



All India Civil Services Coaching Centre

(Under the aegis of Government of Tamil Nadu)

Economy

Answer Key Explanation

Maximum Questions: 100

Maximum Marks: 200

1. Ans: (d)

- All statements are correct
- Marginal Standing Facility (MSF)
- Marginal Standing Facility is an overnight liquidity support provided by RBI to commercial banks with a higher interest rate over the repo rate.
- MSF can be used by a bank after it exhausts its eligible security holdings for borrowing under other options like the LAF repo.
- Usually, when banks need short term loans from the RBI, they pledge their security holdings that are above the SLR holdings with the RBI to get one day loans under repo.
- Under MSF, a bank can borrow one-day loans from the RBI, even if it doesn't have any eligible securities excess of its SLR requirement (maintains only the SLR).
- Usually, it is the MSF which is always higher than the repo rate.
- When the MSF is reduced, banks are lent funds overnight by the Reserve Bank of India (RBI).
- This translates to banks having more funds to provide to businesses and more rupees circulating in the economy which in turn strengthens it.

2. Ans: (d)

- Statement 1 is incorrect : It is the rate at which only short term funds are borrowed and lent in the money market.

- Statement 2 is incorrect : A tight liquidity condition leads to a rise in call money rate.
- Statement 3 is correct : When banks borrow for one day it is known as call- money.

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 Reserve Bank of India time to time.
- When the cash in banks falls below this minimum requirement due to sudden rise in demand caused by either festival season, holidays etc. they need 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 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.
- 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.

3. Ans: (c)

- Statement 1 is incorrect : Under cash reserve ratio (CRR), the commercial banks have to hold a certain minimum amount of deposit as reserves with the central bank.
- Statement 2 is correct: These are not reserved with the Reserve Bank of India (RBI), but with banks themselves.
- Statement 3 is incorrect: Banks can't lend the CRR money to corporates or individual borrowers.

CRR

- Under cash reserve ratio (CRR), the commercial banks have to hold a certain minimum amount of deposit as reserves with the central bank.
- The percentage of cash required to be kept in reserves as against the bank's total deposits, is called the Cash Reserve Ratio.
- It is a tool which is used by the RBI to maintain proper liquidity in the economy.
- It uses CRR either to drain excess liquidity from the economy or to inject more funds if needed for the growth of the economy from time to time.
- If RBI cuts CRR then the banks will be left with more money to lend or to invest.
- So, more money will be released into the economy which may propel economic growth.
- Banks can't lend the CRR money to corporates or individual borrowers, banks can't use that money for investment purposes.

- And banks don't earn any interest on that money. The cash reserve is either stored in the bank's vault or is sent to the RBI.

Statutory Liquidity Ratio

- Statutory Liquidity Ratio or SLR is a minimum percentage of deposits that a commercial bank has to maintain in the form of liquid cash, gold or other securities.
- It is basically the reserve requirement that banks are expected to keep before offering credit to customers.
- These are not reserved with the Reserve Bank of India (RBI), but with banks themselves. The SLR is fixed by the RBI.
- CRR (Cash Reserve Ratio) and SLR have been the traditional tools of the central bank's monetary policy to control credit growth, flow of liquidity and inflation in the economy.
- In India, every scheduled commercial bank, non-scheduled commercial bank, state as well as central cooperative banks, and primary (urban) co-operative banks are compulsorily required to keep a Statutory Liquidity Ratio (SLR).
- Every bank in India must maintain a particular amount of Net Demand and Time Liabilities (NSTL) in the form of gold, cash, or other liquid assets.
- The ratio to the time liabilities and assets is called the statutory liquidity ratio.

4. Ans: (c)

- Both statements are correct

Money supply

- The monetary base is a component of a nation's money supply.
- The monetary base (MB or M0) is a monetary aggregate that is not widely cited and differs from the money supply but is nonetheless very important.
- It includes the total supply of currency in circulation in addition to the stored portion

of commercial bank reserves within the central bank.

- This is sometimes known as high-powered money (HPM). It refers strictly to highly liquid funds including notes, coinage, and current bank deposits.
- The multiple in which the banking system can expand deposits received in the form of base money into broad money is called money multiplier.
- From a practical sense, money multiplier shows the proportion of broad money compared to base money.
- Money multiplier is expressed as a ratio between broad money and base money (high powered). Money supply = (Money multiplier) × (Monetary Base).
- According to this formula, money supply can be increased by increasing the money multiplier or monetary base or both.
- If RBI increases the monetary base and money supply does not increase correspondingly, it means that the banks may be depositing the excess money with RBI (at reverse repo) rather than lending to the public.
- And we know that money deposited by banks with the RBI is not part of the money supply. Only the money with the public is part of the money supply.
- Money multiplier depends on two things: People's tendency of depositing money in banks (current deposit ratio) and Statutory reserve requirement of the banks (reserve deposit ratio).
- Money multiplier = $1/r$; Where r = required reserve ratio or cash reserve ratio.

5. Ans: (b)

- Option (b) is correct

Liabilities of Reserve Bank

- **Notes Issued** : Notes in Circulation; Notes held in the Banking Department

- **Deposits** : Deposits of the Central Government; Market Stabilisation Scheme; Deposits of State Governments; Deposits of Scheduled Commercial Banks; Deposit of Scheduled State Co-operative Banks; Deposits of Other Banks'; Other Deposits
- **Other Liabilities**: Currency and Gold Revaluation Account (CGRA); Investment Revaluation Account (IRA); Paid-up Capital and Reserve Fund

Assets of Reserve Bank

- **Foreign Currency Assets** : Foreign Currency Assets, Gold, SDR's and Reserve Tranche Position (Reserve Bank position with International Monetary Fund).

Gold Coin Bullion

- **Rupee Securities** : Rupee securities (including treasury bills)
- **Loans and Advances** : Loans and advances to the Central & State Governments, commercial and co-operative banks and others; to NABARD; to SCBs, State Co-operative Banks
- **Bill Purchases and Discounted** : Commercial; Treasury bills
- **Investment** : This item mainly represents investment of RBI in Non-Government securities. The major items under this head are investment in DICGC share capital, Bharatiya Reserve Bank Note Mudran share capital, NABARD share capital, National Housing Bank share capital etc.
- **Others Assets** : Other assets includes RBI's fixed assets like various Premises, furniture, fittings, etc. at different centres, income accrued but not received, Rupee Coins which are claims on the Issue Department, small coin which are claims on the Government, Balances under various heads of expenditure such as charges account, agencies charges account etc.

6. Ans: (b)

- Option (b) is correct

Liquidity

- Liquidity refers to the efficiency or ease with which an asset or security can be converted into ready cash without affecting its market price.
- The most liquid asset of all is cash itself.
- It is the outcome of the interplay between the supply of and the demand for money, control by the Monetary Policy of the RBI.
- Monetary policy increases liquidity to create economic growth. It reduces liquidity to prevent inflation.
- Central banks use interest rates, bank reserve requirements, and the number of government bonds that banks must hold. All these tools affect how much banks can lend.
- There are several direct and indirect instruments that are used for implementing monetary policy.
- To decrease (increase) the liquidity in the market, all the policy rates (Repo, Reverse Repo, Bank Rate, etc.) are increased (decreased) and Reserve ratios (SLR and CRR) are also increased (decreased).

Open Market Operations (OMOs):

- These include both, outright purchase and sale of government securities, for injection and absorption of durable liquidity, respectively.
- An increase in the reverse repo rate will decrease the money supply and vice-versa, other things remaining constant.
- An increase in reverse repo rate means that commercial banks will get more incentives to park their funds with the RBI, thereby decreasing the supply of money in the market.
- A decrease in the discount rate (bank rate) makes it cheaper for commercial banks to borrow money, which results in an increase

in available credit and lending activity throughout the economy.

7. Ans: (a)

- Statement 1 is correct: Helicopter money is the non-repayable money transfer from the central bank to the government.
- Statement 2 is incorrect: Helicopter money is an unconventional alternative to quantitative easing, but both aim to boost consumer spending and increase inflation.
- While helicopter money increases monetary supply by distributing large amounts of currency to the public, quantitative easing increases supply by purchasing government or other financial securities to spark economic growth.

Helicopter Money

- This is an unconventional monetary policy tool aimed at bringing a flagging economy back on track.
- It involves printing large sums of money and distributing it to the public.
- American economist Milton Friedman coined this term.
- It basically denotes a helicopter dropping money from the sky. Friedman used the term to signify unexpectedly dumping money onto a struggling economy with the intention to shock it out of a deep slump.
- Under such a policy, a central bank directly increases the money supply and via the government, distributes the new cash to the population with the aim of boosting demand and inflation.

8. Ans: (d)

- Both statements are correct

Employment elasticity

- Employment elasticity is a measure of the percentage change in employment associated with a 1 percentage point change in economic growth.

- The employment elasticity indicates the ability of an economy to generate employment opportunities for its population as a percent of its growth (development) process.
- The sub-sectors with the highest employment elasticity are Rubber and plastic products > Electronic and optical products

Transport equipment

- Electricity, Gas, and water supply
Wood and products of wood.
- To step up the impact of economic growth on employment, the focus has to be on such high employment elastic sectors.

RBI data reveals the following data for employment elasticity for the decade 2000-2010:

- Agriculture 0.04
- Manufacturing 0.09
- Mining & quarrying 0.52
- Utilities 0.04
- Construction 1.13
- Trade, Transport 0.19
- Finance, real estate 0.66
- Other services 0.08
- All sectors 0.19

Agriculture has one of the least elasticity. A 1% growth in agriculture would contribute only 0.04% growth in employment.

9. Ans: (d)

- Option (d) is correct

Revenue

- Every form of money generation in the nature of income, earnings are revenue for a firm or a government which do not increase financial liabilities of the government, i.e., the tax incomes, non-tax incomes along with foreign grants.

Revenue Receipts

- Central government receipts can broadly be divided into Non-debt (Revenue receipts) and debt receipts. Their sum is called total receipts.
- They are of two kinds viz. Tax Revenue Receipts and Non-tax Revenue Receipts consisting of the following income receipts in India:

Tax Revenue Receipts

- This includes all money earned by the government via the different taxes the government collects, i.e., all direct and indirect tax collections.

Non-Tax Revenue Receipts

- This includes all money earned by the government from sources other than taxes. They are:
 - Profits and dividends which the government gets from its public sector undertakings (PSUs) including a surplus of Reserve Bank of India transferred to GOI;
 - Interests received by the government out of all loans forwarded by it, be it inside the country (i.e., internal lending) or outside the country (i.e., external lending).
 - It means this income might be in both domestic and foreign currencies; Fiscal services such as currency printing, stamp printing, coinage and medals minting, etc.;
 - General Services such as power distribution, irrigation, banking, insurance, community services, etc.; Fees, Penalties and Fines received by the government;
 - Grants which the governments receive which is external in the case of the Central Government and internal in the case of state governments.

10. Ans: (c)

- Option (c) is correct

Multidimensional Poverty Index

- The global Multidimensional Poverty Index (MPI) is an international measure of acute multidimensional poverty covering over 100 developing countries.
- It complements traditional monetary poverty measures by capturing the acute deprivations in health, education, and living standards that a person faces simultaneously.
- The MPI assesses poverty at the individual level. If a person is deprived in a third or more of ten (weighted) indicators, the global MPI identifies them as 'MPI poor'.
- If a person is deprived in a third or more often (weighted) indicators, the global MPI identifies them as 'MPI poor'. The extent – or intensity – of their poverty is also measured through the percentage of deprivations they are experiencing.
- A person is considered deprived if living in a household where the household does not own more than one of these assets: radio, TV, telephone, computer, animal cart, bicycle, motorbike, or refrigerator, and does not own a car or truck.
- NITI Aayog releases the National Multidimensional Poverty Index.
- India's national MPI measure uses the globally accepted and robust methodology developed by the Oxford Poverty and Human Development Initiative (OPHI) and the United Nations Development Programme (UNDP) which publishes the Global Multidimensional Poverty Index.

11. Ans: (b)

- Option (b) is correct

Goods and Service Tax (GST)

- GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer.
- Credits of input taxes paid at each stage will be available in the subsequent stage of

value addition, which makes GST essentially a tax only on value addition at each stage.

- The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

At the Central level, the following taxes are subsumed:

- Central Excise Duty,
- Additional Excise Duty,
- Service Tax,
- Additional Customs Duty commonly known as Countervailing Duty, and
- Special Additional Duty of Customs.

At the State level, the following taxes are subsumed:

- Subsuming of State Value Added Tax/Sales Tax,
- Entertainment Tax (other than the tax levied by the local bodies),
- Central Sales Tax (levied by the Centre and collected by the States),
- Octroi and Entry tax,
- Purchase Tax,
- Luxury tax, and
- Taxes on lottery, betting and gambling.

12. Ans: (c)

- Option (c) is correct

Revenue expenditure

- Revenue Expenditure is that part of government expenditure that does not result in the creation of assets.
- Generally, expenditure incurred on normal running of the government departments and maintenance of services is treated as revenue expenditure.
- Examples of revenue expenditure are salaries of government employees, interest payment on loans taken by the government, pensions, subsidies, grants, rural

development, education and health services, etc.

- 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, fertilizer subsidy and fuel subsidy.
- Repayment of loan is a capital expenditure because it reduces liability. These expenditures are met out of capital receipts of the government.

13. Ans: (c)

- Option (c) is correct

Fiscal Deficit

- When countries run high fiscal deficits, they typically pay for them by borrowing money.
- When governments borrow, they compete with everybody else in the economy who wants to borrow the limited amount of savings available.
- As a result of this competition, the real interest rate increases and private investment decreases.
- This phenomenon is called crowding out.
- In the economy, there is a limited pool of investible savings. These savings are used by financial institutions like banks to lend to private businesses (both big and small) and the governments (Centre and state).
- So, simply put, a higher fiscal deficit means higher borrowing by the government, which, in turn, mean higher interest rates in the economy.

14. Ans: (b)

- Option (b) is correct

Capital and Revenue receipts

- Capital receipts are receipts that create liabilities or reduce financial assets. They also refer to incoming cash flows.
- Capital receipts can be both non-debt and debt receipts.

Capital Receipts include:

- loans raised by Government from the public called market loans,
- borrowings by the Government from Reserve Bank and other parties through the sale of Treasury Bills,
- loans received from foreign Governments and bodies,
- disinvestment receipts
- recoveries of loans from State and Union Territory Governments and other parties

Revenue Receipts:

- Revenue receipts are those that do not produce any liabilities and do not result in a claim against the government.

These revenue receipts are non-redeemable and are divided into two groups:

- tax revenue and
- non-tax revenue.
- Collection and Appropriation of Direct Taxes is a part of Revenue Receipts.
- Taxes, profits from state enterprises, grants, and other sources of current income are all included in revenue receipts.
- Revenue receipts do not result in a debt or loss of the government's assets.
- The government's receipts indicate the many revenue sources used by the government.

15. Ans: (d)

- Option (d) is correct

Fiscal Consolidation

- Fiscal consolidation is a process where the government's fiscal health is getting improved and is indicated by a reduced fiscal deficit.
- Improved tax revenue realization and better-aligned expenditure are the components of fiscal consolidation as the fiscal deficit reaches a manageable level.
- Fiscal consolidation is a reduction in the underlying fiscal deficit. It is not aimed at eliminating fiscal debt.
- Following measures from the expenditure side and revenue side are envisaged by the government to achieve fiscal consolidation:

Improved tax revenue realization:

- For this, increasing the efficiency of tax administration by reducing tax avoidance, eliminating tax evasion, enhancing tax compliance, etc. are to be made.
- Enhancing the tax GDP ratio by widening the tax base and minimizing tax concessions and exemptions also improves tax revenues.
- Better targeting of government subsidies and extending the Direct Benefit
- Transfer scheme for more subsidies.
- A higher economic growth rate will help the government to get higher tax revenues as well.
- Augmentation of tax revenue is necessary to bring fiscal consolidation as there are limitations for reducing government expenditure in India.

- Statement 3 is correct: Fiscal drag is a natural economic stabilizer, however, since it tends to keep demand stable and the economy from overheating.

Fiscal Drag

- Government has proposed to bring a new policy regime to the Fiscal Consolidation to control the fiscal deficit; wherein the term fiscal drag came into the picture.
- Basically, fiscal drag shows the relationship between fiscal deficit and tax rates.
- Fiscal drag is essentially a drag or damper on the economy caused by a lack of spending or excessive taxation.
- Fiscal drag happens when the government's net fiscal position (spending minus taxation) fails to cover the net savings desires of the private economy, also called the private economy spending gap (earnings minus spending and private investment).
- The resulting lack of aggregate demand leads to deflationary pressure, or drag, on the economy, essentially due to a lack of state spending or excess taxation.
- The term fiscal drag stands for the effect that taxpayers move into income brackets subject to higher marginal tax rates only because of their market income being adjusted to inflation, i.e. with real income remaining constant.
- Fiscal drag thus implies a rising average tax rate over time for constant real income; it is a major problem inherent to progressive tax schedules and the more so the steeper the profile of rising marginal tax rates.
- This is also called bracket creep; bracket creep is a situation, where inflation pushes income into higher tax brackets.
- The result is an increase in income taxes but no increase in real purchasing power.
- This can create a fiscal drag on the economy as taxpayers spend more money on taxes though they have not reaped any benefits of a tangibly higher salary rate.

16. Ans: (b)

- Statement 1 is incorrect: It is caused by a lack of spending or excessive taxation.
- Statement 2 is incorrect: The increase in taxes reduces aggregate demand and consumer spending from taxpayers as a larger share of their income now goes to taxes, which leads to deflationary policies, or fiscal drag, on the economy.

17. Ans: (c)

- Statement 1 is correct: When a company benefits from something that they are not responsible for, the financial gain that ensues is called windfall profits.
- Statement 2 is incorrect: It is very unlikely that it will increase the price of fuel in India as this tax is not part of the input or output cost.
- Statement 3 is correct: Governments, typically, levy a one-time tax over and above the normal rates of tax on such profits.

Windfall Tax

- A windfall gain tax is imposed by the government on a company. When a corporate gains from something that it can't control or is responsible for, that financial gain is windfall profits.
- Windfall taxes are primarily levied on companies in the targeted industry that have benefited the most from the economic windfall.
- The three of Indian upstream oil companies — ONGC, Oil India and GAIL declared all-time high net profit in the fiscal year 2021-22.
- This was possible as crude oil and gas prices shot up due to the Russia-Ukraine conflict.
- Governments, typically, levy a one-time tax over and above the normal rates of tax on such profits.
- Tax on income is paid by those who earn it. So, in this case, oil companies will be required to pay, if levied.
- The government recently imposed a windfall tax on all refiners, including SEZ refineries, on the export of diesel, petrol and air turbine fuel.
- It is very unlikely that it will increase the price of fuel in India as this tax is not part of the input or output cost, but levied only on profit.

18. Ans: (a)

- Statement 1 is correct: The term 'trade' refers to buying and selling of goods.
- However, when it is performed on an international scale, it is called imports and exports.
- Balance of Trade (BOT) mentions the import and exports made by a nation's economy within a specific year.
- BOT only records tangible items. Balance of trade (BOT) is the difference between the value of a country's imports and exports for a given period and is the largest component of a country's balance of payments (BOP).
- Statement 2 is incorrect: Balance of Payment is a combination of accounts that shows the commercial transactions concluded by a country within a specific period with other countries.
- These accounts reflect every monetary transaction, i.e. commodities, services, and incomes during that period.
- The Balance of Payment (BOP) combines every private and public investment to find out the money inflow and outflow in an economy over a specific period.
- Statement 3 is incorrect: The ideal status of BOP should be zero, which indicates that the money coming into the country is equal to the money going out of the country.
- However, this situation is highly unlikely. Therefore, if it is negative, then it indicates deficit, and if positive, it means a surplus.

19. Ans: (d)

- All statements are correct

Countervailing duty

- Countervailing duty is a specific tax imposed by the importing country on imported goods.
- It is imposed to protect the domestic producers of the good because, subsidy on the product by the exporting country leads to a relatively cheaper price of the product,

which can harm the competition in the domestic market.

- The duty increases the price of the product and brings it at par with the market prices prevailing in the domestic market.

20. Ans: (d)

- Statement 1 is incorrect: A fully convertible currency can lead to increase in burden of foreign debt as businesses can easily raise loan but they are prone to the risk of high repayments if the exchange rates become unfavorable.
- Statement 2 is correct: India had moved towards a market determined exchange rate since 1993, after which the RBI had announced that India has become fully convertible on current account.
- Statement 3 is correct: India still has many challenges to address before introducing a fully convertible capital account.
- High rates of inflation, NPAs, macroeconomic instability and fiscal burden are some of the cornerstones which cannot be left untouched if we want to capitalize upon the fruits of capital account convertibility.
- Before addressing these challenges, any step towards CAC would rather hit back onto our economy.

Currency convertibility

- Currency convertibility: it is a situation in which domestic currencies can be converted into foreign currency at prevailing exchange rate without government intervention, in order to make sale and purchases.
- In India, 100% current account convertibility is allowed without government intervention but, there are partial restrictions on capital account convertibility like, limited FDI and FII in certain sectors of economy.
- Capital account convertibility: it effectively means the freedom to conduct financial transactions without any constraints.

- India has allowed only partial convertibility of capital account with some limitations in form of restricted FDI and FII.

21. Ans: (a)

- Option (a) is correct

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 is denoted as invisible trade (because they are not seen to cross national borders) and it 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.).
- 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.

22. Ans: (c)

- Option (c) is correct

Soft Currency

- Soft currency is a currency which is hyper sensitive and fluctuates frequently.
- Such currencies react very sharply to the political or the economic situation of a country.
- It is also known as weak currency due to its unstable nature.
- Such currencies mostly exist in developing countries with relatively unstable governments.
- Soft currencies cause high volatility in exchange rates as well, making them undesirable by foreign exchange dealers.
- These currencies are the least preferred for international trade or holding reserves. Soft currencies are unlikely to be held by central banks as foreign reserves, unlike U.S. dollar, euros and the Japanese yen, a fact which compounds the problems of volatility.
- Zimbabwean dollar and Venezuelan Bolivar are a classic example of soft currency.
- Both of these countries have experienced political instability.
- Their governments have instituted monetary policies which have led to hyperinflation.
- This in turn has led to a sharp devaluation in the currency and the printing of high denominating notes

23. Ans: (b)

- Statement 3 is incorrect: Anti-dumping measures are not considered protectionism, as predatory dumping is not a fair trade practice.

Predatory Dumping

- Predatory dumping refers to foreign companies anti-competitively pricing their products below market value to drive out domestic competition.

- Those who practice predatory dumping are forced to sell at a loss until the competition is wiped out and monopoly status is achieved.
- Predatory dumping can be financed by selling products at higher prices in other countries or, if possible, by tapping into a company's resources.
- Globalization and World Trade Organization (WTO) rules banning predatory dumping make it increasingly difficult to pull off. Moreover, predatory dumping is illegal under World Trade Organization (WTO) rules—if it is deemed to harm producers in the targeted market.
- Countries that can prove this to be the case are given permission by the WTO to implement anti-dumping measures, enabling governments to impose stiff duties on products being shipped in from overseas.
- Anti-dumping measures are not considered protectionism, as predatory dumping is not a fair trade practice.
- The WTO rules are designed to help ensure that any anti-dumping measures that countries take are justifiable and are not simply used as a guise to protecting local businesses and jobs from foreign competition.

24. Ans: (d)

- All statements are correct

Privatization

- Privatization describes the process by which a piece of property or business goes from being owned by the government to being privately owned.
- It generally helps governments save money and increase efficiency, where private companies can move goods quicker and more efficiently.
- The term 'privatization' has different connotations.

These are:

- De-nationalization is the transfer of the state ownership of the assets to the private sector to the tune of 100 per cent.
- It is privatization in its purest sense.
- This form of privatization is motivated by efforts to save government money and increase efficiency, where private companies are thought to be able to move goods and capital quicker and more efficiently.
- If an asset has been sold out by the government to the tune of only 49 per cent the ownership remains with the state though it is considered Privatisation.
- It is also called disinvestment through minority stake sale.
- If the sale of shares of the state-owned assets has been to the tune of 51 per cent, the ownership is really transferred to the private sector even then it is termed as privatisation. This is disinvestment through majority stake sale.
- Strategic disinvestment would imply the sale of substantial portion of the Government shareholding of a central public sector enterprise (CPSE) of up to 50%, or such higher percentage as the competent authority may determine, along with transfer of management control.

25. Ans: (b)

- Statement 1 is correct : PMFBY aims to provide financial support to farmers suffering crop loss/damage arising out of all non-preventable natural risks from pre-sowing to post-harvest stage.
- Statement 2 is incorrect : In February 2020, the government made PMFBY voluntary for farmers.
- Statement 3 is correct : The concerned agencies shall have to make good of all such losses in case of errors/omissions/commissions of the concerned branch/PACS.

- Pradhan Mantri Fasal Bima Yojana PMFBY aims to provide financial support to farmers suffering crop loss/damage arising out of all non-preventable natural risks from pre-sowing to post-harvest stage.
- Any loss to the insurer arising from higher claims by farmers will be offset by the state governments.
- In February 2020, the government made PMFBY voluntary for farmers while previously it was mandatory for the farmers to take insurance cover under the scheme.
- National Crop Insurance Portal (NCIP) is the only source of enrolment for Pradhan Mantri Fasal Bima Yojana (PMFBY), on which farmer applications from various designated sources including banks/ financial institutions are entered.
- Banks have to ensure that eligible loanee farmers are not deprived of any benefit under the Scheme due to errors/omissions/commissions of the concerned branch/PACS, and in case of such errors, the concerned agencies shall have to make good of all such losses.

26. Ans: (b)

- Option (b) is correct

Calculation of MSP

- While recommending price policy of various commodities under its mandate, the Commission for Agricultural Costs & Prices keeps in mind the various Terms of Reference (ToR).
- Accordingly, it analyses:
 - demand and supply;
 - cost of production;
 - price trends in the market, both domestic and international;
 - inter-crop price parity;
 - terms of trade between agriculture and non-agriculture;

- a minimum of 50 percent as the margin over cost of production; and
- likely implications of MSP on consumers of that product.
- It may be noted that cost of production is an important factor that goes as an input in determination of MSP, but it is certainly not the only factor that determines MSP.

27. Ans: (c)

- Statement 3 is incorrect : The lending rate of interest is to be fixed by scheduled banks and it should not exceed at 200 basis points plus External Bench Mark Based Lending Rate
- Animal Husbandry Infrastructure Development Fund
- The Animal Husbandry Infrastructure Development (AHIDF) is a Central Sector Scheme under the Prime Minister's Atma Nirbhar Bharat Abhiyan stimulus package for incentivizing investments
 - (i) the dairy processing and value addition infrastructure,
 - (ii) meat processing and value addition infrastructure and
 - (iii) Animal Feed Plant with budget allocation of Rs.15000 crore.

The following entities will be eligible under AHIDF

- Farmer Producer Organization (FPO)
- Private companies
- Individual entrepreneurs
- Section 8 companies
- Micro, Small and Medium Enterprises.
- The lending rate of interest is to be fixed by scheduled banks and it should not exceed at 200 basis points plus External Bench Mark Based Lending Rate (EBLR) for the Eligible Entities whose project cost are falling within MSME defined ceilings.

- However, rate of interest to be fixed by scheduled banks for other project could be based on commercial interest rate of Banks.
- Government entities and cooperatives are not eligible under AHIDF.

28. Ans: (b)

- Option (b) is correct

AgriStack

- The government is working on a digital 'stack' of agricultural datasets, with its core as land records.
- Applications built over the stack will provide farmers with recommendations on which seeds to buy, and best practices to maximize their yield, along with updates on weather, agricultural credit, insurance and more.
- This will also help increase farmers' income and improve the efficiency of the agricultural sector, the government has said.
- As a collection of digital databases, AgriStack would have some core features including a unique farmer identity number for each farmer, and some building blocks such as data on weather, the newest science and research on agriculture, agricultural commodity prices in India and abroad, information and access to central government schemes, agricultural regulations and permissions.
- AgriStack is billed as the underlying platform (like Android or iOS) over which apps like Kisan Suvidha and others will run.
- The overall objective is that India moves to precision farming--the use of all agricultural inputs in a specific, measured quantity for high yields.

29. Ans: (a)

- Option a is correct.
- India's textiles sector is one of the oldest industries in the Indian economy, dating back to several centuries.

- India's Textiles industry has around 4.5 crore employed workers including 35.22 lakh handloom workers across the country.
- The industry contributed 7% to the industry output (by value) in 2018-19. The Indian textiles and apparel industry contributed 2% to the GDP, 12% to export earnings and held 5% of the global trade in textiles and apparel in 2018-19.
- Indian textile and garment industry employs 45 million people, out of which more than 60 percent are women.
- This makes it the biggest formal employer of women in a country.
- Recently, PM MEGA INTEGRATED TEXTILES REGION AND APPAREL PARK (MITRA) Scheme has been launched with a view to attract investment, boost employment generation and position India strongly in the global textile market,
- **Source:**
<https://pib.gov.in/Pressreleaseshare.aspx?PRID=1776857>
- <https://www.ibef.org/industry/tourism-hospitality-india.aspx>

30. Ans: (a)

- Option a is correct.
- D-SIIs refer to insurers of such size, market importance, and domestic and global inter-connected, whose distress or failure would cause significant dislocation in the domestic financial system.
- Insurance regulator IRDAI recently announced, that the state-owned LIC, GIC Re and New India continue to be identified as Domestic Systemically Important Insurers (D-SIIs) for 2021-22.
- D-SIIs refer to insurers of such size, market importance and domestic and global inter connectedness, whose distress or failure would cause significant dislocation in the domestic financial system.
- Statement 1 is correct: D-SIIs are perceived as insurers that are 'too big or too important to fail' (TBTF).
- This perception and the perceived expectation of government support may amplify risk-taking, reduce market discipline, create competitive distortions, and increase the possibility of distress in future.
- According to IRDAI, above mentioned considerations require that D-SIIs should be subjected to additional regulatory measures to deal with the systemic risks and moral hazard issues.
- D-SIIs are being subjected to enhanced regulatory supervision, IrDAI added.
- Statement 2 is incorrect: D-SIIs are identified and announced by IRDAI (Insurance Regulatory & Development Authority of India) annually.
- Note: FSDC is chaired by the finance minister and its members include the heads of all Financial Sector Regulators (RBI, SEBI, PFRDA & IRDA), Finance Secretary, Secretary of Department of Economic Affairs (DEA), Secretary of Department of Financial Services (DFS), and Chief Economic Adviser.
- Its purpose is to monitor macro-prudential supervision of the economy and coordinate for maintaining financial stability, enhancing inter-regulatory coordination and promoting financial sector development.
- Statement 3 is incorrect:
- Life Insurance Corporation of India (LIC); General Insurance Corporation of India (GIC Re); and New India Assurance Co. Ltd, are on the list of D-SIIs for the year 2021-22.
- Source:
<https://www.thehindubusinessline.com/money-and-banking/lic-gic-re-and-new-india-systemically-important-insurers-irdai/article38076241.ece>

31. Ans: (a)

- Option a is correct.
- Recently, the Parliament has passed the Major Port Authorities bill, 2021.
- The Bill seeks to provide greater autonomy in decision-making to 12 major ports in the country and professionalize their governance by setting up boards.
- It received the assent of the President on the 17th February, 2021 now called Major Port Authorities Act, 2021.
- It also seeks to replace the Major Port Trusts Act, 1963.
- India has 12 major ports - Deendayal (erstwhile Kandla), Mumbai, JNPT, Marmugao, New Mangalore, Cochin, Chennai, Kamarajar (earlier Ennore), V O Chidambarnar, Visakhapatnam, Paradip and Kolkata (including Haldia).
- Statement 1 is correct: The Act provides for the creation of a Board of Major Port Authority for each major port.
- These Boards will replace the existing Port Trusts.
- Under the 1963 Act, all major ports are managed by the respective Board of Port Trusts that have members appointed by the central government.

Composition:

- Provision has been made for inclusion of representatives of State Government in which the Major Port is situated, Ministry of Railways, Ministry of Defence and Customs, Department of Revenue as Members in the Board.
- It will also include a Government Nominee Member and a Member representing the employees of the Major Port Authority.
- Statement 2 is correct: The act allows the Board to use its property, assets and funds as deemed fit for the development of the major port.
- It will also have the powers to fix reference tariffs for various port services.

- Further, PPP (Public Private Partnership) operators will be free to fix tariff- based on market conditions.
- Provisions of Corporate Social Responsibility (CSR) & development of infrastructure by the Port Authority have been introduced.
- Statement 3 is incorrect: SAROD-Ports is established under Societies Registration Act, 1860.
- Society for affordable Redressal of Dispute-Ports (SAROD-Ports) is a society registered in 2020 under the Societies Registration Act, 1860 to provide just, fair and speedy resolution of disputes at an affordable cost through arbitration.
- 'SAROD-Ports' is similar to provision available in Highway Sector in the form of SAROD-Roads constituted by National Highways Authority of India (NHAI).
- It consists of members from Indian Ports Association (IPA) and Indian Private Ports and Terminals Association (IPTTA).
- SAROD-Ports will advise and assist in settlement of disputes through arbitrations in the maritime sector, including ports and shipping sector in Major Port Trusts, Non major Ports, including private ports, jetties, terminals and harbours.
- It will also cover disputes between: Granting authority and Licensee/Concessionaire /Contractor.
- Also, disputes between Licensee/Concessionaire and their contractors arising out of and during the course of execution of various contracts.
- SAROD-Ports will become the pivotal mechanism of ummeed (hope), vishwas (trust) and nyaya (justice) in the Port sector of India.
- It will lead to saving huge amounts of legal expenditure and time and Enforcement of concession agreements in the letter and spirit.
- Source: <https://prsindia.org/billtrack/the-major-port-authorities-bill-2020>

- <https://pib.gov.in/PressReleaseDetail.aspx?PRID=1696767>

32. Ans: (d)

- Option d is correct.
- Hydrogen and fuel cell technologies provide cost effective and environmentally friendly solutions to improving our energy needs.
- The main problem in using hydrogen as fuel for vehicles is storage of hydrogen.
- Hydrogen is difficult to store because it leaks easily.
- Moreover, it is extremely hazardous as fuel due to its low ignition temperature and high combustion energy.
- Hydrogen fuel cells need investment to be developed to the point where they become a genuinely viable energy source.
- This will also require the political will to invest the time and money into development in order to improve and mature the technology.
- Option 1 is correct: When hydrogen is used to power an automobile, the only by-products are water and heat.
- Near-zero greenhouse gases are produced.
- Option 2 is correct: Hydrogen fuel cells are cleaner and more efficient than traditional combustion-based engines and power plants.
- Currently most internal combustion engines operate with an efficiency around 25% and power plants achieving about a 35% efficiency; however, a stationary fuel cell, when used in a combined heat and power system, can have an efficiency level of greater than 80%.
- It is more Powerful and Energy Efficient than Fossil Fuels.
- Option 3 is correct: India has an 82.8% import dependence for crude oil and 45.3% for natural gas/LNG.
- Hydrogen as a fuel can be produced locally from water and will lessen the demand for crude oil.

- Ideal for Use in Remote Areas Where local conditions allow, the availability of hydrogen through local generation and storage could prove to be an alternative to diesel-based power and heating in remote areas.
- Not only will this reduce the need to transport fuels but will also improve the lives of those living in distant regions by offering a non-polluting fuel obtain from a readily-available natural resource.
- **Source:**<http://chfcc.org/resources/hydrogen-fuel-cell-benefits/>

33. Ans: (c)

- Option c is correct.
- The share of Railways in transportation of surface freight has declined sharply since independence – from 89% in 1950-51 to just 30% in 2011-12.
- Many of the reasons for this phenomenon are the same as the various larger systemic issues plaguing the railways.
- Option 1 is correct: The Economic Survey 2017-18 identified Non-Competitive Tariffs as the primary reason for the fall in the railways' share of surface freight transportation.
- This means that the prices charged by the Railways for transportation of freight are very high compared to other modes such as waterways and roads.
- This is because of the policy of cross subsidisation. This means that in order to keep prices of passenger tickets relatively unchanged (to remain competitive compared to air fare as well as to support the poor section of the society) for the past many decades, despite high inflation rates, the Railways has to charge high rates for freight transportation in order to at least break even.
- This makes railways a less profitable option for transportation for businesses, who subsequently choose other modes.

- Option 2 is incorrect: The network of the railways and the number of wagons dedicated to freight movement are very vast and adequate, especially compared to the relatively new and fledgling modes like waterways. So, this statement is incorrect.

➤ Option 3 is correct: Due to a combination of factors like

- 1) the high traffic of passenger trains which are often given a priority over goods trains
- 2) Little to no new addition of new railway lines
- 3) old, non-updated safety and switching infra (mostly manual)

- The speed of freight trains is quite slow and often railways prove to be a time taking and a time inefficient way to get things transported for businesses.

- So, they prefer other faster transportations like roadways which have drastically improved in the last few decades, for e.g. the ever-increasing high quality fast national highway system.

- Option 4 is correct: The Railways have not covered the issue of last mile connectivity.

- Once the freight reaches from one place to another, the business has to take steps to manage its transportation to and from the railway station.

- There are no seamless last mile connectivity services like feeder buses that would ease the task for businesses.

- So, they instead prefer transportation like the roadway where they get doorstep delivery and don't have to worry or spend on local transportation and personnel to oversee last mile connection.

- Source: <https://prsindia.org/policy/analytical-reports/state-indian-railways>

- <https://economictimes.indiatimes.com/industry/transportation/railways/railways-freight-traffic-declining-on->

noncompetitivetariffsurvey/articleshow/62696638.cms?from=mdr

34. Ans: (b)

- Exp) Option b is correct.
- Public Private Partnership (PPP) is an arrangement where a project is undertaken jointly by the government/ public sector and a player from the private sector.
- This is generally done to ensure that assets of the public sector (for example infra like ports, roads/ highways, etc) are made well with private sector expertise, while the private sector also gets economic opportunities.
- There are various models in PPP.
- Two of them - Hybrid Annuity Model (HAM) and Build Operate Transfer (BOT) have been very popular and often used.
- Statement 1 is incorrect: BOT is conventional PPP model in which private partner is responsible to design, build, operate (during the contracted period) and transfer back the facility to the public sector.
- Private sector partner has to bring the finance for the project and take the responsibility to construct and maintain it.
- However, in HAM it is initially split between the government and the concessionaire in a ratio of 40:60.
- The government pays 40% of the cost by breaking it into part annuity (equal instalments).
- The concessionaire arranges for the remaining 60% in the form of equity and loans, for the period of construction.
- He is reimbursed for that 60% thereafter.
- Statement 2 is correct: In BOT, the concessionaire recovers the cost of the project by operating the asset created and collecting the revenue from it till such a time as the initial amount put in by him and their fees is recovered. After which the ownership reverts back to the public sector.

- On the other hand, in HAM the ownership always stays with the public sector and the concessionaire never gets to operate the asset or collect revenue from it.
- The remaining of the 60% of project cost is refunded to the concessionaire by the government, again in equal instalments (annuity), once the project is completed and the asset is handed over to the government.
- Statement 3 is correct: In both HAM and BOT, the designing and building of the asset is entrusted to the private concessionaire.
- It is a highly specialised task of engineering and construction and the requisite expertise is present in the private sector.
- **HAM:**
 - 1) Mixture of features of BOT (Annuity) and EPC (Engineering, Procurement and Construction)
 - 2) The remaining 60% of the project cost that is to be given by the government to the concessionaire after the completion of the project is a variable annuity.
- **BOT:** Conventional PPP model in which the concessionaire is responsible for financing the entire project as well as design and creation of the asset.
- As per the National Steel Policy 2017, the government has set a target to ramp up the country's crude steel production output to 300 million tonnes (MT) by 2030.
- The policy also seeks to increase the domestic per capita steel consumption to the level of 160 kg by 2030.
- Statement 2 is correct - Out of the total loans to the industry, the steel sector has a share of 10.24% (Rs 3.1 lakh crores).
- It is reported that the stressed assets of steel sector out of the gross NPAs comprise around 29.38% of the total and stands at Rs 1.5 lakh crores.
- In China the financial liabilities of the banks and financial institutions to the steel sector consisting of SOEs and SMEs is also enormous.
- Statement 3 is correct - Availability of ferrous scrap in India is very limited—around 25 million tones annually from domestic sources.
- In 2018-19 and 2019-20, the country imported nearly 6.5 million tones of scrap each year and thus large forex spending was incurred. India imported 7.05 million tonnes of steel scrap in 2019, up by 11.4% year on year, according to the BIR.
- With the announcement of vehicle scrapping policy, steel industry can expect enhanced indigenous availability of ferrous scrap.
- But under India's new flagship National Recycling Policy, Indian authorities are looking to reduce scrap imports and increase reliance on local resources by maximizing scrap collection.
- Statement 4 is correct - The power cost in India as compared with other nations is very much higher.
- This has slowed down the progress of steel making in the country.
- The future, however, looks brighter since several power generating projects are under active planning and implementation.

35. Ans: (c)

- Option c is correct.
- As of October 2021, India was the world's second-largest producer of crude steel, with an output of 9.8 MT.
- However there are several impediments to the industry like:
- Statement 1 is incorrect - According to Indian Steel Association (ISA) the finished steel demand in India is expected to be up by around 16.7 per cent to reach around 104 million tonnes in the coming year and by the end of next year, it will be at 111 million tonnes.

- Source:
<https://www.financialexpress.com/market/commodities/stressed-assets-major-obstacle-in-growth-of-steel-sector/738601/>
- <https://economictimes.indiatimes.com/industry/indl-goods/svs/steel/increasing-production-enhancing-raw-material-security-focus-areas-for-steel-sector-in-2022/articleshow/88537212.cms>

36. Ans: (a)

- Option a is correct.
- Government of India is taking steps to promote the manufacturing of semiconductor chips in India.

Reasons for the same are as follows:

- Statement 1 is correct - India imports almost all semiconductors to meet its demand, which is estimated to reach around \$100 billion by 2025 from about \$24 billion now.
- Further, these chips are made with embedded instructions, which may contain malware or backdoors and are impossible to diagnose.
- And as Semiconductor chips are used in various strategic areas like, defence and telecom, the domestic manufacturing of chips assumes strategic importance and would provide a measure of security.
- Further, it will cut the import bill too.
- Statement 2 is correct - Chip design and manufacturing is a highly capital-intensive business.
- The ISRO and the DRDO have their respective fab foundries but they are primarily for their own requirements and also not as sophisticated as the latest in the world.
- A semiconductor fabrication facility (or fab) can cost multiples of a billion dollars to set up even on a relatively small scale and lagging by a generation or two behind the latest in technology.

- It calls for a developed ecosystem for the business to thrive.
- As per a government estimate, it would cost roughly \$5-\$7 billion to set up a chip fabrication unit in India.
- Statement 3 is correct - To encourage semiconductor manufacturing in India, the Govt has decided to extend the PLI (Production-Linked Incentive) scheme with a budgeted incentive of Rs 76,000 crore over the next six years.
- The scheme envisages providing fiscal support of up to 50% of project cost for firms looking to set up display and semiconductor fabrication facilities (FABS) in India.
- The govt will work closely with the states establish High-Tech Clusters with requisite infrastructure in terms of land, semiconductor grade water, high quality power, logistics and research.
- Statement 4 is incorrect – India Semiconductor Mission is a specialised and independent business division of Digital India Corporation.
- The mission has been set up with the objective of building a vibrant semiconductor besides displaying ecosystem in order for India to emergence as a global hub in electronics manufacturing and design.
- It is authorised to negotiate with applicants under semiconductor fab scheme and display fab scheme.
- It has also been given autonomy to decide appropriate technology mix, node generation, applications, capacity etc.
- The scheme was launched with the aim of attracting large investments in manufacturing AMOLED-based display panels or TFT LCD.

37. Ans: (b)

- Option b is correct.

- This question is based on the article “Run-up to COP26: Wonder rice may help reduce emissions, offer good yield” published in Business Standard on 30th Oct 2021.
- Punjab Farmers are using direct seeding of rice (DSR) technique to grow paddy instead of traditional ‘transplanting’ practice due to labour shortage following an exodus of migrant labourers amid the COVID-19 pandemic.
- Direct Seeding of Rice (DSR) refers to the process of establishing a rice crop from seeds sown in the field rather than by transplanting seedlings from nursery.
- In transplanting, farmers prepare nurseries where paddy seeds are first sown and raised into young plants. These seedlings are then uprooted and replanted 25-35 days later in the main field with standing water.
- Option 1, 3 and 5 are correct.

DSR method with reduced tillage is an efficient resource conservation technology that holds great promise in the Indo-Gangetic Plains in view of the following advantages:

- 1) Saving in water up to 25% in DSR
 - 2) Saving in energy up to 27% of diesel as pumping energy is saved for field preparation, nursery raising, puddling and reduced frequency of applying irrigation water
 - 3) Saving of 35-to-40-man days / ha
 - 4) Enhanced fertilizer use efficiency due to placement of fertilizer in the root zone
 - 5) Early maturity of crops by 7-10 days helps in timely sowing of succeeding crops
 - 6) Reduction in methane emissions and global warming potential
 - 7) Little disturbance to soil structure
 - 8) Enhanced system productivity
 - 9) Could be a solution to the issue of stubble burning.
- Option 2 and 4 are incorrect. However, Direct Seeded Method (DSR) despite being

eco-friendly has not witnessed large scale adoption due to complaints of low yields and increased susceptibility to pests.

The other disadvantages of DSR methods are:

- 1) Seeds are exposed to rat and bird attacks
- 2) Sowing needs to be done timely so that the plants come out properly before the monsoon rains arrives and
- 3) Seed requirement is also high.

38. Ans: (b)

- Option b is correct.
- Coal is a key commodity for India from an energy security perspective, because it is the country’s most abundant non-renewable energy source.
- India has the world’s fifth largest proved recoverable reserves of coal, at an estimated 101 billion tonnes While the Indian government has implemented and proposed a range of reforms in an attempt to increase coal production, substantial challenges remain.
- Approvals and land acquisition remain the primary factors weighing on production growth, with other issues like productivity, competition, investment, transport and domestic pricing schemes further create the challenges.
- Statement 1 is correct: Coal quality varies substantially across India.
- Compared to other internationally traded coals, Indian coals typically have lower energy content.
- Indian coals also have high ash content and low sulphur content.
- The moisture content of Indian coal is variable, and is typically higher in coal produced during the monsoon season.
- Statement 2 is correct: Coal production in India has been controlled by the central government since the nationalisation of India’s coal mines in the early 1970s.

- State governments approve mining licences and leases.
- The complex institutional interactions make streamlining and reforming the approvals process challenging.
- Coal India, the state-owned coal producer which accounts for over 80 per cent of coal production.
- Captive producers account for 8 per cent of Indian coal production.
- The government allows privately-owned end-users (such as electricity generators and industrial sectors like cement production) to produce their own coal, through the auction of coal blocks.
- The producers are referred to as 'captive', as the coal can only be used in approved activities, and cannot be traded or exported, although any surplus production can be sold to Coal India.
- Statement 3 is incorrect: The Mineral Laws (Amendment) Bill, 2020 was introduced in Lok Sabha on March 2, 2020.
- The Bill amends the Coal Mines (Special Provisions) Act, 2015 (CMSP Act). The Amendment allows for grant of a composite prospecting licence-cum-mining lease in respect of coal blocks.
- This is expected to allow mining of unexplored or partially explored blocks and increase the inventory of coal blocks in India.
- Previously, separate licenses are provided for prospecting and mining of coal and lignite, called prospecting license, and mining lease, respectively.
- Prospecting includes exploring, locating, or finding mineral deposit.
- The Bill adds a new type of license, called prospecting license-cum-mining lease.
- This will be a composite license providing for both prospecting and mining activities.
- Source:
<https://www.industry.gov.au/sites/default/f>

[iles/2019-08/coal-in-india-2019-report.pdf](https://www.industry.gov.au/sites/default/files/2019-08/coal-in-india-2019-report.pdf)
[page-29,30](#)

39. Ans: (a)

- Option a is correct.
- One person company (OPC) means a company formed with only one (single) person as a member, unlike the traditional manner of having at least two members.
- OPC under the Companies Act, 2013 is a separate legal entity having perpetual succession, which is required to be registered as per the provisions of the Companies Act, 2013.
- The liability to repay the loan availed by the OPC is limited only to the OPC, unlike, a sole proprietorship which is not a separate legal entity, thus making the sole proprietor personally liable for any loan or any credit facility availed.
- Further, registration of a sole proprietorship is not required.
- Statement 1 is correct: An OPC is exempted from stringent legal compliances of general meeting, board meetings, quorums, voting inclusion of cash flow statements in financial statements, mandatory rotation of an auditor, except in certain circumstances, such as if there is more than one (1) director, then the Board meeting must be conducted.
- OPC is also exempted from transacting business via postal ballot.
- Further, appointment of a company secretary is also not essential for an OPC.
- Statement 2 is incorrect: The Companies Act, 2013 provides that if the paid-up share capital limit of the OPC exceeds the prescribed limit (currently, Rs.50 lakh (Rupees 5 million)) or turnover exceeds Rs.2 crore (Rs.20 million) in three (3) years preceding consecutive years, then the company shall lose its status as an OPC.

- Thus, it shall be required to compulsorily convert to either to a private company or public company.
- Statement 3 is incorrect: A person can be member in only one OPC.
- Where a natural person, being member in One Person Company becomes a member in another OPC by virtue of his being a nominee in that OPC, then such person shall meet the eligibility criteria of being a member in only one OPC within a period of one hundred and eighty days, i.e., he/she shall withdraw his membership from either of the OPCs within one hundred and eighty days.
- And only a natural person (Not Association of persons, Body of Individuals, Company, or any other entity) who is a resident of India in preceding calendar year (stayed in India for 182 days) can form OPC.
- Source: <https://economictimes.indiatimes.com/small-biz/resources/startup/handbook/one-person-company/articleshow/59348529.cms>

40. Ans: (b)

- Option b is correct.
- National Urban Digital Mission aims to build the shared digital infrastructure that will strengthen the capacity of the urban ecosystem to solve complex problems at scale and speed.
- It is built as a public good and provides the ecosystem actors the foundational digital building blocks, ready-to-use platforms, standards, specifications, and frameworks.
- Statement a is correct: National Urban Digital Mission (NUDM) has been launched by the Ministry of Housing and Urban Affairs (MoHUA) in partnership with the Ministry of Electronics and Information Technology (MEITY).
- MoHUA is leveraging digital technology and e-governance to address modern India's urban challenges and enhance ease of living and doing business in India's cities.
- This endeavour is in alignment with India's national objectives to promote inclusive and sustainable urban spaces.
- Statement b is incorrect: The States/ UTs may be in various stages, based on their current maturity level with respect to IT enabled citizen services.

All the following states are covered under NUDM.

- 1) **Greenfield:** The States/ UTs devoid in basic eGovernance infrastructure. They are in utmost need to digitally transform the citizen service model using IT platform.
- 2) **Brownfield:** The States/ UTs those have some experience with e-governance systems in place not essentially throughout the region, and would like to set up a new Statewide system/ ULB level system for urban e-governance using smart and widespread IT platform.
- 3) **Matured:** The States/ UTs which are using eGovernance models across the region providing citizen centric services. They would wish to upgrade the experience level keeping the core structure of operations unchanged for a better experience.
- Statement c is correct: The Centre for Digital Governance (CDG) at the National Institute of Urban Affairs is the anchor institute for the NUDM.
- NUDM has articulated a set of governing principles, and inherits the technology design principles of the National Urban Innovation Stack (NUIS), whose strategy and approach was released by MoHUA in February, 2019.
- The principles in turn give rise to standards, specifications, and certifications, across the three pillars of people, process, and platforms.

- Statement d is correct: The National Urban Digital Mission (NUDM) will create a shared digital infrastructure for urban India, working across the three pillars of people, process, and platform to provide holistic support to cities and towns.
- It will institutionalise a citizen-centric and ecosystem-driven approach to urban governance and service delivery in 2022 cities by 2022, and across all cities and towns in India by 2024.

41. Ans: (c)

- Option c is correct.
- Hallmarking is the accurate determination of the proportionate content of a gold in the jewellery.

Usually seen on the inside of the gold piece, a hallmark has four components:

- 1) BIS logo-This is the corporate logo of the Bureau of Indian Standards (BIS). It certifies that the jewellery item conforms to the standards laid out by the BIS.
- 2) Purity grade and fineness of the metal This code depicts the purity of your purchase.
For example,
 - a) 22K916 corresponds to 22 karat gold.
 - b) 18K750 corresponds to 18 karat gold.
 - c) 14K585 corresponds to 14 karat gold.
- 3) Assaying centre identification mark-This depicts the AHC where the item has been assayed and hallmarked.
- 4) Jeweller identification mark-This logo or code belongs to the BIS certified jeweler that is selling the jewellery.
- Year of Marking is no longer a component of Gold Hallmarking. If you have bought gold on or before 31 December, 2016, then there was an additional component that was hallmarked on the gold.

- Before revising the rules, effective from 1 January, 2017, BIS hallmarking scheme had five components.
- The fifth component was the year of marking.
- Source: <https://www.mygoldguide.in/all-you-need-to-know-abouthallmarking#:~:text=%20Usually%20seen%20on%20the%20inside%20of%20te,BIS%20certified%20jeweller%20that%20is%20selling...%20More%20>

42. Ans: (a)

- Exp) Option a is correct.
- Statement 1 is correct: If there is a deficit in the balance of payments (BoP), in a fixed exchange rate system, government intervenes to take care of the deficit gap by use of its official reserves.
- If people know that the number of reserves is inadequate, they would begin to doubt the ability of the government to maintain the fixed rate.
- This may give rise to speculation of devaluation. When this belief translates into aggressive buying of one currency thereby forcing the government to devalue, it is said to constitute a speculative attack on a currency.
- Fixed exchange rates are prone to these kinds of attacks, as has been witnessed in the period before the collapse of the Bretton Woods System.
- Statement 2 is incorrect: The flexible exchange rate system (not Fixed) gives the government more flexibility and they do not need to maintain large stocks of foreign exchange reserves.
- The major advantage of flexible exchange rates is that movements in the exchange rate automatically take care of the surpluses and deficits in the BoP.
- Also, countries gain independence in conducting their monetary policies, since they do not have to intervene to maintain

exchange rate which are automatically taken care of by the market.

- Statement 3 is incorrect: In a fixed exchange rate system, when some government action increases the exchange rate (thereby, making domestic currency cheaper) is called Devaluation.
- On the other hand, a Revaluation is said to occur, when the Government decreases the exchange rate (thereby, making domestic currency costlier) in a fixed exchange rate system.
- Source: https://ncert.nic.in/textbook/pdf/lee_c106.pdf

43. Ans: (b)

- Option b is correct.
- Inflation occurs when an economy grows due to increased spending without an accompanying increase in the production of goods and services.
- When this happens, prices rise and the currency within the economy is worth less than it was before.
- The currency essentially won't buy as much as it would before.
- Statement 1 is incorrect: One popular method of controlling inflation is through a contractionary monetary policy.
- (And not expansionary or loose monetary policy) The goal of a contractionary policy is to reduce the money supply within an economy by decreasing bond prices and increasing interest rates.
- This helps reduce spending because when there is less money to go around. Those who have money want to keep it and save it, instead of spending it.
- It also means there is less available credit, which can reduce spending.
- Reducing spending is important during inflation because it helps halt economic growth and, in turn, the rate of inflation.
- Statement 2 is correct: The second tool is to increase reserve requirements on the

amount of money banks are legally required to keep on hand covering withdrawals.

- The more money banks are required to hold back, the less they have to lend to consumers.
- If they have less to lend, consumers will borrow less, which will decrease spending.
- Statement 3 is correct: To correct excess demand relative to aggregate supply, the supply management through imports can also be raised by importing goods in short supply.
- In India, to check the rise in prices of food-grains, edible oils, sugar etc., the Government has often taken steps to increase imports of goods in short supply to enlarge their available supplies.
- Statement 4 is correct: Trying to control wages could, in theory, help to reduce inflationary pressures.
- However, apart from the 1970s, it has been rarely used.

44. Ans: (a)

- Option a is correct.
- In her Budget 2022 speech, FM Sitharaman proposed that any income from the transfer of any virtual digital asset will be taxed at the rate of 30 per cent.
- Statement 1 is correct: To define the term "virtual digital asset", a new clause (47A) is proposed to be inserted to section 2 of the Act.
- As per the proposed new clause, a virtual digital asset is proposed to mean any information or code or number or token (not being Indian currency or any foreign currency), generated through cryptographic means or otherwise, by whatever name called, providing a digital representation of value which is exchanged with or without consideration, with the promise or representation of having inherent value, or functions as a store of value or a unit of account and includes its use in any financial

transaction or investment, but not limited to, investment schemes and can be transferred, stored or traded electronically.

- Statement 2 is correct: The government has proposed to tax income from virtual digital assets at a flat rate of 30 per cent, with no deduction and no provision to set off against any other income.
- Gift of virtual digital assets is also proposed to be taxed in the hands of the recipient.
- The government has also proposed a 1 per cent tax deducted at source (TDS) in order to track the transactions.
- Statement 3 is incorrect: A currency is a currency only when it is issued by the central bank even if it is a crypto.
- However, anything which is outside of that loosely all of us refers it to be crypto currency but they are not currencies.
- These can be referred to as Virtual Digital Assets.
- Virtual Digital Assets also include Non-fungible tokens or NFTs, which are cryptographic assets on a block chain with unique identification codes and metadata that distinguish them from each other.
- NFTs can also be used to represent individuals' identities, property rights, and more.
- Source: <https://indianexpress.com/article/explained/virtual-digital-assets-vs-digital-currency-explained-7752936/>

45. Ans: (c)

- Option c is correct.
- Triangular arbitrage is also referred to as cross currency arbitrage or three-point arbitrage.
- It is the act of exploiting an arbitrage opportunity resulting from a pricing discrepancy among three different currencies in the foreign exchange market.
- A trader employing triangular arbitrage, for example, would exchange an amount at one

rate (EUR/USD), convert it again (EUR/GBP), and then convert it finally back to the original (USD/GBP), and assuming low transaction costs, net a profit.

- Triangular Arbitrage is basically a risk-free trading strategy that allows traders to make a profit with no open currency exposure.
- Profitable triangular arbitrage is very rarely possible because when such opportunities arise, traders execute trades that take advantage of the imperfections and prices adjust up or down until the opportunity disappears.

46. Ans: (d)

- Option d is correct.
- This question is based on the article "Clear regulations" published in "Business Standard" on 26th Oct 2021.
- Statement 1 is incorrect. Digital gold consists of digital certificates issued against holdings of the physical metal.
- These assets can be traded digitally or redeemed in metal (not in cash). These are similar to gold exchange-traded funds (ETFs) and the government's own sovereign gold bonds.
- But unlike sovereign bonds, private digital gold certificates and gold ETFs are not interest-bearing.
- Statement 2 is incorrect. Digital gold falls in a regulatory grey zone in certain key respects at the moment.
- The instrument itself does not come directly under the purview of any financial sector regulator, and it is not currently traded on recognised financial exchanges.
- Statement 3 is incorrect. The holding period of the digital gold determines the amount of taxes an investor needs to pay.
- If digital gold is held for less than 36 months, returns are not taxable directly.
- Long-term capital gains from digital gold are taxed at 20% on returns along with applicable surcharge and 4 per cent cess.

47. Ans: (d)

- Option d is correct.
- The World Bank and the International Monetary Fund urged G20 countries to establish the Debt Service Suspension Initiative (DSSI).
- In all, 73 countries are eligible for a temporary suspension of debt-service payments owed to their official bilateral creditors.
- It is a way to temporarily ease the financing constraints for these countries and free up scarce money that they can instead use to mitigate the human and economic impact of the COVID-19 crisis.
- The World Bank and the IMF are supporting implementation of the DSSI—by monitoring spending, enhancing public debt transparency, and ensuring prudent borrowing.
- They commit to disclose all public sector financial commitments (involving debt and debt-like instruments).
- They also commit to limiting their non-concessional borrowing to levels agreed under IMF programs and the World Bank's non-concessional borrowing policies.
- Source: <https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative>

48. Ans: (c)

- Option c is correct.
- The World Bank is an international development organization owned by 187 countries.
- The World Bank Group aims at reducing poverty, increasing shared prosperity, and promoting sustainable development.
- Statement 1 is correct: The World Bank function through the Board of Governors which represents the Bank's government shareholders.
- All powers of the Bank are vested in the Boards of Governors, the Bank's senior

decision-making body according to the Articles of Agreement.

- The Boards of Governors consist of one Governor and one Alternate Governor appointed by each member country.
- The office is usually held by the country's minister of finance, governor of its central bank, or a senior official of similar rank.
- The governors are the ultimate policymakers in the World Bank.
- They meet once a year at the Bank's Annual Meetings.
- Statement 2 is correct: The World Bank's financial reserves come from several sources - from funds raised in the financial markets, from earnings on its investments, from fees paid in by member countries, from contributions made by members (particularly the wealthier ones) and from borrowing countries themselves when they pay back their loans.
- Statement 3 is correct: The International Finance Corporation (IFC) of the World Bank lends to the private sector while Multilateral Investment Guarantee Agency (MIGA) encourages private companies to invest in foreign countries.
- The International Centre for Settlement of Investment Disputes (ICSID) also helps private investors and foreign countries work out differences when they don't agree.
- Statement 4 is incorrect: The members of the World Bank are its shareholders and is operated for the benefit of those using its services.
- The number of shares a country has is based roughly on the size of its economy.
- The United States is the largest single shareholder, followed by Japan (and not China), Germany, the United Kingdom, and France.
- The rest of the shares are divided among the other member countries.
- Source: <https://www.worldbank.org/en/news/featu>

[re/2012/07/26/getting to know theworldbank](https://www.pib.gov.in/Pressreleaseshare.aspx?PRID=1707236)

49. Ans: (a)

- Option a is correct.
- Indian Railways have prepared a National Rail Plan (NRP) for India – 2030 to create a 'future ready' Railway system by 2030.
- Statement 1 is correct: The NRP is aimed to formulate strategies based on both operational capacities and commercial policy initiatives to increase modal share of the Railways in freight.
- The objective is to create capacity ahead of demand, which in turn would also cater to future growth in demand right up to 2050 and also increase the modal share of Railways from 27% currently to 45% in freight by 2030.
- This is part of a national commitment to reduce net zero carbon emission by 2030.
- Statement 2 is correct: As part of the NRP, Vision 2024 has been launched for accelerated implementation of certain critical projects by 2024 such as 100% electrification, multi-tracking of congested routes etc.
- Statement 3 is incorrect: As per the Vision 2024 of NRP, elimination of all Level Crossings on all Golden Quadrilateral Golden Diagonal (GQ/GD) routes is to be done on an accelerated pace by 2024.
- Along with this, upgradation of speed to 160 kmph on Delhi-Howrah and Delhi-Mumbai routes and to 130kmph on all other GQ/GD routes is also to be completed by 2024.

Other features of the National Rail Plan:

- 1) Identify new Dedicated Freight Corridors.
- 2) Identify new High Speed Rail Corridors.
- 3) Reduce overall cost of Rail transportation by nearly 30%.
- 4) Reduce transit time of freight substantially by increasing average speed of

freight trains from present 22 Kmph to 50 Kmph.

- 5) Assess rolling stock requirement for passenger traffic as well as wagon requirement for freight.
- 6) Assess Locomotive requirement to meet twin objectives of 100% electrification (Green Energy) and increasing freight modal share.
- 7) Assess the total investment in capital that would be required along with a periodical break up.
- 8) Sustained involvement of the Private Sector in areas like operations and ownership of rolling stock, development of freight and passenger terminals, development/operations of track infrastructure etc.
- The NRP is for the entire Indian Railways network and not only for districts connected to the existing rail network but also districts indirectly impacted by rail transportation.
- In effect virtually all the districts of the country get linked to the plan.
- Source:<https://pib.gov.in/Pressreleaseshare.aspx?PRID=1707236>

50. Ans: (a)

- Option a is correct.
- The Wholesale Price Index (WPI) measures the average change in prices of goods at the wholesale level while Consumer Price Index (CPI) calculates the average change in prices of goods and services at the retail level.
- Statement 1 is correct: Wholesale Price Index (WPI) takes into account the change in price of goods only, while Consumer Price Index (CPI) takes into account the change in price of both goods and services.
- The base year for WPI is 2011-12 while the base year for CPI is 2012.
- Statement 2 is incorrect: In WPI, more weightage is given to manufactured goods,

while in CPI, more weightage is given to food items and not vice-versa.

The major component in CPI (C) is food and beverages with 45.86 weight followed by miscellaneous with 28.32 weight. The WPI comprises of three major groups:

- 1) Manufactured Products (manufactured food products, sugar, textiles etc.) with 64.23 weight.
- 2) Primary Articles (food articles, vegetables, milk, minerals etc.) with 22.62 weight.
- 3) Fuel and Power (LPG, Petrol etc.) with 13.15 weight.
- Statement 3 is correct: Weights of items in the WPI are indeed based on production values, while weights of items in CPI is based on average household expenditure taken from consumer expenditure surveys.
- Statement 4 is incorrect: RBI no longer uses WPI for policy purposes, including setting repo rates.
- The central bank currently uses CPI or retail inflation as a key measure of inflation to set the monetary and credit policy.
- Source: <https://www.indiatoday.in/education-today/gk-current-affairs/story/what-is-wpi-and-cpi-1877700-2021-11-17>

51. Ans: (b)

- Option b is correct.
- When the overall price level decreases so that inflation rate becomes negative, it is called deflation.
- It is the opposite of the often-encountered inflation.
- Statement 1 is incorrect: Disinflation (and not deflation) is slower rate of inflation.
- It means that there is still rise in prices but overall rate is slow.
- Example: If the inflation rate for years 2016, 2017, 2018, 2019 are 10%, 8%, 6% and 4% respectively.

- Then it shows the dis-inflation in economy as inflation is slowing down.
- Deflation is different from disinflation as it implies negative inflation and a general decline in prices for goods and services.
- Statement 2 is correct: Deflation is a decrease in the general price levels of goods and services.
- It is opposite of Inflation. During deflation prices of goods and services tend to fall. Thus, it increases the value and the purchasing power of money.
- Thus, it benefits consumers because they can purchase more goods and services with the same nominal income.
- However, they do not spend. Statement 3 is correct: A contraction in the money supply or credit availability is the reason for deflation in most cases.
- Reduced investment spending by government or individuals may also lead to this situation.
- Deflation leads to a problem of increased unemployment due to slack in demand.

Effects of Deflation:

- 1) It causes the nominal costs of capital, labour, goods, and services to fall, though their relative prices may be unchanged.
- 2) It is good for lenders and bad for borrowers as it increases the real value of debt. Borrowers can be bound to pay their debts in money that is worth more than the money they borrowed. Thus deflation discourages borrowing.
- Source: <https://economictimes.indiatimes.com/definition/deflation>

52. Ans: (d)

- Option d is correct.
- The global inflation during the year 2021-22 was mainly driven by the surge in energy, food, non-food commodities, and input prices, supply constraints, disruption of

global supply chains, and rising freight costs across the globe.

- Statement 1 is incorrect: Headline inflation refers to the change in value of all goods in the basket.
- The average retail inflation as measured by average headline Consumer Price Index Combined (CPI-C) did breach 6% mark in 2020-21.
- It was 4.8% in 2019-20 and reached up to 6.2% in 2020-21, on account of COVID-19 related supply chain disruptions and stalled economic activity due to lockdown.
- Since July 2021, retail inflation is well within the tolerance band of targeted limit of 4 per cent +/- 2 percentage points set by the Government for the period April 1, 2021-March 31, 2026.
- Statement 2 is incorrect: In 2021-22, easing of food inflation (and not rising) led to the decline in retail inflation.
- Food inflation, as measured by the Consumer Food Price Index (CFPI), averaged at a low of 2.9% in 2021-22 (April to December), as against 9.1% in the corresponding period last year.
- It has not been consistently rising in the last 5 years.
- Statement 3 is incorrect: In comparison to many Emerging Markets and Developing Economies (EMDEs) and advanced economies, consumer price inflation in India remained range bound in the recent months, touching 4.9% in November 2021 and 5.6% in December 2021.
- This was due to the proactive steps taken by the Government for effective supply management.
- As against this, among emerging markets, Brazil witnessed high and rising inflation during 2021 which touched 10.1% in December 2021.
- Inflation in Turkey has been in double digits, reaching 36.1% in December 2021.

- Argentina has witnessed inflation rates above 50% during the last six months.
- Even in advanced economies, inflation in USA touched 7.0% in December 2021.

53. Ans: (d)

- Option (d) is correct
- Revenue receipts Revenue receipts are divided into tax and non-tax revenues.
- Non-tax revenue of the central government mainly consists of interest receipts (on account of loans by the central government which constitutes the single largest item of non-tax revenue), dividends and profits on investments made by the government, fees, and other receipts for services rendered by the government.
- Cash grants-in-aid from foreign countries and international organizations are also included.
- Tax revenues consist of the proceeds of taxes and other duties levied by the central government.
- Tax revenues, an important component of revenue receipts, comprise of direct taxes – which fall directly on individuals (personal income tax) and firms (corporation tax), and indirect taxes like excise taxes (duties levied on goods produced within the country), customs duties (taxes imposed on goods imported into and exported out of India) and service tax.

54. Ans: (d)

- Statement 1 is incorrect: Discretionary fiscal stimulus' refers to an increase in the fiscal deficit caused by government policy as distinct from an increase caused by slowing growth.
- The government's focus thus so far has been on reassuring the financial markets that the fiscal will not spin out of control.
- It has kept the 'discretionary fiscal stimulus' down to 1% of GDP, a figure that is

most modest about that of many other economies especially developed economies.

- Statement 2 is incorrect: Discretionary fiscal policies are different from automatic fiscal stabilizers. Automatic stabilizers occur wherein in a recession a government automatically spends more because there are more claiming unemployment benefits.
- However, the government may feel these automatic stabilizers are insufficient and so they decide to increase public work spending schemes too.

Discretionary fiscal stimulus

- Discretionary fiscal policy refers to government policy that alters government spending or taxes.
- Its purpose is to expand or shrink the economy as needed.
- For instance, when the UK government cut the VAT in 2009, this was intended to produce a boost in spending.
- The output is determined by the level of aggregate demand (AD), so a discretionary fiscal policy can be used to increase aggregate demand and thus also increase the output.
- This measure would help to close the deflationary gap. Discretionary fiscal policy is a demand-side policy that uses government spending and taxation policy to influence aggregate demand.
- Discretionary fiscal policy differs from automatic fiscal stabilizers. These automatic stabilizers take place when, during a recession, a government automatically spends more because the economy forces more people to claim unemployment benefits.
- However, the government may find these automatic stabilizers to be inadequate to deal with major issues, imbalances, and instabilities in the economy.
- This will lead them to intentionally increase public works spending schemes as well.

55. Ans: (c)

- Option (c) is correct

Contractionary fiscal policies

- Contractionary fiscal policy can be implemented either by reducing public spending or by reducing the disposable income of people by increasing taxes.
- Low public investment during the contractionary fiscal policy will likely reduce the economic activities if other private investments are not pushed up.
- It will consequently decrease the employment level in the economy.
- Reduced government spending or increased tax revenue will help in fiscal consolidation i.e. reduced fiscal deficit.
- (Fiscal deficit = total expenditure- total revenue excluding borrowings)

56. Ans: (b)

- Statement 2 is incorrect: Standing deposit facility is a remunerated facility that will not require the provision of collateral for liquidity absorption.

Standing Deposit Facility Scheme

- It is a collateral free liquidity absorption mechanism that aims to absorb liquidity from the commercial banking system into the RBI.
- Government in the Budget's (2018) Finance Act included a provision for the introduction of the Standing Deposit Facility (SDF).
- In the present situation, the main arrangement for the RBI to absorb excess money with the banking system is the famous reverse repo mechanism.
- Under reverse repo (which is a part of the Liquidity Adjustment Facility), banks will get government securities in return when they give excess cash to the RBI.
- An interest rate of reverse repo rate is also provided to banks.

- The inconvenience with this arrangement is that the RBI has to provide securities every time when banks provides funds.
- In this sense, the Standing Deposit Facility (SDF) is a collateral free arrangement meaning that RBI need not give collateral for liquidity absorption.
- The SDF will allow the RBI to suck out liquidity without offering government securities as collateral.
- The proposal was first suggested by the Urjit Patel Committee in its recommendation of the Monetary Policy Framework in 2014.
- Under the existing liquidity framework, liquidity absorption through reverse repos, open market operations and the cash reserve ratio (CRR) are at the discretion of the Reserve Bank.
- But SDF will enable banks to park excess liquidity with the Reserve Bank at their discretion.

57. Ans: (c)

- Pairs 3 is incorrectly matched: Liabilities of the Government-Capital Receipts.:

Capital Receipts

- All non-revenue receipts of a government are known as capital receipts.
- Such receipts are for investment purposes and supposed to be spent on development by a government.
- But the receipts might need their diversion to meet other needs to take care of the rising revenue expenditure which happens in India.

Type of Capital Receipts

The capital receipts in India include the following types:

Loan Recovery

- The money the government had lent out in the past in India (states, UTs, PSUs, etc.) and

abroad, their capital comes back to the government when the borrowers repay them as capital receipts.

- The interests which come to the government on such loans are part of the revenue receipts.

Borrowings by the Government

- This includes all long-term loans raised by the government inside the country (i.e., internal borrowings) and outside the country (i.e., external borrowings).
- Internal borrowings might include the borrowings from the RBI, Indian banks, financial institutions, etc.
- But the surplus transfer from the RBI to the Government (sometimes in news) is a Revenue receipt.
- Similarly, external borrowings might include the loans from the World Bank, the IMF, foreign banks, foreign governments, foreign financial institutions, etc

Other Receipts by the Government

- This includes many long-term capital accruals to the government through the Provident Fund, Postal Deposits, various small saving schemes and the government bonds sold to the public (as Indira Vikas Patra, Kisan Vikas Patra, Market Stabilisation Bond, etc.).
- Such receipts are nothing but a kind of loan on which the government needs to pay interests on their maturities.
- But they play a role in the capital raising process by the government.

Capital Expenditure

- All the areas which get capital from the government are part of the capital expenditure.

It includes:

Loan Disbursals by the Government

- The loans forwarded by the government might be internal (i.e., to the states, UTs, PSUs, FIs, etc.) or external (i.e., to foreign countries, foreign banks, purchase of foreign bonds, loans to IMF and WB, etc.).

Loan Repayments by the Government

- This consists of only the capital part of the loan repayment as the element of interest on loans are shown as a part of the revenue expenditure.

Plan Expenditure of the Government

- This consists of all the expenditures incurred by the government to finance the planned development of India as well as the central government's financial supports to the states for their plan requirements.
- These include Capital Expenditures on Defence by the Government
- This consists of all kinds of capital expenses to maintain the defence forces, the equipment purchased for them as well as the modernization expenditures.

General Services

- It includes capital expenditure by the government on the railways, postal department, water supply, education, rural extension, etc.

Other Liabilities of the Government

- This includes all the repayment liabilities of the government on the items of the Other Receipts such as PF liabilities.

58. Ans: (c)

- Option (c) is correct

Public Debt

- The Union government broadly classifies its liabilities into two broad categories.
- The debt contracted against the Consolidated Fund of India is defined as

public debt and includes all other funds received outside Consolidated Fund of India under Article 266 (2) of the Constitution, where the government merely acts as a banker or custodian.

- The second type of liabilities is called public account.
- That is, Public Debt consists of both internal and external debts of the government, and not the Public Account Liabilities.

Internal Debt

- Internal debt constitutes more than 93% of the overall public debt.
- Internal loans that make up for the bulk of public debt are further divided into two broad categories – marketable and non-marketable debt.
- Dated government securities (G-Secs) and treasury bills (T-bills) are issued through auctions and fall in the category of marketable debt.
- Intermediate treasury bills (with a maturity period of 14 days) issued to state governments and public sector banks, special securities issued to National Small Savings Fund (NSSF) are classified as non marketable debt.

External Debt

- External Debt is a small proportion of the overall public debt of the Government of India.
- It is largely used for financing specific projects at the Central and State levels. Public Account Liabilities Liabilities in Public Account can be classified into two broad categories: viz.

Interest and Noninterest bearing liabilities.

- These liabilities consist of National Small Saving Fund (NSSF), Provident fund, Deposit and Reserve funds and other liabilities.

Sources of Public Debt

- Dated government securities or G-secs.
- Treasury Bills or T-bills
- External Assistance
- Short term borrowings
- Public Debt definition by Union Government

59. Ans: (a)

- Option (a) is correct

Capital Receipts

- The Union Budget, which is presented by the Finance Minister of India, comprises Capital Budget and Revenue Budget.
- The Capital Budget is further categorized into capital receipts and capital expenditure. What are Capital Receipts?
- Capital receipts are receipts that create liabilities or reduce financial assets.
- They also refer to incoming cash flows. Capital receipts can be both non-debt and debt receipts.
- Loans from the general public, foreign governments and the Reserve Bank of India (RBI) form a crucial part of capital receipts.
- All capital receipts are tax-free, unless there is a proviso to tax it. Capital receipts can be both non-debt and debt receipts

Non-debt capital receipts

- Non-debt receipts are those which do not incur any future repayment burden for the government.
- Almost 75 per cent of the total budget receipts are non-debt receipts.
- Examples of non-debt capital receipts: Recovery of loans and advances, disinvestment, issue of bonus shares, etc.

Debt capital receipts

- Debt Receipts have to be repaid by the government. Around 25 per cent of government expenditure is financed through borrowing.

- A reduction in debt receipt (or borrowing) can be a big leap for the economy's financial health. Most of the capital receipts of the government are debt receipts.

Examples of debt capital receipts:

- Market loans, issuance of special securities to public-sector banks, issue of securities, short-term borrowings, treasury bills, securities against small savings, state provident funds, relief bonds, saving bonds, gold bonds, external debt, etc., are all example of debt capital receipts.

60. Ans: (b)

- Statement 3 is incorrect: The Paris Collaborative on Green Budgeting was launched in 2017 by Organisation for Economic Co-operation and Development (OECD).

Green Budgeting

- Environmentally responsive or green budgeting means using the tools of budgetary policy-making to help achieve environmental goals.
- This includes evaluating environmental impacts of budgetary and fiscal policies and assessing their coherence towards the delivery of national and international commitments.
- Green budgeting can also contribute to informed, evidence-based debate and discussion on sustainable growth.
- Incorporating environmental dimensions into fiscal frameworks, including the annual budget document, evaluation of tax and expenditure policies and long-term sustainability analysis, will help governments to become more accountable for their environmental commitments and support them in transforming towards sustainable and resilient societies.

Green budgeting will support governments in achieving environmental goals by:

- Evaluating environmental impacts of budgetary and fiscal policies Assessing their coherence towards the delivery of national and international commitments Contributing to informed, evidence-based debate and discussion on sustainable growth Green budgeting tools help gather evidence on how budget measures impact environmental and climate objectives.

The tools may include:

Green budget tagging

- – Classifying budget measures according to their environmental and/or climate impact Environmental impact assessments
- – Requiring environmental impact assessments to accompany new budget measures.

Ecosystem services, including carbon pricing

- – Putting a price on environmental externalities, such as greenhouse gas emissions, often through taxes and emissions trading systems, to facilitate achievement of national environmental and climate goals Green perspective to spending review
- – Incorporating consideration of the impact of measures on national environmental and climate goals alongside considerations of efficiency Green perspective in performance setting
- – Integrating performance objectives related to national environmental and climate goals
- The Paris Collaborative on Green Budgeting (PCGB), launched in 2017, is convened by the OECD and serves as a multi-disciplinary platform for focused research and analysis to help governments at all levels embed consideration of climate and environmental goals within their budget frameworks.

61. Ans: (c)

- Statement 2 is incorrect: Minority Stake Sale happens when the Government intends to sell a part of the PSU from its overall shareholding, given that post stake sale the GOI ownership is still above 51%.

Disinvestment

- Disinvestment includes selling of the shares of the state-owned enterprises to the private sector.
- The Department for investment and public asset management (DIPAM) under Ministry of finance is the nodal agency for disinvestment.

Approaches for Disinvestment

- Minority Stake Sale happens when the Government intends to sell a part of the PSU from its overall shareholding, given that post stake sale the GOI ownership is still above 51%.
- Post the sale control over management is retained by the Government of India Strategic disinvestment would imply the sale of substantial portion of the Government share-holding of a central public sector enterprise (CPSE) of up to 50%, or such higher percentage as the competent authority may determine, along with transfer of management control.
- Disinvestment is part of country's capital receipt
- Asset Monetization involves creation of new sources of revenue by unlocking of value of hitherto unutilized or underutilized public assets.
- Internationally, it is recognized that public assets are a significant resource for all economies.
- Monetizing these assets that Government's control, including Public corporations, is widely held to be a very important but inadequately explored public finance option for managing public resources.

Majority Disinvestment

- A majority disinvestment is one in which the government, post disinvestment, retains a minority stake in the company i.e. it sells off a majority stake.
- Historically, majority disinvestments have been typically made to strategic partners.
- These partners could be other CPSEs themselves, a few examples being BRPL to IOC, MRL to IOC, and KRL to BPCL.
- Alternatively, these can be private entities, like the sale of Modern Foods to Hindustan Lever, BALCO to Sterlite, and CMC to TCS etc.
- Again, like in the case of minority disinvestment, the stake can also be offloaded by way of an Offer for Sale, separately or in conjunction with a sale to a strategic partner.

Complete Privatisation

- Complete privatization is a form of majority disinvestment wherein 100% control of the company is passed on to a buyer. Examples of this include 18 hotel properties of ITDC and 3 hotel properties of HCL.
- Disinvestment and Privatization are often loosely used interchangeably.
- There is, however, a vital difference between the two.
- Disinvestment may or may not result in Privatization.
- When the Government retains 26% of the shares carrying voting powers while selling the remaining to a strategic buyer, it would have disinvested, but would not have 'privatized', because with 26%, it can still stall vital decisions for which generally a special resolution (three-fourths majority) is required.

62. Ans: (c)

- Statement 3 is incorrect : The investors in the primary market are banks, financial

institutions, insurance companies, mutual funds, and individuals.

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.

Features of primary markets include:

- The securities are issued by the company directly to the investors.
- The company receives the money and issues new securities to the investors.
- The primary markets are used by companies for the purpose of setting up new ventures/ business or for expanding or modernizing the existing business.
- Primary market performs the crucial function of facilitating capital formation in the economy.

63. Ans: (a)

- Statement 3 is incorrect: The requirement of CAR in India is more than the Basel III norms.

Capital Adequacy Ratio (CAR)

- Capital Adequacy Ratio (CAR) is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities.
- It is decided by central banks and bank regulators to prevent commercial banks from taking excess leverage and becoming insolvent in the process.
- It is measured as: $\text{Capital Adequacy Ratio} = \frac{\text{Tier I} + \text{Tier II (Capital funds)}}{\text{Risk weighted assets}}$.
- Tier I capital consists mainly of share capital and disclosed reserves and it is a bank's highest quality capital because it is fully available to cover losses.
- Tier II capital; on the other hand, consists of certain reserves and certain types of subordinated debt.
- The loss absorption capacity of Tier II capital is lower than that of Tier I capital. When returns of the investors of the capital issues are counter guaranteed by the bank, such investments will not be considered as Tier I/II regulatory capital for the purpose of capital adequacy.
- The risk weighted assets take into account credit risk, market risk and operational risk.
- The Basel III norms stipulated a capital to risk weighted assets of 8%.
- However, as per RBI norms, Indian scheduled commercial banks are required to maintain a CAR of 9% while Indian public sector banks are emphasized to maintain a CAR of 12%.

64. Ans: (c)

- Statement 2 is incorrect: The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 provides the legal basis for the setting up of ARCs in India.

Non-performing assets

- ARC is a specialized financial institution that buys the Non-Performing Assets (NPAs)

from banks and financial institutions so that they can clean up their balance sheets.

- This helps banks to concentrate on normal banking activities.
- The asset reconstruction companies or ARCs are registered under the RBI.
- The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 provides the legal basis for the setting up of ARCs in India.
- Setting up of NARCL, the proposed bad bank for taking over stressed assets of lenders was announced in the Budget for 2021-22.
- The purpose is to create a bad bank to house bad loans of Rs. 500 crore and above, in a structure that will contain an asset reconstruction company (ARC) and an asset management company (AMC) to manage and recover dud assets.
- The new entity is being created in collaboration with both public and private sector banks.

65. Ans: (c)

- Statement 2 is incorrect: The maturity period of Certificates of Deposits can be more than a year if it is issued by All-India Financial Institutions.

Commercial Paper

- Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note.
- Big corporations with good credit rating issue commercial paper as a promissory note.
- There is no collateral support for CPs. Hence, only large firms with considerable financial strength can issue the instrument.
- A corporate would be eligible to issue CP provided the tangible net worth of the company, as per the latest audited balance sheet, is not less than Rs. 4 crore.
- All eligible participants shall obtain the credit rating for issuance of Commercial

Paper either from Credit Rating Information Services of India Ltd.

- (CRISIL) or the Investment Information and Credit Rating Agency of India Ltd. (ICRA) or the Credit Analysis and Research Ltd. (CARE) or the FITCH Ratings India Pvt. Ltd. or such other credit rating agency (CRA) as may be specified by the Reserve Bank of India from time to time, for the purpose.
- The minimum credit rating shall be A-2. Certificate of Deposits
- It is a negotiable money market instrument. It is like a promissory note.
- Rates, terms, and amounts vary from institution to institution. The Certificate of Deposit (CD) is an agreement between the depositor and the bank where a predetermined amount of money is fixed for a specific time period.

CDs can be issued by

- (i) scheduled commercial banks {excluding Regional Rural Banks and Local Area Banks}; and
- (ii) select All-India Financial Institutions (FIs) that have been permitted by RBI to raise short-term resources within the umbrella limit fixed by RBI.
- The maturity period of Certificates of Deposits ranges from 7 days to 1 year, if issued by banks.
- The FIs can issue CDs for a period not less than 1 year and not exceeding 3 years from the date of issue.

Commercial bill

- Commercial bill is a money market instrument which is similar to the bill of exchange; it is issued by a Commercial organization to raise money for short-term needs.
- In India, the participants of the commercial bill market are banks and financial institutions.

Repurchase Agreements

- Also known as repos or buybacks, Repurchase Agreements are a formal agreement between two parties, where one party sells a security to another, with the promise of buying it back at a later date from the buyer.
- It is also called a Sell-Buy transaction.

Banker's Acceptance

- A financial instrument produced by an individual or a corporation, in the name of the bank is known as Banker's Acceptance.
- It requires the issuer to pay the instrument holder a specified amount on a predetermined date, which ranges from 30 to 180 days, starting from the date of issue of the instrument.
- It is a secure financial instrument as the payment is guaranteed by a commercial bank.
- Banker's Acceptance is issued at a discounted price, and the actual price is paid to the holder at maturity.
- The difference between the two is the profit made by the investor.

Treasury Bills (T-Bills)

- Treasury bills or T- Bills are issued by the Reserve Bank of India on behalf of the Central Government for raising money.
- They have short term maturities with highest up to one year.
- Currently, T- Bills are issued with 3 different maturity periods, which are, 91 days T-Bills, 182 days T- Bills, 1 year T – Bills.
- T-Bills are issued at a discount to the face value.
- At maturity, the investor gets the face value amount.
- This difference between the initial value and face value is the return earned by the investor.

- They are the safest short term fixed income investments as they are backed by the Government of India.

66. Ans. (a)

- Statement 3 is incorrect: C. Nachiket Mor recommended that each Indian resident, above the age of 18 years would have an individual, safe and secure electronic bank account.

Recommendations of Narasimhan Committee report I-1991

- Establishment of 4 tier hierarchy for banking structure with 3 to 4 large banks (including SBI) at the top and at bottom rural banks engaged in agricultural activities.
- Setting up Asset Reconstruction fund to take over a portion of the loan portfolio of banks whose recovery has become difficult.
- The supervisory functions over banks and financial institutions can be assigned to a quasi-autonomous body sponsored by RBI.
- A phased reduction in statutory liquidity ratio.
- Phased achievement of 8% capital adequacy ratio.
- Abolition of branch licensing policy.
- Competition among financial institutions on participating approach.

Recommendations of Narasimhan Committee Report II-1998

- The committee focused on various areas such as capital adequacy, bank mergers, bank legislation, etc.
- The committee considered the stronger banking system in the context of the Current Account Convertibility 'CAC'.
- Those days many public sector banks were facing a problem of the Non-performing assets (NPAs).
- Some of them had NPAs were as high as 20 percent of their assets.

- Thus for successful rehabilitation of these banks, it recommended 'Narrow Banking Concept' where weak banks will be allowed to place their funds only in the short term and risk-free assets.
- The committee considered that there was an urgent need for reviewing and amending main laws governing Indian Banking Industry like RBI Act, Banking Regulation Act, State Bank of India Act, Bank Nationalisation Act, etc.
- This up gradation will bring them in line with the present needs of the banking sector in India. Recommendations of C. Nachiket Committee report Providing a universal bank account to all Indians above the age of 18 years by January 1, 2016.
- To achieve this, a vertically differentiated banking system with payments banks for deposits and payments and wholesale banks for credit outreach.
- These banks need to have Rs.50 crore by way of capital, which is a tenth of what is applicable for new banks that are to be licensed.
- Aadhaar will be the prime driver towards rapid expansion in the number of bank accounts.
- Monitoring at the district level such as deposits and advances as a percentage of gross domestic product (GDP).
- Adjusted 50 per cent priority sector lending target with adjustments for sectors and regions based on difficulty in lending.

Recommendations of PJ Nayak Committee

- Repeal the Bank Nationalisation Act (1970, 1980), the SBI Act and the SBI Subsidiaries Act.
- This is because these acts require the government to have above 50% share in the banks.
- The government to transfer its share in the banks to this BIC.

- Thus, the BIC would become the parent holding company of all these national banks, which would become subsidiaries.
- As a result of this, all the PSBs (public sector banks) would become 'limited' banks.
- BIC will be autonomous and have the power to appoint the Board of Directors and make other policy decisions.
- Until the BIC is formed, a temporary body called the Bank Boards Bureau (BBB) will be formed to do the functions of the BIC.
- Once BIC is formed, the BBB will be dissolved.
- The BBB will advise on appointments to the board, banks' chairman and other executive directors.
- After the above acts are repealed, the government should set up a Bank Investment Company (BIC) as a holding company or a core investment company.

67. Ans. (b)

- Statement 3 is incorrect: Increasing demand (which depends on many factors, other than the interest rates) for bonds also raises the price and lowers the yields.

Negative yield bonds

- These are debt instruments that offer to pay the investor a maturity amount lower than the purchase price of the bond.
- These are generally issued by central banks or governments, and investors pay interest to the borrower to keep their money with them.
- Negative-yield bonds attract investments during times of stress and uncertainty as investors look to protect their capital from significant erosion.
- At a time when the world is battling the Covid-19 pandemic and interest rates in developed markets across Europe are much lower, investors are looking for relatively better-yielding debt instruments to safeguard their interests.

- Key factors that affect bond yields Central banks use monetary policy to support economic growth.
- In 2014, the European Central Bank (ECB) was the first major central bank to lower a key interest rate into negative territory.
- Essentially, the goal was to stimulate economic growth by lowering the cost of debt to stimulate borrowing.
- Simultaneously, banks were penalized for holding too much cash at negative rates.
- In 2020, the Federal Reserve (US) stepped in to support the economy during the Covid-19 pandemic by setting the target Federal Funds rate to zero.
- While it's widely believed that the Federal Reserve wouldn't follow the European Central Bank in setting below zero target rates, that doesn't mean bond yields can't go negative.
- When demand raises prices, yields go down.
- The relationship between bond prices, interest rates, and bond yields Bond prices move inversely to interest rates.
- As interest rates rise, bond prices decline. If rates decline, bond prices will increase.
- Bond prices also move inversely to yields, so as prices rise, yields go down.
- Increasing demand for bonds raises the price, which reduces an investor's expected return—the yield.
- The current yield is the return a buyer could expect if they hold the bond for a year.
- The current yield is calculated as the bond's annual income, divided by the current price.
- Demand for bonds depends on many factors, but generally, if investors want safety from riskier assets like stocks, they may turn to bonds instead, driving up prices.
- Interest rates also affect the demand for bonds.

68. Ans. (a)

- Statement 1 is incorrect: Forex Reserves comprise of foreign currency assets added with its gold reserves, SDRs (Special Drawing Rights) and Reserve Tranche in the IMF.
- Statement 3 is incorrect: Reserve Tranche in IMF also comprises the forex reserves.

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.
- As of August 2021, India's foreign exchange reserves topped \$600 billion, making the country the fourth largest holder of the forex reserves, narrowly ahead of Russia.
- Only China, Japan and Switzerland currently hold more forex reserves than India.

69. Ans. (c)

- Statement 2 is incorrect : Economies with surplus and diversified export (mainly of essential commodities, like defense equipment technologies, oil, etc.) are more likely to have their currency as hard currency.
- Hot currency is a temporary position occupied by only hard currencies when it exits any economy at a very fast pace.

Hard Currency

- It is the international currency in which the highest faith is shown and is needed by every economy.
- The strongest currency in the world is one that has a high level of liquidity.
- The economy with the highest as well as highly diversified exports that are compulsive imports for other countries (as of high-level technology, defense products, life-saving medicines, and petroleum products) will also create high demand for its currency in the world and become the hard currency. It is always scarce.
- Up to the Second World War, the best hard currency was the Pound Sterling (£) of the UK, but soon it was replaced by the US Dollar.
- Some of the best hard currencies of the world today are the US Dollar, the Euro (€), the Japanese Yen (¥), and the UK Sterling Pound (£).
- Meanwhile, by late 2015, the IMF allowed the SDR to be denominated in the Chinese 'Yuan'—paving the way for a new hard currency which was implemented in 2016.

Soft Currency

- A term used in the foreign exchange market denotes the currency that is easily available in any economy in its forex market.
- For example, the rupee is a soft currency in the Indian forex market. It is the opposite term for hard currency.

Hot Currency

- Hot currency is a term of the forex market and is a temporary name for any hard currency.
- Due to certain reasons, if a hard currency is exiting an economy at a fast pace for the time, the hard currency is known to be hot.
- As in the case of the SE Asian crisis, the US dollar had become hot.

70. Ans. (c)

- Statement 3 is incorrect : Worker Population Ratio (WPR) is defined as the percentage of employed persons in the population.

India's Labour Force participation

- The Periodic Labour Force Survey (PLFS) (2019-20) of National Statistical Office (NSO) gave estimates of Key employment and unemployment Indicators, which include the following:
- Labour Force Participation Rate (LFPR) is defined as the percentage of persons working or seeking or available for work in the population.
- Worker Population Ratio (WPR) is defined as the percentage of employed persons in the population.
- Unemployment Rate (UR) is defined as the percentage of persons unemployed among the persons in the labour force.
- Activity Status- Usual Status: The activity status of a person is determined on the basis of the activities pursued by the person during the specified reference period.
- When the activity status is determined on the basis of the reference period of last 365 days preceding the date of survey, it is known as the usual activity status of the person.
- Activity Status- Current Weekly Status (CWS) - The activity status determined on the basis of a reference period of last 7 days preceding the date of survey is known as the current weekly status (CWS) of the person.
- As per the report, Labour Force Participation Rate (LFPR) was higher in rural areas (40.8%) as compared to urban areas (38.6%) Worker Population Ratio (WPR) is higher in rural areas (39.2%) as compared to urban areas (35.9%) Unemployment rate is lower in rural areas (4%) as compared to urban areas (7%).

71. Ans. (a)

- Statement 2 is incorrect: An apex body, National Council for Electric Mobility has been set up under the Chairmanship of Minister for Heavy Industries & Public Enterprises.

National E-Mobility Mission

- The Government launched National E-Mobility Mission
- To encourage reliable, affordable and efficient xEVs that meet consumer performance and price expectations through Government – Industry collaboration for promotion development of indigenous manufacturing capabilities, required infrastructure, consumer awareness and technology Government has targeted to achieve 6-7 million sales of hybrid and electric vehicles year on year from 2020 onwards.

It is a composite scheme using different policy-levers such as:

- Demand side incentives to facilitate acquisition of hybrid/electric vehicles Promoting R&D in technology Promoting charging infrastructure.
- Encouraging retro-fitting of on-road vehicles with hybrid kit.
- The National Council for Electric Mobility has been set up under the Chairmanship of Minister for Heavy Industries & Public Enterprises, for overlooking the mission.

72. Ans. (b)

- Option (b) is correct: As per the new PSE Policy, in strategic sectors, at least one enterprise will remain in the public sector but private sector will also be allowed.
- To minimize wasteful administrative costs, number of enterprises in strategic sectors will ordinarily be only one to four; others will be privatized/ merged/ brought under holding companies.

Recent Steps for Industrial Promotion

- The industrial sector experienced a sharp decline during the period of the lockdown.
- The economic activity, however, started recovering as the unlocking process began and various subcomponents of Index of Industrial Production (IIP) and eight-core index have experienced a V-shaped recovery with consistent movement being seen towards the pre-crisis levels.
- The broad-based quick revival of the industrial activity stemmed from remedial measures, reforms, and the sizable stimulus package announced by the Government of India (GoI) under the Atmanirbhar Bharat package.

The key measures pertaining to industry are:

- Relief and credit support to MSMEs to fight against COVID-19 which includes:
- 3 lakh crores Collateral-free Automatic Loans for Businesses, including MSMEs; 20,000 crores Subordinate Debt for Stressed MSMEs; 50,000 crores equity infusion through MSME Fund of Funds etc.
- Packages for Power Sector- 90,000 crores liquidity injection for DISCOMs.
- Public Sector Enterprise Policy for a New, Self-reliant India: All sectors are open to the private sector while public sector enterprises (PSEs) will play an important role in defined areas; List of strategic sectors requiring presence of PSEs in public interest will be notified; In strategic sectors, at least one enterprise will remain in the public sector but private sector will also be allowed.
- To minimize wasteful administrative costs, number of enterprises in strategic sectors will ordinarily be only one to four; others will be privatized/ merged/ brought under holding companies.
- 1.46 lakh crores boost for Atmanirbhar manufacturing production-linked incentives for 10 Champion Sectors.

- 1.10 lakh crores platform for infra debt financing – 6000 crores equity infusion in National Investment and Infrastructure Fund (NIIF) Debt Platform, 10,200 crores additional budget outlay will be provided towards capital and industrial expenditure for domestic defence equipment, industrial incentives, industrial infrastructure, and green energy.

73. Ans. (c)

- Statement 1 is incorrect: India adopted
- The National Intellectual Property Rights (IPR) Policy in 2016 to guide future development of IPRs in the country.

IPR Issues in India

- India is a member of the World Trade Organisation and the legislations like Patents Act 1970, Trademarks Act 1999, Indian Copyrights Act, 1957, Design Act 2000, The Geographical Indications of Goods (Registration & Protection) Act, 1999 etc. are all in compliance with the Agreement on Trade Related Aspects of Intellectual Property (TRIPS Agreement).
- India is also a member of World Intellectual Property Organization, a body responsible for the promotion of the protection of intellectual property rights throughout the world and WIPO-administered International Treaties and Conventions relating to IPRs.
- India also adopted The National Intellectual Property Rights (IPR) Policy in 2016 to guide future development of IPRs in the country.
- Department of Promotion of Industry & Internal Trade (DPIIT), Ministry of Commerce, Government of India, has been appointed as the nodal department to coordinate, guide and oversee the implementation and future development of IPRs in India.
- The 'Cell for IPR Promotion & Management (CIPAM)', setup under the aegis of DPIIT, is to be the single point of reference for

implementation of the objectives of the National IPR Policy.

- While the IPR regime in India consists of robust IP laws, it lacks effective enforcement, for which least priority given to adjudication of IP matters is a reason.
- Section 3(d) of the Indian Patent Act 1970 (as amended in 2005) does not allow patent to be granted to inventions involving new forms of a known substance unless it differs significantly in properties with regard to efficacy i.e. it disallows ever greening of patents which has been a cause of concern for pharma companies.
- India continues to remain on the United States Trade Representative's (USTR's) 'Priority Watch List' for alleged violations of intellectual property rights (IPR).
- Compulsory Licensing (permitted under the WTO's TRIPS (IPR) Agreement) is the grant of permission by the government to entities to use, manufacture, import or sell a patented invention without the patent-owner's consent.
- Patents Act in India deals with CL. It has been a worry for foreign investors who bring technology as they are concerned about the misuse of CL to replicate their products.

74. Ans. (d)

- Option (d) is correct

IT industry in India

- India is emerging as the hub for "Digital Skills".
- The IT industry in India is the largest employer within the private sector.
- In FY20, the IT industry in India employed over 4 mn personnel directly.
- Further, every job in the technology sector had a multiplier effect leading to the creation of 2.5 indirect jobs in the adjacent sectors.
- India is transforming into a digital economy with over 750 mn internet subscribers; only

second to China. IT industry can play a key role in raising services exports to \$1 tn in 2021.

- Indian software product industry is expected to reach \$100 bn by 2025.
- According to NASSCOM, the sector aggregated revenues of 180 billion dollars in 2019 with export revenue standing at 99 billion dollars and domestic revenue 48 US billion dollars, growing by over 13%.
- As of 2020, India's IT workforce accounts for 4.36 million employees.
- The United States accounts for two-third of India's IT services exports.
- The Atmanirbhar Bharat initiative of the current government is bringing big change in the IT sector.
- Earlier, the Hardware sector was somehow neglected. Now, focus is also on building hardware manufacturing in India.
- The biggest step is to start manufacturing integrated chips (IC's) in India, TATA has taken up initiative under atma nirbhar bharat and the first manufacturing plant is being set up in Tamil Nadu.

75. Ans. (c)

- Statement 2 is incorrect: Use of Bio-Fertilizers and the promotion of organic farming were not adopted during Green Revolution.

Green Revolution

- 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 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 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.
- **Use of Bio-Fertilizers and the promotion of organic farming** were not adopted during Green Revolution.

76. Ans. (c)

- Statement 3 is incorrect: The companies will be paid only after the actual sale to the farmer.

Fertilizer Subsidy in India

- Farm Subsidy as a concept originated during the Green Revolution of the 1970s-80s.
- In the Fertiliser subsidy the purchase is made by the farmer at a price below MRP that is, below the usual demand-and-supply-rate, or regular production and import cost.
- But the subsidy ultimately goes to the fertiliser company, even though it is the farmer that benefits.
- Before 2018, companies used to get reimbursed after the material was dispatched and received by the district railhead or designated godown.

- But in 2018 DBT (Direct Benefit Transfer) was introduced which would transfer money directly to the retailer's account.
- However, the companies will be paid only after the actual sale to the farmer.
- The DBT system is seen after by the Department of Fertilizers' e-Urvarak DBT portal.

77. Ans. (d)

- Statement 2 is incorrect: The State Advised Prices (SAP) are announced by key sugarcane producing states after the FRP is announced and are generally higher than FRP.

Minimum Support Price (MSP)

- MSP is a form of market intervention by the Govt. of India to insure agricultural producers against any sharp fall in farm prices.
- It is announced at the beginning of the sowing season for certain crops on recommendations by the Commission for Agricultural Costs and Prices(CACP) and announced by the Cabinet Committee on Economic Affairs (CCEA) chaired by the PM of India.
- The amount of MSP for the Crops is at a level of at least 1.5 times of the all India weighted average cost of production.
- Government announces minimum support prices for 23 mandated crops and fair and remunerative price (FRP) for sugarcane.

Fair and Remunerative Price

- It is the minimum price at which sugarcane is to be purchased by sugar mills from farmers.
- FRP is fixed by the Union government (CCEA) on the basis of recommendations of the Commission for Agricultural Costs and Prices (CACP).
- The pricing of sugarcane is governed by the statutory provisions of the Sugarcane

(Control) Order, 1966 issued under the Essential Commodities Act (ECA), 1955.

- The Fair and Remunerative Price payable by sugar mills for 2019-20 sugar season has been fixed at Rs.275 per quintal for a basic recovery rate of 10%; providing a premium of Rs. 2.75/qtl for each 0.1 % increase in recovery over and above 10%.
- The cost of production of sugarcane for the sugar season is Rs. 155 per quintal. Hence, the amount of FRP is around 180% of the cost of production.
- The State Advised Prices (SAP) are announced by key sugarcane producing states which are generally higher than FRP.

Minimum Selling Price (MSP) for Sugar

- The price of sugar is market-driven & depends on the demand & supply of sugar.
- However, with a view to protecting the interests of farmers, the concept of MSP of sugar has been introduced since 2018.
- MSP of sugar has been fixed taking into account the components of Fair & Remunerative Price (FRP) of sugarcane and minimum conversion cost of the most efficient mills.

78. Ans. (d)

- All statements are correct

Agri-Clinics and Agri-Business Centers

- The ACABC scheme is being implemented by Ministry of Agriculture and Farmers' Welfare, Government of India, with NABARD acting as subsidy channelizing agency.

Agri-Clinics

- Agri-Clinics are envisaged to provide expert advice and services to farmers on various aspects to enhance productivity of crops/animals and increase the incomes of farmers.

Agri-Clinics provide support in the following areas:

- Soil health
- Cropping practices
- Plant protection

- Crop insurance Post-harvest technology Clinical services for animals, feed and fodder management Prices of various crops in the market, etc.

Agri-Business Centres

- Agri-Business Centres are commercial units of agri-ventures established by trained agriculture professionals.
- These ventures may include maintenance and custom hiring of farm equipment, sale of inputs and other services in agriculture and allied areas, including post-harvest management and market linkages for income generation and entrepreneurship development.
- The scheme covers full financial support for training and handholding, provision of loan and credit-linked back-end composite subsidy.

79. Ans. (c)

- Both statements are correct

Soil Health Card (SHC) scheme

- It is a Government of India's scheme promoted by the Department of Agriculture & Co-operation under the Ministry of Agriculture.
- It is implemented through the Department of Agriculture of all the State and Union Territory Governments.
- SHC is a printed report that a farmer is handed over for each of his holdings.
- It contains the status of his soil with respect to 12 parameters, namely N, P, K (Macro-nutrients); S (Secondary- nutrient); Zn, Fe, Cu, Mn, Bo (Micro - nutrients); and pH, EC, OC (Physical parameters).

- Based on this, the SHC also indicates fertilizer recommendations and soil amendment required for the farm.

80. Ans. (b)

- Statement 2 is incorrect: In a monetization transaction, the government is basically transferring revenue rights to private parties for a specified transaction period in return for upfront money, a revenue share, and commitment of investments in the assets.
- As such, the NMP aims to unlock value in brownfield projects by engaging the private sector, transferring to them revenue rights and not ownership in the projects, and using the funds so generated for infrastructure creation across the country.

National Monetization Pipeline (NMP)

- The government unveiled a four-year National Monetisation Pipeline (NMP) worth an estimated Rs 6 lakh crore.
- Under the NMP, the government has identified 13 sectors — including airports, railways, roads, shipping, gas pipeline among others— which will be privatized as the government aims to monetize its brownfield infrastructure assets.
- It aims to unlock value in brownfield projects by engaging the private sector, transferring to them revenue rights and not ownership in the projects, and using the funds so generated for infrastructure creation across the country.
- The objective of NMP is to provide a clear framework for monetisation and give potential investors a ready list of assets to generate investment interest.
- In a monetisation transaction, the government is basically transferring revenue rights to private parties for a specified transaction period in return for upfront money, a revenue share, and commitment of investments in the assets.

- Real estate investment trusts (REITs) and infrastructure investment trusts (InvITs), for instance, are the key structures used to monetise assets in the roads and power sectors.
- The entire (NMP) talks about brownfield projects where investments have already been made, where there is a completed asset which is either languishing or it is not fully monetised or is under-utilized.
- Roads, railways and power sector assets will comprise over 66% of the total estimated value of the assets to be monetised, with the remaining upcoming sectors including telecom, mining, aviation, ports, natural gas and petroleum product pipelines, warehouses and stadiums.
- Among the key challenges that may affect the NMP roadmap are: lack of identifiable revenues streams in various assets, level of capacity utilization in gas and petroleum pipeline networks, dispute resolution mechanism, regulated tariffs in power sector assets, and low interest among investors in national highways below four lanes.

81. Ans. (a)

- Statement 3 is incorrect: Bhoomi is a state flagship project of the Karnataka.
- Unique Land Parcel Identification Number (ULPIN) Described as the Aadhaar for land, Unique Land Parcel Identification Number (ULPIN) of government of India is a 14-digits alphanumeric unique ID for each and every land parcel in India.
- Ultimately ULPIN will be used as single source of truth for land records in near future as it is designed to uniquely identify every surveyed land parcel in india based on the Textual records of rights (RoR) along with its corresponding geo coordinates.
- This ULPIN project concept was taken from Bhudhaar project in Andhra Pradesh and announced in October 2020 with a plan to

assign ULPIN to all land parcels in India by March 2022.

- Bhudhaar is an e-governance project that is intended to assign a 11 digit unique number to every land parcel in the state of Andhra Pradesh as part of the land hub in E-Pragati programme.
- Bhudhaar is the first in India to address issues in land record management.
- Bhoomi is another state flagship project of the Karnataka State Government for land reforms in India.
- It was launched to digitize all land records in the state to prevent corruption and manipulation of data.
- It is jointly funded by the Government of India and Government of Karnataka.

82. Ans. (a)

- Statement 2 is incorrect: The Gross Value added (GVA) in the food processing sector was Rs.2.24 lakh crore in 2019-20 contributing 1.69% of the total GVA in the country.
- Food Processing Sector in India As per latest Annual Survey of Industries (ASI) 2018-19, the total output in food processing sector was Rs.12,76,995 crore, which contributed 12.83% of total output in the registered manufacturing sector in India.
- The Gross Value added (GVA) in the food processing sector was Rs.2.24 lakh crore in 2019-20 contributing 1.69% of the total GVA in the country.
- The Ministry of food processing is implementing a Central Sector Scheme—Pradhan Mantri Kisan SAMPADA Yojana (PMKSY) for overall development of the food processing sector.
- Scheme is a comprehensive package which aims to create modern infrastructure with efficient supply chain management from farm gate to retail outlet.
- It will not only provide a big boost to the growth of food processing sector in the

country but also help in providing better returns to farmers and is a big step towards doubling of farmers income, creating huge employment opportunities especially in the rural areas, reducing wastage of agricultural produce, increasing the processing level and enhancing the export of the processed foods.

- Major component schemes under PMKSY include Mega Food Park, Agro-Processing Clusters, Integrated Cold Chain, Creation/Expansion of Food Processing and Preservation Capacities (CEFPPC) and Backward & Forward Linkages.
- Recently National Institute of Food Technology Entrepreneurship and Management (NIFTEM) Act 2021 was passed by Parliament in year 2021 to declare NIFTEM and IIFPT as Institutions of National Importance (INI).
- The NIFTEM Act 2021 came in force on 01.10.2021 The INI status will enable the institutes to have functional autonomy, premium branding of the institution, start new innovative courses, attract best faculties / students, adopt global standards in academics and R&D, have flexibility to have foreign collaborations, and open new centers.

83. Ans. (a)

- Option 'a' is the correct answer.
- Paradox of thrift was popularized by the renowned economist John Maynard Keynes.
- The paradox of thrift, or paradox of savings, is an economic theory that posits that personal savings are a net drag on the economy during a recession.
- It states that individuals try to save more during an economic recession, which essentially leads to a fall in aggregate demand and hence in economic growth.
- Such a situation is harmful for everybody as investments give lower returns than normal.

- In other words, when everyone increases their saving-income proportion, MPS, then aggregate demand falls as consumption reduces.
- This leads to a decrease in the level of employment and income, and reduces total savings in the economy.
- It is based on a circular flow of the economy in which current spending drives future spending.
- Option b is incorrect. Also known as the diamond-water paradox, the paradox of value describes the vast difference seen in the prices of certain essential goods and non-essential goods.
- Many goods and services that are essential to human life have a much lower price in a market economy than other goods and services that are not so essential.
- Option c is incorrect. The “paradox of plenty” refers to the observation that many societies with abundant natural resources have worse economic outcomes than those that lack natural resources.
- Typically, this paradox is attributed to abundant resources crowding out activities that improve economic outcomes.
- Option d is incorrect. Giffen's paradox refers to the possibility that standard competitive demand, with nominal wealth held constant, can be upward sloping, violating the law of demand.
- Source: https://ncert.nic.in/textbook/pdf/lee_c104.pdf

84. Ans. (c)

- Option c is correct.
- Statement 1 is correct. Fiat money is government-issued currency that is not backed by a physical commodity, such as gold or silver, but rather by the government that issued it.
- Currency notes and coins are called fiat money. They do not have intrinsic value like a gold or silver coin.

- Statement 2 is correct. Demand deposits of banks are fiduciary money because they are accepted as money on the basis of the trust that their issuer commands.
- Cheques drawn on savings or current accounts, can be refused by anyone as a mode of payment. Hence, demand deposits are not legal tenders.
- Source: NCERT Introductory Macroeconomics, class XII, chapter 3 Money and Banking page no. 48
- Old NCERT Introductory Macroeconomics, class XII, chapter 7, page no-95.

85. Ans. (d)

- Option d is correct.
- Option d is correct. National income means the value of goods and services produced by a country during a financial year.
- Thus, it is the net result of all economic activities of any country during a period of one year and is valued in terms of money.
- Source: UPSC 2013

86. Ans. (b)

- Option b is correct.
- Economic Recession refers to a significant decline in general economic activity in a designated region.
- Increase in expenditure on public projects will have a multiplier effect on the pace of economic growth of the country. Public expenditure has the expansionary effect on the growth of national income, employment opportunities, etc.
- Private investors are incapable of making massive investments on the various infrastructural projects like road-bridge-dam construction, power plants, transport and communications, etc.
- It is imperative that the government undertakes such projects.
- Greater the public expenditure, higher is the level of economic development.
- Source: UPSC Prelims 2021

87. Ans. (d)

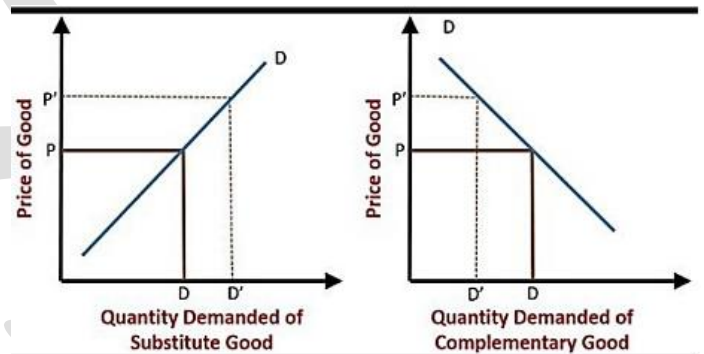
- Option d is correct.
- $GNP = GDP + \text{Net factor income from abroad}$.
- Thus, GDP of a country will be equal to GNP of the country when there is no net factor income from abroad.
- Net factor income from abroad = Factor income earned by the domestic factors of production employed in the rest of the world – Factor income earned by the factors of production of the rest of the world employed in the domestic economy.
- Gross domestic product (GDP) is the value of a nation's finished goods and services during a specific time period, produced within its geographical limits.
- Gross National Product (GNP) is the total value of all finished goods and services produced by a country's citizens in a given financial year, irrespective of their location.
- Source: Macroeconomic, Class XII NCERT, Chapter-2, Pg. 25.

88. Ans. (a)

- Option a is the correct answer.
- Statement 1 is correct. Substitute Goods, as the name suggests, are the goods that are perceived as an alternative to one another by the consumer, i.e. they can be used in place of each other in consumption. In such a case, an increase in the price of the product leads to an increase in the quantity demanded of its substitutes.
- Statement 2 is correct. If the cross-price elasticity of demand is positive, its size determines how closely the goods are capable of being substituted.
- Cross elasticity between two items will be infinite when they are perfect substitutes.
- Statement 3 is incorrect. In case of complementary goods when there is a change in the price of a particular commodity, it will react oppositely to the

demand for the other commodity, which is associated with the primary commodity.

- Therefore, there is an inverse relationship between the price of a particular commodity and demand for its complementary item, while other things remain constant.
- Statement 4 is incorrect. The size of the cross-price elasticity of demand is an indicator of how strongly the two goods complement each other.
- Therefore, the goods are said to be weak complements when the cross elasticity between them is only slightly below zero and the goods are said to be strong complements when the cross elasticity between them is negative.



89. Ans. (c)

- Option c is correct.

Money Multiplier (m)

- Money Supply is equal to Money Multiplier (m) times the amount of high powered money or the reserve money.
- 1) The money created by the RBI is the monetary base, also known as high-powered money.
- 2) The monetary base is called high-powered because the magnitude of changes in monetary base are greatly magnified by the money multiplier.
- 3) As an example, a 1% increase in monetary base may lead to a 10% increase in the money supply due to money multiplier effects.

- 4) For example, from Rs.100 can be multiplied by 5 to generate Rs.500 money supply if Reserve Ratio is 1/5 (20%) or when Money Multiplier is 5.
- When Reserve Ratio is 1/4 (25%) or when Money Multiplier is 4, that would generate only Rs. 400 as money supply.
- The multiplier effect is an economic term, referring to the proportional amount of increase, or decrease, in final income that results from an injection, or withdrawal, of capital in effect.
- It measures the impact that a change in economic activity—like investment or spending—will have on the total economic output of something.
- Increase in Banking habits of the people can lead to increase in money multiplier in an economy. When a customer makes a deposit into a short-term deposit account, the banking institution can lend one minus the reserve requirement to someone else.
- While the original depositor maintains ownership of their initial deposit, the funds created through lending are generated based on those funds.
- If a second borrower subsequently deposits funds received from the lending institution, this raises the value of the money supply even though no additional physical currency actually exists to support the new amount.
- Increase in the Cash Reserve Ratio in the banks, increase in the Statutory Liquidity Ratio in the banks and increase in the population of the country will not increase money multiplier.
- Source: UPSC Prelims 2021

90. Ans. (c)

- Option c is correct.
- Statement 1 is correct. The categories under priority sector are as Agriculture, Micro, Small and Medium Enterprises, Export Credit, Education, Housing, Social Infrastructure and Renewable Energy.

- Statement 2 is incorrect. The provisions of Priority sector lending apply to every Commercial Bank including Regional Rural Bank (RRB), Small Finance Bank (SFB), Local Area Bank and Primary (Urban) Co-operative Bank (UCB) other than Salary Earners' Bank licensed to operate in India by the Reserve Bank of India.
- Statement 3 is correct. RRB has to provide 75 per cent of ANBC or CEOBE whichever is higher; However, lending to Medium Enterprises, Social Infrastructure and Renewable Energy shall be reckoned for priority sector achievement only up to 15 per cent of ANBC.

91. Ans. (a)

- Option a is correct.

The main factors that can increase the demand for a good in market are:

- 1) Prices of related goods (substitute goods)
- 2) Income
- 3) Expectations
- 4) Number of buyers
- 5) Preferences

The following are the relations between the demand and price of the products with other factors remaining unchanged:

- 1) The demand for a good may increase, if the price of one of its substitutes rises. The demand for a good may decrease, if the price of one of its substitutes falls.
- 2) The demand for a good may increase, if the price of one of its complement's falls. For example, ice cream and fudge sauce.
- 3) The demand for an inferior good may decrease if income increases. The demand for a normal good may increase if income increases.
- 4) If the Price of the good falls, then its demand increases.
- Source) UPSC Prelims 2021

92. Ans. (a)

- Option a is correct.
- Non-tariff measures are policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both.
- On the other hand, tariff measures raise duties to make them uncompetitive.
- Examples of Non-tariff barriers to trade are - Preferential agreements between trading blocks, Import Quotas, Sanitary and phytosanitary regulations, Custom regulations, Licenses, Voluntary export restraints, Local content requirement etc.
- Tariff barriers are the tax or duty imposed on the goods which are traded to/from abroad.
- Examples of tariff barriers to trade are Ad valorem duty, Custom duty, Specific duty, Countervailing duty etc.
- Source:
<https://indianexpress.com/article/business/economy/budget-fy21-govt-likely-to-impose-tariff-and-non-tariff-import-barriers-6234206/>

93. Ans. (c)

- Option c is correct.
- Option 1 is correct: In most developed economies, with growth, there was a shift in the dominant sector according to volume of economic activity, from primary (agriculture) to secondary (manufacturing) to finally tertiary (services).
- A well developed and stabilised manufacturing sector was key in providing mass employment in most economies.
- In India, however, after liberalization following reforms of '91, the sectoral reallocation of the economy jumped manufacturing and went straight to the tertiary sector.

- Services contribute the most value added to the economy, but the major source of employment is still agriculture.
- Therefore a lot of people who lost jobs due to the decreasing share of agriculture in economic growth, were not absorbed by the manufacturing or service sector, causing economic growth but marginal or negative growth in employment.
- Option 2 is correct: In both manufacturing and service sectors, growth was led by ventures that were capital intensive (automotive manufacturing, oil refining, telecom, software, ITES, etc) and not labour intensive (food processing, textiles, apparel, leather, etc).
- So while the value added and economic activity increased, very few people were employed in the process causing jobless growth.
- Option 3 is incorrect: Too much focus on higher education that too limited in number in relation to the population is one of the reasons for jobless growth.
- Quality Mass education could not be ensured.
- This resulted in a workforce that did not have the basic skills required to be employed in manufacturing sectors, thus contributing to poor employment scenarios.
- Option 4 is correct: The manufacturing sector is dominated by capital-intensive industries, and the remaining ones are mostly informal and unorganized with low productivity, low output, and low investment.
- The medium-type industries which employ masses and produce high output are missing in Indian economy, contributing to jobless growth.
- Source:<https://www.internationalaffairshouse.org/structural-change-and-indias-jobless-growth/>

94. Ans. (a)

- Option a is correct.
- Statement 1 is correct. The Short-term debts have to be returned at a shorter interval.
- This renders an economy vulnerable if the economy is already facing economic crisis as it has an obligation to return the debt as well as interest payments (debt service).
- Example: Many economies like Mexico, Argentina etc who faced crisis were seen to have borrowed large amounts of short-maturity debt.
- So, the ideal scenarios is not to depend upon short-term debt during crisis.
- Statement 2 is incorrect. Opening up to the foreign banks and depending upon them is not a good idea during crisis.
- It has been empirically observed in World Bank Research that in many cases (like during Global Financial Crisis 2007-08) that foreign banks reduced their lending during crisis.
- Many of them choose to retreat from cross-border banking in general, including through cutting back on new entry.
- Statement 3 is incorrect. Capital account convertibility would mean that there is no restriction on conversion of the domestic currency into a foreign currency.
- It is recognised that capital flows are sensitive to macroeconomic conditions.
- Any deterioration in fiscal conditions, inflation management, balance of payments, or any other economic crisis may cause a cessation or reversal of capital flows.
- This might make the economy vulnerable if it already suffering from economic crisis.
- Source: UPSC 2020

95. Ans. (a)

- Option d is the correct answer.
- Human capital consists of the knowledge, skills, and health that people invest in and accumulate throughout their lives, enabling

them to realize their potential as productive members of society.

- Investing in people through nutrition, health care, quality education, jobs and skills helps develop human capital, and this is key to ending extreme poverty and creating more inclusive societies.
- Statement 1 is correct. Expenditure regarding on-the-job training and internships is a source of human capital formation as the return of such expenditure in the form of enhanced labour productivity is more than the cost of it.
- Government of India has started several internships programmes like The Urban Learning Internship Program (TULIP); Digital India Internship Scheme etc. that help create a potential talent pool in diverse fields.
- Statement 2 is correct. Investment in education is considered as one of the main sources of human Capital.
- To reap the demographic dividend, the government is committed to improve the outcomes in education.
- The government National Education Policy (NEP) 2020 aims to transform India into a vibrant knowledge society by ensuring universal access to school education at all levels- pre-school to secondary.
- Statement 3 is correct. Health is considered as an important input for the development of a nation as much as it is important for the development of an individual.
- The government of India has come up with several schemes like National Health Protection scheme; Pradhan Mantri Suraksha Bima Yojana etc. to provide effective and affordable primary, secondary and tertiary care facilities to citizens of India as increasing Health expenditure directly increases the supply of healthy labour force and is, thus, a source of human capital formation.

- Statement 4 is incorrect. Infrastructure development is not a human capital but a form of Physical capital that includes actual physical things that people own, control, or have access to accomplish a task.
- It is created by changes in materials to form tools that promote production. It is wholly tangible because of being embodied in observable material form.
- Statement 5 is incorrect. Human relations between people and institutions is a form of Social capital that includes the benefits that come through relationships with people and institutions.
- It is created through changes in the relations among persons that facilitate action.

96. Ans. (c)

- Option c is the correct answer.

The following factors determine market demand for a commodity:

- 1) Tastes and Preferences of the Consumers: A good for which consumers' tastes and preferences are greater, its demand would be large and its demand curve will therefore lie at a higher level.
- 2) Income of the People: The greater income means the greater purchasing power. Therefore, when incomes of the people increase, they can afford to buy more. It is because of this reason that increase in income has a positive effect on the demand for a good.
- 3) Changes in Prices of the Related Goods: When the price of a substitute for a good fall, the demand for that good will decline and when the price of the substitute rises, the demand for that good will increase.
- 4) The Number of Consumers in the Market:
 - The greater the number of consumers of a good, the greater the market demand for it.
- 5) Consumers' Expectations with Regard to Future Prices: If due to some reason, consumers expect that in the near future

prices of the goods would rise, then in the present they would demand greater quantities of the goods so that in the future they should not have to pay higher prices.

Prices of Factors of Production, State of Technology and goals and objectives of the firm impacts the supply of the commodity.

- 1) Supply of any good by a firm depends on the goals and objectives of the firm.
- 2) Advanced and improved technology reduces the cost of production, which raises the profit margin. It induces the seller to increase the supply.
- 3) When the amount payable to factors of production and cost of inputs increases, the cost of production also increases. This decreases the profitability. As a result, seller reduces the supply of the commodity.

97. Ans. (d)

- Option d is the correct answer.
- The Association of Mutual Funds in India is working on regulations for passive funds in India.
- Option 'a' is incorrect: Arbitrage fund is a type of mutual fund that leverages the price differential in the cash and derivatives market to generate returns.
- The returns are dependent on the volatility of the asset.
- Arbitrage funds are the panacea for low risk taking investors. In a situation of high and persistent volatility, arbitrage funds provide investors a safe avenue to park their hard earned money.
- Option b is incorrect: A bond fund is a pooled investment vehicle that invests primarily in bonds and other debt instruments.
- It is also referred to as a debt fund. The primary goal of a bond fund is often that of generating monthly income for investors.
- Option c is incorrect: A pension fund is a fund that accumulates capital to be paid out

as a pension for employees when they retire at the end of their careers.

- It is also known as a superannuation fund in some countries, is any plan, fund, or scheme that provides retirement income. Pension funds are pooled monetary contributions from pension plans set up by employers, unions, or other organizations to provide for their employees' or members' retirement benefits.
- Option d is correct: A passive fund is an investment vehicle that tracks a market index, or a specific market segment, to determine what to invest in.
- Unlike with an active fund, the fund manager does not decide what securities the fund takes on.
- This normally makes passive funds cheaper to invest in than active funds, which require the fund manager to spend time researching and analysing opportunities to invest in.
- Tracker funds, such as ETFs (exchange traded funds) and index funds – essentially any fund that tracks an index – fall under the banner of passive funds.
- The Association of Mutual Funds in India is the regulatory body for mutual funds sector in India.
- It is a division of the Securities and Exchange Board of India, Ministry of Finance, Government of India.
- It was formed in 1995.
- Source: <https://corporatefinanceinstitute.com/resources/knowledge/other/pension-fund/>

98. Ans. (b)

- Option b is the correct answer.
- Non- resident Deposits deposit received from non-resident Indians come under this head.

At present, there are three types of NRI Deposit Schemes.

They are:

- 1) Foreign Currency Non-Resident (Banks) FCNR (B)
 - 2) Non-Resident External Rupee Accounts NR (E) RA
 - 3) Non-Resident Ordinary Rupee Account (NRO)
- Statement 1 is incorrect: Non-Resident External Rupee Account deposits are held in Indian rupee (and not in foreign currencies).
 - Term deposits with maturity of one to three years as well as saving deposits are allowed under this scheme. Its interest rate is also pegged to LIBOR/SWAP rate.
 - Statement 2 is correct: Non-Resident Ordinary Rupee Account (NRO) is the account held by Indians ordinarily living abroad.
 - An Indian who was Indian resident but migrated abroad can shift his account to this category.
 - It is held in Indian rupee. NRO accounts can be opened as current, savings, recurring or fixed deposit accounts.
 - Statement 3 is correct: Foreign Currency Non-Resident (Banks) deposits are held in the following foreign currencies, US Dollar, Pound Sterling, Euro, Japanese Yen, Australian Dollar and Canadian Dollar.
 - Only term deposits of one to three years maturity are allowed. The interest rates are pegged to LIBOR/ SWAP of corresponding maturities.

99. Ans. (c)

- Option c is the correct answer.
- Liquidity trap is a situation when expansionary monetary policy (increase in money supply) does not increase the interest rate, income and hence does not stimulate economic growth.
- Statement 1 is incorrect: A liquidity trap is when monetary policy becomes ineffective (and not fiscal policy which is related to

taxation and expenditure policy of the government).

- The monetary policy is ineffective due to very low interest rates combined with consumers who prefer to save rather than invest in higher-yielding bonds or other investments.
- They do so because of the fear of adverse events like deflation, war etc. In that case, a monetary policy carried out through open market operations has no effect on either the interest rate, or the level of income.
- In a liquidity trap, the monetary policy is powerless to affect the interest rate.
- Statement 2 is correct: There is a liquidity trap at short term zero percent interest rate.
- When interest rate is zero, public would not want to hold any bond, since money, which also pays zero percent interest, has the advantage of being usable in transactions.
- Hence, if the interest is zero, an increase in quantity of money cannot not induce anyone to buy bonds and thereby reduce the interest on bonds below zero.
- Statement 3 is correct: A liquidity trap is a contradictory economic situation in which interest rates are very low and savings rates are high, rendering monetary policy ineffective.
- This situation was first described by economist John Maynard Keynes.
- During a liquidity trap, consumers choose to avoid bonds and keep their funds in cash savings because of the prevailing belief that interest rates could soon rise (which would push bond prices down).
- Because bonds have an inverse relationship to interest rates, many consumers do not want to hold an asset with a price that is expected to decline.
- Statement 4 is correct: A liquidity trap isn't limited to bonds. It also affects other areas of the economy, as consumers are spending less on products which means businesses are less likely to hire.

- Some ways to get out of a liquidity trap include raising interest rates, hoping the situation will regulate itself as prices fall to attractive levels, or increased government spending.
- Source: Macroeconomics, NCERT XII, Chapter-3, Money and Banking, Pg. 46-47

100. Ans. (b)

- Option b is the correct answer.
- Inflation in food items rose by 8.38% in April, according to the Ministry of Statistics and Programme Implementation's Consumer Food Price Index.
- It is attributed to both domestic and international factors.
- Statement 1 is correct: The sharp rise in commodity prices across the world is a major reason behind the inflation spike in India.
- This is increasing the import cost for some of the crucial consumables, pushing inflation higher.
- Brent crude prices crossed \$125 per barrel, more than double of what it was a year ago.
- Such transmission is evident in edible oils where up to two-thirds of India's consumption is imported.
- Statement 2 is incorrect: Rising per capita income and diversification of diet towards high-value food products like milk, eggs, meat, fish, pulses, vegetables and fruits, was cited as the reason for food inflation during 2012.
- It is not contributing now as the economy is still regaining its momentum.
- Statement 3 is correct: Russia and Ukraine supply about 30% of global wheat exports.
- The exports have declined due to the conflict leading to supply deficit of foodgrains and hence increase in their price.
- Statement 4 is correct: The diversion of corn, sugar, palm and soyabean oil for

biofuel production in the current time had led to less availability for consumption.

- Thus, it is leading to the food inflation.
- Statement 5 is incorrect: Cost of agriculture labour had witnessed significant increase years preceding 2012.
- There is a strong impact of wage inflation on food inflation with a 10% rise in wage inflation leading to 2.3% rise in food inflation.
- But this is not the factor for current food inflation.
- Statement 6 is correct: Climate change had led to heat wave from mid-March severely impacting yields of wheat in India.
- Unusual dry weather in South America also impacted the agricultural production there.
- Less wheat production in India had led to increase in open market prices to export parity levels.