

KAVERI'S IAS DAILY PRELIMS TEST SERIES

TEST BOOKLET

GENERAL STUDIES - PAPER-I – INDIAN ECONOMY

TEST 4

1.

Answer:-(b)

Explanations: Under the Lead bank Scheme, the service area approach was introduced in 1989 for planned and orderly development of rural and semi-urban areas. Each bank branch in rural and semi-urban area was designated to serve an area of 15 to 25 villages and the branch was responsible for meeting the needs of bank credit of its service area.

2.

Answer:-(b)

Explanations: The deposit itself is a liability owed by the bank to the depositor. Bank deposits refer to this liability rather than to the actual funds that have been deposited. Hence option B is the correct answer

| Greatest | | Least |
|----------|---|----------|
| L | Cash-in-hand | |
| I | Cash at the central bank | P |
| Q | Money at call or short notice | R |
| U | Bills discounted | O |
| I | Government securities within one year of maturity | F |
| D | | I |
| I | Certificates of deposit | T |
| T | | A |
| Y | Investments | B |
| | Loans and advances | I |
| | | L |
| | | I |
| | | T |
| | | Y |
| Least | Special Deposits at central bank | Greatest |

3.

Answer:-(d)

Explanations: The inter-creditor agreement is aimed at the resolution of loan accounts with a size of ₹50 crore and above that are under the control of a group of lenders. It is part of the “Sashakt” plan approved by the government to address the problem of resolving bad loans. The Intercreditor Agreement, a recommendation of the Sunil Mehta committee, aims to deal with bad loans as an attempt to speed up the Resolution of stressed Assets.

4.

Answer:-(a)

Explanations: Bank Board Bureau is responsible for selection and appointment of Board of Directors in Public Sector Banks and Financial Institutions. With a view to improve the Governance of Public Sector Banks (PSBs), the Government had decided to set up an autonomous Banks Board Bureau. The Bureau will recommend for selection of heads - Public Sector Banks and Financial Institutions and help Banks in developing strategies and capital raising plans. Now, the Government has announced the constitution of Banks Board Bureau which will have three ex-officio members and three expert members in addition to Chairman. All the Members and Chairman will be part time.

5.

Answer:-(d)

Explanations: i. Curbing imports of non essential goods will lessen the demand for dollars and promoting export will help in increasing the flow of dollars into the country - helping control rupee depreciation.

ii. The Masala bond is directly pegged to the Indian Currency. If Indian borrowers issues more rupee denominated Masala bonds, this would increase liquidity in the market or increase in the rupee stock against few currencies in the market and this would help in supporting the rupee.

iii. ECB- it is a type of loan in foreign currencies, made by non-resident lenders. Thus easing conditions of ECB's helps in receiving more loans in foreign currencies that would increase of forex inflow - leading to rupee appreciation.

iv. Expansionary Monetary Policy- A set of policy measures such as increase in money supply by the RBI to stimulate economy. It cannot influence the variations of rupee value.

6.

Answer:-(a)

Explanations: The Storage of Payment System Data directive issued by RBI requires all System Providers to ensure that the entire data relating to payment systems operated by them are stored in a system in India only. Also, System Providers shall provide a System Audit Report (SAR) and the audit should be conducted by CERT-IN empaneled auditors.

7.

Answer:-(b)

Explanations: The money-multiplier is the maximum amount of broad money (M3 Money) that could be created by the commercial banks for a given fixed amount of base money or reserve ratios. Or, simply it can be stated that the maximum amount of money that the banking system generates with each rupees of reserves.

So, more the people will be linked with the banking system or have the habit of banking more will be the money in use in the form of loans, credits etc. that results an increase in economic activity. This will directly help in increase money multiplier in an economy. The

money multiplier goes up because of the reduction in the cash reserve ratio (CRR).

8.

Answer:-(c)

Explanations: The Global Competitiveness Report (GCR) is a yearly report published by the World Economic Forum.

9.

Answer: (b)

Explanation: There is no complete definition in the options, so we need to choose most suitable, which is (b), as legal tender is acceptable by law, which no one can refuse to accept.

Denomination of a country's currency by law, must be accepted as a medium of exchange and payment for a money debt. While usually all denominations of the circulating paper money are legal tenders, the denomination and amount in coins acceptable as legal tender varies from country to country. This is also called lawful money.

The legal tender money is of two types:

(i) **Limited Legal Tender Money:** This is a form of money, which can be paid in discharge of a debt up to a certain limit and beyond this limit, a person may refuse to accept the payment and no legal action can be taken against. Coins are limited legal tender in India.

(ii) **Unlimited Legal Tender Money:** In this form of money, which can be paid in discharge of a debt of any amount. A person who refuses to accept this money a legal action can be taken against. Paper notes/currency are unlimited legal tender in India.

The 'Legal tender' is the money that is recognised by the law of the land, as valid for payment of debt. It must be accepted for discharge of debt. The RBI Act of 1934, which gives the Central Bank the sole right to issue bank notes, states that "Every bank note shall be legal tender at any place in India in payment for the amount expressed therein".

The recognition or cancellation of the legal tender status is important because paper money derives all its value from the Government's recognition of

it. Also, for a piece of paper to function as a medium of exchange and store of value, it needs to enjoy unquestioning acceptance from the public. This can only be ensured by declaring such paper currency notes as 'legal tender' through a fiat, with the RBI or the Centre promising to 'pay the bearer' an equivalent sum if the currency note is presented to them.

Non-Legal Tender-Money: It is a form of money, which is generally accepted, but legally is not bound to accept it. Such as **cheques, bank drafts, bills of exchange, postal order setc.** are not legal tenders and are accepted only at the option of the creditor, lender, or seller. It is also called the optional money because it does not have legal backing and their acceptance is optional.

10.

Answer.: (d)

Explanation: If a country has poor technology and low efficiency, even high savings, will lead to low economic growth.

11.

Answer.: (c)

Explanation: Treasury bills are issued only by the central government in India. The State governments do not issue any treasury bills. Interest on the treasury bills is determined by market forces.

Treasury bills, or T-bills, are short-term debt instruments issued by the US Treasury. T-bills are issued for a term of one year or less. T-bills are considered the world's safest debt as they are backed by the full faith and credit of the United States government.

Treasury bills offer are issued at a discount from the par value.

12.

Answer.: (b)

Explanation: After the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 (also known as the SARFAESI Act), the government capital infusion steadily decreased until NPA problem introduced in 2015.

13.

Answer.: (c)

14.

Answer.: (c)

Explanation: Merchant discount rate on debit cards is the amount that a merchant has to pay to its service providers when a consumer swipes her card on the merchant's point-of-sales terminal.

It is also applicable for online transactions and QR-based transactions.

The amount that the merchant pays for every transaction gets distributed among three stakeholders – the bank that enables the transaction, the vendor that installs the PoS machine and the card network provider such as Visa or MasterCard.

15.

Answer.:(c)

Explanation: As per N. K. Singh Committee report recommendations:

The combined debt-to-GDP ratio of the centre and states should be brought down to 60% by 2023 (comprising of 40% for the Centre and 20% for states) as against the existing 49.4%, and 21% respectively. Statement 3 is correct as per article 293 of the Constitution.

16.

Answer: (c)

Explanation: National Financial Switch (NFS) is the largest network of shared automated teller machines (ATMs) in India.

It was designed, developed and deployed by the Institute for Development and Research in Banking Technology (IDRBT) in 2004, with the goal of inter-connecting the ATMs in the country and facilitating convenience banking. It is run by the National Payments Corporation of India (NPCI).

17.

Answer.: (a)

Explanation: CAR is not decided by each individual bank but by RBI on the basis of Basel Committee recommendation

Capital Adequacy Ratio – CAR: -The capital adequacy ratio (CAR) is a measurement of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures. The capital adequacy ratio, also known as capital-to-risk weighted assets ratio (CRAR), is used to protect depositors and promote the stability and efficiency of financial systems around the world. Two types of capital are measured: tier-1 capital, which can absorb losses without a bank being required to cease trading, and tier-2 capital, which can absorb losses in the event of a winding-up and so provides a lesser degree of protection to depositors.

18.

Answer. (a)

Explanation: Statement 1: It decides the repo rates, CRR, SLR etc. It replaced the earlier system of policy rate veto by the RBI governor.

Statement 2: It consists of six members (RBI Governor, Deputy Governor RBI, One RBI officer and three members nominated by the government), and they hold office for a period of 4 years.

Statement 3: The Governor of the RBI is the ex-officio Chairperson of MPC

19.

Answer. (b)

Explanation: Statement 1: 'Ignorance of law cannot be an excuse for the violation of law' is a basic principle based on which statement 1 is wrong.

Statement 2: Properties held benami are liable for confiscation by the Government without payment of compensation.

Statement 3: An appellate mechanism has been provided under the PBPT Act in the form of Adjudicating Authority and Appellate Tribunal

20.

Answer. (d)

Explanation: Statement 1 and 2: A citizen of India, whether resident or non-resident can join

NPS, subject to that he should be between 18 and 60 years. So, 1 and 2 are wrong.

Statement 3 and 4: NPS is applicable to all new employees of Central Government service (except Armed Forces) and Central Autonomous Bodies joining government service on or after 1st January 2004. So, statement 3 is wrong and 4 is correct.

21.

Answer.: (a)

Explanation: Statement 1: Core Banking Solution (CBS) is networking of branches, which enables customers to operate their accounts, and avail banking services from any branch of the Bank on CBS network, regardless of where he maintains his account. Clearly, 1 is correct.

Statements 2 and 3 are illogical and inappropriate and can easily be eliminated. So, answer is (a).

22.

Answer.: (c)

Explanation: MCLR refers to the minimum interest rate of a bank below which it cannot lend, except in some cases allowed by the RBI. It is an internal benchmark or reference rate for the bank.

It is the new benchmark lending rate at which banks will now lend to new borrowers.

Statement 1: MCLR will be calculated after factoring in banks' marginal cost of funds (largely, the interest at which banks borrow money), return on equity (a measure of banks' profitability) and other risks and costs.

The MCLR should be revised monthly by considering some new factors including the repo rate and other borrowing rates.

Specifically, the repo rate and other borrowing rates that were not explicitly considered under the base rate system.

Banks will also publically publish all kinds of MCLR periodically.

This will surely bring transparency in the calculation methodology. So, statement 1 is correct.

□The RBI expects the new formula to make floating lending rates more responsive to its policy rate cuts.

Statement 2: Based upon this MCLR, interest rate for different types of customers should be fixed in accordance with their riskiness. So, it becomes fair to both borrowers as well as lenders

23.

Answer: (b)

Explanation: Base erosion and profit shifting (BEPS) refers to corporate tax planning strategies used by multinationals designed to shift profits from higher tax jurisdictions to lower tax jurisdictions, thus eroding the tax base of the higher tax jurisdictions.

24.

Answer.: (c)

Explanation: Statement 1: Unnecessary revenue expenditure bloats the fiscal deficit, and since it forms the majority of government spending, its reduction has a very large effect on the fiscal deficit.

Statement 2: It will further increase the fiscal deficit.

Statement 3: Subsidies are a major component of government spending, and its reduction will cut down fiscal deficit.

Statement 4: It reduces tax revenue and thus increases fiscal deficit

25.

Ans.: (d)

Explanation: The Capital Budget is an account of the assets as well as liabilities of the central government, which takes into consideration changes in capital – both capital expenditure and capital receipt.

□The main items of capital receipts are loans raised by the government from the public which are called market borrowings, borrowing by the government from the Reserve Bank and commercial banks and other financial institutions through the sale of treasury bills, loans received from foreign governments and international organizations, and recoveries of loans granted by

the central government. So, statement 2 is correct.

□Capital Expenditure includes expenditure on the acquisition of land, building, machinery, and equipment, investment in shares and loans and advances by the central government to state and union territory governments, PSUs and other parties. So, statements 1 and 3 are correct

26.

Ans.: (d)

Explanation: Import cover measures the number of months of money available in the national bank to cover the cost of imports.

This is to avoid a BoP crisis, so that early preventive action can be taken.

India has an import cover of around 12 months presently.

27

Ans. (b)

Explanation: Basel III (or the Third Basel Accord) is a global, voluntary regulatory framework on bank capital adequacy, stress testing and market liquidity risk.

It was agreed upon by the members of the Basel Committee on Banking Supervision in 2010–11, and was scheduled to be introduced from 2013 until 2015.

28

Ans. (c)

Explanation: Public debt and Public revenue are matters falling under Fiscal policy. The Ministry of Finance handles these subjects. Bank rate and OMOs fall within the jurisdiction of RBI's monetary policy.

29.

Ans. (a)

Explanation: Introducing new welfare scheme will further inflate the budget.

Expanding industries by budgetary support will not add anything in the short-run to the tax revenues of the government, and thus will increase the budget deficit.

Rationalizing subsidies and reducing revenue expenditure are two direct ways of reducing the fiscal burden of the government of India.

30

Ans. (c)

Explanations: An interest rate is the rate at which interest is paid by a borrower (debtor) for the use of money that they borrow from a lender (creditor).

Specifically, the interest rate (I/m) is a percentage of principal (P) paid a certain number of times (m) per period (usually quoted per year).

Changes in interest rates affect the overall expense of borrowing and thus expenditures undertaken with the expenditures and lower interest rates lead to an increase in expenditures.

Lower interest rates make it cheaper to borrow. This tends to encourage spending and investment borrowed funds. Higher interest rates tend to decrease.

31

Ans. (c)

Explanations: Non-Plan expenditure covers all expenditure of Government not included in the Plan. It may either be revenue expenditure or capital expenditure.

Part of the expenditure is obligatory in nature, e.g. interest payments, subsidies (mainly on food and fertilizers), pensionary charges and statutory transfers to State and Union Territory Governments.

A part of the expenditure relates to essential functions of the State, e.g. defense, internal security, external affairs and revenue collection.

32

Ans. (d)

Explanations: The Twelfth Five-Year Plan of the Government of India has decided for the growth rate at 8.2% but the National Development Council (NDC) on 27 December 2012 approved 8% growth rate for 12th five-year plan. The theme of the Approach paper is 'Faster, Sustainable and more inclusive growth'.

The Twelfth Plan, therefore, emphasises that our first priority must be to bring the economy back to rapid growth while ensuring that the growth is both inclusive and sustainable.

33.

Ans. (a)

Explanations: Marginal Standing Facility (MSF) is a new scheme announced by the Reserve Bank of India (RBI) in its Monetary Policy (2011–12) and refers to the penal rate at which banks can borrow money from the central bank over and above what is available to them through the liquidity adjustment facility (LAF) window.

Liquidity adjustment facility (LAF) is a monetary policy tool which allows banks to borrow money through repurchase agreements. Net Demand and Time Liability (NDTL) is sum of demand and time liabilities (deposited) of banks with public and other banks wherein assets with other banks is subtracted to get net liability of other banks.

MSF came into effect from 9th May 2011. MSF scheme is provided by RBI by which the banks can borrow overnight up to 1% of their net demand and time liabilities (NDTL), i.e. 1% of the aggregate deposits and other liabilities of the banks.

34.

Ans. (a)

Explanations: The Statutory Reserve Requirement (SRR) is a monetary policy instrument available to Central Bank for purpose of liquidity management and hence credit creation in the banking system.

The SRR is used to withdraw or inject liquidity when the excess or lack of liquidity in the banking system is perceived by the Bank to be large and long-term in nature.

Effectively, banking institutions are required to maintain balances in their Statutory Reserve Accounts equivalent to a certain proportion of their eligible liabilities, this proportion being the SRR ratio. Since, reserve requirements like SRR are designed as 'precautionary measures', they are not intended to stop banks from making excessive profits, hence statement 3 and 4 are not correct.

The Cash Reserve Ratio (CRR) refers to liquid cash that banks have to maintain with RBI, as a certain percentage of their demand and time liabilities to ensure safety and liquidity of deposits.

35.

Ans. (a)

Explanations: It is a system that powers multiple bank accounts into a single mobile application (of any participating bank), merging several banking features, seamless fund routing & merchant payments into one hood. It also caters to the “Peer to Peer” collect request which can be scheduled and paid as per requirement and convenience.

Features:-

1. Immediate money transfer through mobile device round the clock 24*7 and 365 days
2. Single mobile application for accessing different bank accounts
3. Single Click 2 Factor Authentication – Aligned with the Regulatory guidelines, yet provides for a very strong feature of seamless single click payment.
4. Virtual address of the customer for Pull & Push provides for incremental security with the customer not required to enter the details such as Card no, Account number; IFSC etc.
5. Bill Sharing with friends.
6. Best answer to Cash on Delivery hassle, running to an ATM or rendering exact amount.
7. Merchant Payment with Single Application or In-App Payments.
8. Scheduling PUSH and PULL Payments for various purposes.
9. Utility Bill Payments, Over the Counter Payments, Barcode (Scan and Pay) based payments.
10. Donations, Collections, Disbursements Scalable.
11. Raising Complaint from Mobile App directly.

Participants in UPI:-

1. Payer PSP

2. Payee PSP
3. Remitter Bank
4. Beneficiary Bank
5. NPCI
6. Bank Account holders
7. Merchants

DO YOU KNOW?

e-wallets accounted for 6.3% of all customer payments made to merchants in 2017-18 and UPI accounted for just 1.6%. In 2018-19, the share of e-wallet transactions fell to 1.87% and the share of UPI rose to 17%.

36.

Ans. (c)

Explanations:

- To ensure that banks don't go bust, RBI has put in place some trigger points to assess, monitor, control and take corrective actions on banks which are weak and troubled.
- The process or mechanism under which such actions are taken is known as Prompt Corrective Action, or PCA.
- The PCA is triggered when banks breach certain regulatory requirements like minimum capital, return on asset and quantum of non-performing assets.
- The PCA framework is intended to encourage banks to eschew certain riskier activities and focus on conserving capital so that their balance sheets can become stronger
- Banks are not allowed to re new or access costly deposits or take steps to increase their fee-based income.
- Banks will also have to launch a special drive to reduce the stock of NPAs and contain generation of fresh NPAs.
- They will also not be allowed to enter into new lines of business. RBI will also impose restrictions on the bank on borrowings from interbank market.

37.

Answer.:-(d)

Explanations:-1. Narasimham Committee – Banking Reforms

2. Bimal Jalan Committee - Expert Committee to Review the Extant Economic Capital Framework

3. Chesi Committee – Direct taxes reforms

4. Verma Committee- To review law for sexual crimes

38.

Ans. (c)

Explanations:-An inflationary gap is a macroeconomic concept that describes the difference between the

current level of real gross domestic product (GDP) and the anticipated GDP that would be

experienced if an economy is at full employment, also referred to as the potential GDP. For

the gap to be considered inflationary, the current real GDP must be the higher of the two

metrics.

The inflationary gap exists when the demand for goods and services exceeds production due

to factors such as higher levels of overall employment, increased trade activities or

increased government expenditure. This can lead to the real GDP exceeding the potential

GDP, resulting in an inflationary gap. The inflationary gap is so named because the relative

increase in real GDP causes an economy to increase its consumption, which causes prices to

rise in the long run.

Do you know?

A government may choose to use fiscal policy to help reduce an inflationary gap, often

through decreasing the number of funds circulating within the economy. This can be

accomplished through

1. Reductions in government spending,
2. Tax increases,
3. Bond and securities issues,

4. Interest rate increases and

5. Transfer payment reductions.

39.

Answer. (c)

Explanations:-

What may a government do to rescue the economy from the phase of recession?

The usual remedies are given below:

Direct and indirect taxes should be cut down, so that the consumers have higher

disposable incomes (income after paying direct tax, i.e., income tax) on the one hand

and the goods should become cheaper on the other hand, thus there is hope that

the demand might pick up.

The burden of direct taxes, especially the income tax, dividend tax, interest tax are

slashed to enhance the disposable income (i.e., income after direct tax payment)—

Salaries and wages should be revised by the government to encourage

general spending by the consumers (as the Government of India implemented the

recommendations of the fifth pay commission without much deliberation in 1996—

Indirect taxes such as custom duty, excise duty (cenvat), sales tax, etc., should be cut

down so that produced goods reach the market at cheaper prices.

The government usually goes on to follow a cheap money supply policy by slashing

down interest rates across the board and the lending procedure is also liberalized.

Tax breaks are announced for new investments in the productive areas, etc.

Do you know?

Recession is somewhat similar to the phase of 'depression' — we may call it a mild

form of depression — fatal for economies as this may lead to depression if not

handled with care and in time. The financial crises which followed the US ‘sub-prime crisis’ in almost the whole Euro-American economies has basically brought in

‘severe recessionary’ trends there.

40.

Ans.(b)

Explanations:-

Marginal Standing Facility (MSF): A facility under which scheduled commercial banks can borrow additional amount of overnight money from the Reserve Bank by dipping into their Statutory Liquidity Ratio (SLR) portfolio up to a limit at a penal rate of interest. This provides a safety valve against

unanticipated liquidity shocks to the banking system.

41.

Answer (c)

Explanations:-When oil prices rises, the trade deficit for India increases as India imports most of its oil requirements. The trade deficit induces more supply of Indian Rupee which in turn makes it fall in value. Hence 1 is correct.

Increasing bond yields from the dollar means that investment in dollar is giving higher returns. Therefore investors will pull out the money from the Indian market, which means increasing supply of Rupee and thus depreciation. Hence 2 is also correct.

42.

Answer(c)

Explanations:-

Money supply, like money demand, is a stock variable. The total stock of money in circulation among the public at a particular point of time is called money supply.

RBI publishes figures for four alternativemeasures of money supply, viz. M1, M2, M3 and M4.

They are defined as follows:

Narrow money

$M1 = CU$ (currency (notes plus coins) held by the public) + DD (net demand deposits held by commercialbanks) The word ‘net’ implies that only deposits of the public held bythe banks are to be included in money supply. The interbank deposits, which a commercial bank holds inother commercial banks, are not to be regarded as part of money supply.

$M2 = M1 +$ Savings deposits with Post Office savings banks

Broad money

$M3 = M1 +$ Net time deposits of commercial banks

$M4 = M3 +$ Total deposits with Post Office savings organizations (excluding National Savings Certificates)

These gradations are in decreasing order of liquidity. M1 is mostliquid and easiest for transactions whereas M4 is least liquid of all. M3 is the most commonly usedmeasure of money supply. It is also known as aggregate monetary resources.

43.

Ans.(c)

Explanations:-

First statement is given in all four options, so it’s useless to think about its validity.

NCERT Class11 Biz.studies ch.9: “Due to lack of marketing skills or lack of demand, many small business firms have to operate below full capacity due to which their operating costs tend to increase. Gradually this leads to sickness and closure of the business.” This means, when #1 happens, #2 will happen and both ought to reduce NPA. This means #A is wrong since it doesn’t contain #2.

If two units / companies are merged, then economies of scale ought to come, and accordingly, capacity utilization should improve, per-unit-cost-of production should decline. If the reverse has happened (cap.uti. decreases post-merger), then it’ll lead to further accumulation of NPAs. So, now eliminate between B and C accordingly.

With Best Wishes!

Jai Hind.

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