross national borders) includes both factor income (net income from compensation of employees and net investment income, the latter equals, interest, profits, and dividends on our assets abroad minus the income foreigners earn on assets they own in India) and net non-factor income (shipping, banking, insurance, tourism, software services, etc.).
- Transfer payments are receipts which the residents of a country receive 'for free', without having to make any present or future payments in return. They consist of remittances, gifts, and grants. They could be official or private. The balance of exports and imports of goods is referred to as the trade balance.

100.Correct Answer: (b)

Current Account Deficit

- Current account deficit also includes transfer payments and factor income, apart from other entries.
- Current account also factors in the payment from domestic capital deployed overseas.