# UPSC Prelims Research Document – Economy PYQ

**Q.1) "Rapid Financing Instrument" and "Rapid Credit Facility" are related to the provisions of lending by which one of the following?**
a) Asian Development Bank
**b) International Monetary Fund**
c) United Nations Environment Programme Finance Initiative
d) World Bank

**ANSWER: B**
**Rapid Financing Instrument (RFI)** is a financial aid mechanism provided by the International Monetary Fund (IMF) to its member nations experiencing an immediate need to balance their payments. This form of assistance is dispensed without necessitating a comprehensive program and can be availed in various situations such as economic shocks, natural calamities, or emergencies stemming from instability. The financial aid delivered via the RFI is a one-time, upfront disbursement. In 2011, this instrument took the place of the IMF's previous Emergency Natural Disaster Assistance (ENDA) and Emergency Post-Conflict Assistance (EPCA) initiatives.
**Rapid Credit Facility (RCF)** is a financial aid scheme developed under the Poverty Reduction and Growth Trust (PRGT) that offers immediate, interest-free financial support to low-income countries (LICs) dealing with pressing balance of payments challenges. The creation of the RCF is part of a wider reform aimed at increasing the flexibility of IMF's financial assistance and better customizing it to the varied requirements of LICs, particularly during periods of crisis. The loans granted under the RCF bear no interest, include a 5½-year grace period, and require repayment within a 10-year timeline.
Both of these instruments are designed to provide quick, flexible funding to member countries without the need for a full economic program during crises. Their use has been particularly notable during the COVID-19 pandemic, where many countries have faced significant financial and economic shocks.
The RFI and RCF represent important tools for the IMF in fulfilling its mandate of maintaining global financial stability and helping member countries overcome balance of payments **difficulties.**

**Q.2) With reference to the Indian economy, consider the following statements:**
1. An increase in Nominal Effective Exchange Rate (NEER) indicates the appreciation of rupee.
2. An increase in the Real Effective Exchange Rate (REER) indicates an improvement in trade competitiveness.
3. An increasing trend in domestic inflation relative to inflation in other countries is likely to cause an increasing divergence between NEER and REER.
**Which of the above statements are correct?**
a) 1 and 2 only
b) 2 and 3 only
**c) 1 and 3 only**
d) 1, 2 and 3

**ANSWER: C**
**Statement 1 is correct**. The Nominal Effective Exchange Rate (NEER) is a measure of a country's currency value relative to a weighted average of currencies of its major trading partners. This weighted geometric mean index reflects changes in the exchange rate and the importance of each trading partner. A rise in the NEER indicates that the domestic currency has appreciated against the basket of foreign currencies. This implies that the domestic currency can purchase a greater quantity of foreign currencies, reflecting its appreciation.
**Statement 2 is Incorrect.** The Real Effective Exchange Rate (REER) is an indicator that factors in inflation disparities between countries, adjusting the NEER accordingly. In other words, the REER considers both the nominal exchange rate and the price levels (inflation) in the domestic country and

its trading partners. If the REER increases, it may be due to the domestic currency's appreciation or higher inflation rate compared to the trading partners. However, an increase in REER may not signify an improvement in trade competitiveness since it could result from currency appreciation or inflation not supported by productivity gains, making a country's exports more expensive and imports cheaper. As a result, an increase in REER may reduce a country's trade competitiveness.

**Statement 3 is correct**. As mentioned earlier, Real Effective Exchange Rate (REER) is a measure of a country's currency value relative to its trading partners, accounting for both exchange rates and inflation. When domestic inflation outpaces inflation in other countries, it means that the country's goods and services are becoming relatively more expensive than those of its trading partners. This generally leads to a decrease in the Real Effective Exchange Rate (REER), not an increase, assuming the Nominal Effective Exchange Rate (NEER) and other factors are held constant. This divergence between NEER and REER resulting from high domestic inflation can be a signal of reduced trade competitiveness, which could impact the country's economic performance.

**Q.3) With reference to the Indian economy, what are the advantages of "Inflation-Indexed Bonds (IIBs)"?**

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

Which of the statements given above are correct?

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

**ANSWER: A**

**Statement 1 is correct**. The government can potentially lower its borrowing costs by issuing Inflation-Indexed Bonds (IIBs) because investors are typically willing to accept lower coupon rates in exchange for protection against inflation. IIBs are specifically designed to offer such protection, which makes them more attractive to investors than nominal bonds. Therefore, by issuing IIBs with lower coupon rates, the government can potentially reduce its borrowing costs as compared to issuing nominal bonds.

**Statement 2 is correct**. IIBs provide protection to the investors from uncertainty regarding inflation. Inflation can be a major concern for investors as it reduces the value of money over time. IIBs are designed to link the bond's principal and coupon payments to an inflation index, which means that the returns of the bond increase along with inflation. This feature helps to safeguard the real value of the investment, ensuring that the investor is not adversely affected by the erosion of purchasing power caused by inflation. In simpler terms, when inflation rises, the bond's principal and coupon payments also increase, which helps to counterbalance the negative effects of inflation on the investor's purchasing power.

**Statement 3 is incorrect.** In general, the interest and capital gains earned from investing in IIBs are typically taxable, and all current tax regulations will be enforced.

**Q.4) With reference to foreign-owned e-commerce firms, operating in India, which of the following statements is/are correct?**

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

Which of the above statements are correct?

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

**ANSWER: B**

**Statement 1 is incorrect**. Foreign-owned e-commerce firms operating in India, under the FDI policy, are allowed to operate as marketplaces, providing a platform for buyers and sellers to connect, but they are not permitted to sell their own goods directly to consumers.

**Statement 2 is correct.** There are regulations in place that limit the level of control foreign-owned e-commerce companies can have over their big sellers. The rules state that these companies cannot own more than 25% equity in Indian-owned sellers, and they are restricted from exerting too much influence over the sellers' inventory. This policy aims to prevent foreign-owned e-commerce entities from having too much power over the sale of goods on their platforms by owning a significant seller.

**Q.5) Which of the following activities constitute real sector in the economy?**

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

Select the correct answer using the code given below:

**a) 1 and 2 only**

b) 2, 3 and 4 only

c) 1, 3 and 4 only

d) 1, 2, 3 and 4

**ANSWER: A**

In contrast to the financial sector's focus on creating and managing financial assets, the real sector encompasses the processes of producing, distributing, and utilizing goods and services. The difference between these sectors is based on the type of value they create. The real sector creates tangible goods and services that can be directly consumed or used, while the financial sector creates value through the management and allocation of financial assets.

1. Farmers harvesting their crops: This is a part of the real sector, as it involves the production of agricultural goods.
2. Textile mills converting raw cotton into fabrics: This is a part of the real sector, as it involves the production of textiles from raw materials.
3. A commercial bank lending money to a trading company: This activity belongs to the financial sector, as it involves the creation and management of financial assets (loans) rather than the production or distribution of goods and services.
4. A corporate body issuing Rupee Denominated Bonds overseas: This activity belongs to the financial sector, as it involves the issuance of financial instruments (bonds) to raise capital, rather than the production or distribution of goods and services.

Thus, the correct answer is:

a) 1 and 2 only

**Q.6) Which one of the following situations best reflects "Indirect Transfers" often talked about in media recently with reference to India?**

a) An Indian company investing in a foreign enterprise and paying taxes to the foreign country on the profits arising out of its investment

b) A foreign company investing in India and paying taxes to the country of its base on the profits arising out of its investment

c) An Indian company purchases tangible assets in a foreign country and sells such assets after their value increases and transfers the proceeds to India

**d) A foreign company transfers shares and such shares derive their substantial value from assets located in India**.

**ANSWER: D**

**a. An Indian company investing in a foreign enterprise and paying taxes to the foreign country on the profits arising out of its investment.**

This statement does not reflect indirect transfers. This situation describes direct foreign investment, where an Indian company invests in a foreign enterprise and pays taxes to the foreign country based on the profits generated by its investment. This scenario involves a direct investment relationship, and taxation occurs in the jurisdiction where the investment takes place.

**b. A foreign company investing in India and paying taxes to the country of its base on the profits arising out of its investment**

This statement also does not reflect indirect transfers. This situation describes a foreign company making a direct investment in India and paying taxes on the profits generated from that investment to its home country. This is a direct investment scenario, not an indirect transfer involving the sale of shares or interests that derive their value from assets located in another country.

**c. An Indian company purchases tangible assets in a foreign country and sells such assets after their value increases and transfers the proceeds to India**

This statement does not reflect indirect transfers either. In this situation, an Indian company is directly purchasing and selling tangible assets in a foreign country and transferring the proceeds to India. This involves direct transactions of tangible assets and not an indirect transfer of shares or interests deriving their value from assets located in another country.

**d. A foreign company transfers shares and such shares derive their substantial value from assets located in India.**

This statement reflects indirect transfers. In this situation, a foreign company transfers shares, and these shares derive their substantial value from assets located in India. This is an example of an indirect transfer because the transaction involves the transfer of shares or interests in a foreign company, rather than the direct transfer of the underlying assets themselves. The Indian government may seek to tax the capital gains arising from such transactions, as they involve the indirect transfer of assets located in India.



**Q.7) With reference to the expenditure made by an organisation or a company, which of the following statements is/are correct?**

1. Acquiring new technology is capital expenditure.

2.Debt financing is considered capital expenditure, while equity financing is considered revenue expenditure.

Select the correct answer using the code given below:

**a) 1 only**

b) 2 only

c) Both 1 and 2

d) Neither 1 nor 2

**ANSWER: A**

**Statement 1 is correct.** Acquiring new technology is considered capital expenditure. When an organization or company allocates funds to purchase, improve, or maintain long-term assets like property, equipment, technology, or plant, it is referred to as capital expenditures. These investments typically have a long-term impact on the organization's operations and contribute to its growth and productive capacity.

**Statement 2 is incorrect.** Debt financing and equity financing are both considered methods of raising capital for a company, but they are not classified as capital expenditure or revenue expenditure. Capital expenditure, as mentioned earlier, involves spending on long-term assets. Revenue expenditure refers to the spending on day-to-day operations and short-term items that are consumed within the accounting period, such as salaries, rent, and utility bills.

**Q.8) With reference to the Indian economy, consider the following statements:**
1. A share of the household financial savings goes towards government borrowings.
2. Dated securities issued at market-related rates in auctions form a large component of internal debt.
**Which of the above statements is/are correct?**
a) 1 only
b) 2 only
**c) Both 1 and 2**
d) Neither 1 nor 2

**ANSWER: C**
**Statement 1 is correct.** A share of the household financial savings goes towards government borrowings. Households in India invest their savings in various financial instruments, including government securities, bonds, and small savings schemes. These investments contribute to financing the government's borrowings and help fund its expenditures, including infrastructure development and social programs.
**Statement 2 is correct**. Dated securities issued at market-related rates in auctions form a large component of internal debt. The government of India raises funds through the issuance of dated securities, which are long-term debt instruments with fixed maturity periods. These securities are issued through auctions conducted by the Reserve Bank of India (RBI) at market-related rates, which are determined by the prevailing interest rates and investor demand. This process forms a significant part of the government's internal debt management.

**Q.9) Consider the following statements:**
1. Tight monetary policy of US Federal Reserve could lead to capital flight.
2. Capital flight may increase cost of firms with existing External Commercial Borrowings (ECBs)
3. Devaluation of domestic currency decreases the currency risk associated with ECBs
**Which of the statements given above are correct?**
**a) 1 and 2 only**
b) 2 and 3 only
c) 1 and 3 only
d) 1, 2 and 3

**ANSWER: A**
**Statement 1 is correct.** Tight monetary policy of the US Federal Reserve could lead to capital flight. When the US Federal Reserve tightens its monetary policy, it typically increases interest rates, making US dollar-denominated assets more attractive to investors. As a result, capital may flow out of other countries, including emerging markets like India, and into the US as investors seek higher returns. This process is known as capital flight.
**Statement 2 is correct**. Capital flight may increase the cost of firms with existing External Commercial Borrowings (ECBs). When capital flight occurs, it can lead to a depreciation of the domestic currency, which in turn increases the cost of servicing foreign currency-denominated debt, such as ECBs. This is because firms must convert more of their domestic currency to pay off their foreign currency-denominated debt obligations.
**Statement 3 is incorrect.** Devaluation of domestic currency actually increases the currency risk associated with ECBs. When a domestic currency is devalued, it becomes less valuable relative to foreign currencies. This makes it more expensive for firms to service their foreign currency-denominated debt, such as ECBs, as they must convert more of their domestic currency to meet their debt obligations. The increased cost of servicing debt due to currency fluctuations is known as currency risk, and it is heightened when the domestic currency is devalued.

**Q.10) Consider the following statements:**
1. In India, credit rating agencies are regulated by Reserve Bank of India.
2. The rating agency popularly known as ICRA is a public limited company.
3. Brickwork Rating is an Indian credit rating agency.

**Which of the statements given above are correct?**
a) 1 and 2 only
**b) 2 and 3 only**
c) 1 and 3 only
d) 1, 2 and 3

**ANSWER: B**
**Statement 1 is incorrect.** In India, credit rating agencies are regulated by the Securities and Exchange Board of India (SEBI) under the Credit Rating Agencies Regulations, 1999, not the Reserve Bank of India (RBI). SEBI is the regulator for the securities market in India and is responsible for ensuring the fair functioning of credit rating agencies, among other financial entities.
**Statement 2 is correct.** The rating agency popularly known as ICRA (Investment Information and Credit Rating Agency) is a public limited company. It is one of the leading credit rating agencies in India and is a subsidiary of Moody's Corporation.
**Statement 3 is correct.** Brickwork Ratings is an Indian credit rating agency. It provides credit ratings for various types of debt instruments, including bonds, commercial papers, and bank loans, among others.

**Q.11) With reference to the 'Banks Board Bureau (BBB)', which of the following statements are correct?**
1. The Governor of RBI is the Chairman of BBB.
2. BBB recommends for the selection of heads for Public Sector Banks.
3. BBB helps the Public Sector Banks in Developing strategies and capital raising plans.

**Select the correct answer using the code given below:**
a) 1 and 2 only
**b) 2 and 3 only**
c) 1 and 3 only
d) 1, 2 and 2

**ANSWER: B**
**Statement 1 is incorrect.** The Governor of RBI is not the Chairman of the Banks Board Bureau (BBB). The Chairman of the BBB is appointed separately and is typically a person with experience in the banking sector or financial services industry.
**Statement 2 is correct.** The BBB recommends the selection of heads for Public Sector Banks (PSBs). One of the main functions of the BBB is to recommend candidates for the top management positions in PSBs, including the positions of Chairman, Managing Director, and Executive Directors.
**Statement 3 is correct.** The BBB helps Public Sector Banks in developing strategies and capital raising plans. The BBB works with the PSBs to help them improve their governance, risk management, and capital planning processes. This includes assisting them in formulating business strategies, capital raising plans, and providing recommendations on the consolidation of PSBs.

**Q.12) With reference to Convertible Bonds consider the following statements:**
1. As there is an option to exchange the bond for equity, Convertible Bonds pay a lower rate of interest.
2. The option to convert to equity affords the bondholder a degree of indexation to rising consumer prices.

**Which of the statements given above is / are correct?**
a) 1 only

b) 2 only
**c) Both 1 and 2**
d) Neither 1 nor 2

**ANSWER: C**

**Statement 1 is correct.** Convertible bonds pay a lower rate of interest because they offer the option to exchange the bond for equity. This additional feature provides bondholders with the potential to benefit from any increase in the value of the company's shares. As a result, the issuer of convertible bonds can pay a lower rate of interest compared to non-convertible bonds to compensate for this added benefit.

**Statement 2 is correct.** Convertible bondholders have the option to convert their bonds into a specified number of shares of the issuing company's stock. While this conversion feature does not provide direct indexation to rising consumer prices, it can potentially offer some indirect protection against inflation. When inflation leads to higher consumer prices, it usually signals a growing economy. In such an environment, companies might experience increased revenues and profits, which could lead to higher stock prices. If the underlying stock price rises, the value of the convertible bondholder's conversion option may also increase, as they can potentially profit from converting their bonds into shares and then selling those shares at the higher market price.

However, this indirect protection against inflation is not guaranteed, as the performance of the company's stock depends on various factors, including industry conditions, company management, and broader market trends. Additionally, convertible bonds may be exposed to other risks, such as interest rate risk and credit risk.

In conclusion, while convertible bonds do not provide a direct link to rising consumer prices, their conversion feature may offer some indirect protection against inflation. But it is important to remember that this protection is not assured and depends on the underlying stock's performance and various market factors.

**Q.13) In India, what is the role of the Coal Controller's Organization (CCO)?**

1. CCO is the major source of Coal Statistics in Government of India.
2. It monitors progress of development of Captive Coal/Lignite blocks.
3. It hears any objection ' to the Government's notification relating to acquisition of coal-bearing areas.
4. It ensures that coal mining companies deliver the coal to end users in the prescribed time.

**Select the correct answer using the code given below:**

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

**ANSWER: A**

The Coal Controller's Organisation (CCO) is a vital part of the Indian coal sector, being a subordinate office under the Ministry of Coal. The organization has its main office in Kolkata, along with field offices in several cities across the country.

**Statement 1 is correct:** The CCO serves as the primary source of coal and lignite statistics in India, as mandated by the Collection of Statistics Act, 2008. It collects and maintains essential data related to coal production for both public and private sector coal mines. The CCO is also responsible for conducting the Annual Coal & Lignite survey and publishing critical publications, such as the Provisional Coal Statistics and Coal Directory of India.

**Statement 2 is correct:** The CCO plays a crucial role in overseeing the development of captive coal and lignite mines. This responsibility includes granting permissions for opening and reopening coal mines and ensuring that allocated mines adhere to the specified conditions and development timelines.

**Statement 3 is correct**: Under the Coal Bearing Area (Acquisition and Development) Act, 1957, the Coal Controller acts as the competent authority for hearing any objections to the Central Government's

Notification regarding the acquisition of coal-bearing land. The CCO is also responsible for submitting reports to the Central Government in this context.

**Statement 4 is incorrect:** While ensuring timely coal delivery to end-users is essential, it is not a primary function of the Coal Controller's Organisation (CCO). In India, ensuring that coal mining companies deliver coal to end-users in a timely manner is primarily the responsibility of Coal India Limited (CIL) and its subsidiaries, as well as other coal mining companies, both in the public and private sectors. CIL operates through its subsidiaries and is responsible for supplying coal to various sectors, including power, steel, and cement industries. To ensure timely coal delivery to end-users, CIL and its subsidiaries work closely with the Indian Railways, which is the primary mode of coal transportation in the country. The Ministry of Coal, along with other regulatory authorities, such as the Central Electricity Authority (CEA) and state governments, closely monitor the coal supply chain to ensure its delivery process. These authorities also set guidelines and policies for coal mining companies to follow, helping to ensure that coal reaches end-users in a timely manner.

**Q.14) The money multiplier in an economy increases with which one of the following?**

a) Increase in the Cash Reserve Ratio in the banks.
b) Increase in the Statutory Liquidity Ratio in the banks.
c) **Increase in the banking habit of the people.**
d) Increase in the population of the country.

**ANSWER: C**

The money multiplier in an economy is influenced by factors related to the reserve requirements for banks and the banking habits of the population.

**Increase in the Cash Reserve Ratio (CRR) in the banks**: The CRR is the percentage of a bank's total public deposits (Net Demand and Time Liabilities) that must be held as reserves with the central bank. An increase in the CRR reduces the amount of money available for lending and decreases the money multiplier. So, this statement is incorrect.

**Increase in the Statutory Liquidity Ratio (SLR) in the banks:** The SLR is the percentage of a bank's total deposits that must be held in liquid assets, such as cash, gold, or government securities. An increase in the SLR also reduces the amount of money available for lending and decreases the money multiplier. So, this statement is incorrect.

**Increase in the banking habit of the people:** When people deposit more money in banks and use banking services, it increases the amount of money available for lending, which in turn increases the money multiplier. So, this statement is correct.

**Increase in the population of the country:** A growing population could potentially contribute to an increase in the money multiplier if it leads to a greater use of banking services and an increase in deposits. However, this relationship is not direct, and the impact on the money multiplier will depend on various factors, such as economic growth, income levels, and financial inclusion. Therefore, this statement is not necessarily correct.

**Q.15) With reference to Indian economy, demand pull-inflation can be caused/increased by which of the following?**

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

**Select the correct answer using the codes given below.**

**a) 1, 2 and 4 Only**
b) 3, 4 and 5 Only
c) 1, 2, 3 and 5 Only
d) 1, 2, 3, 4 and 5

**ANSWER: A**
Demand-pull inflation occurs when aggregate demand for goods and services in an economy increases more rapidly than the economy's productive capacity, leading to higher prices. Let's analyze each statement to determine which can cause or increase demand-pull inflation:
**Expansionary policies:** Expansionary monetary and fiscal policies increase the money supply, reduce interest rates, and increase government spending, which can lead to an increase in aggregate demand and potentially cause demand-pull inflation. This statement is correct.
**Fiscal stimulus:** Fiscal stimulus measures, such as increased government spending or tax cuts, can boost aggregate demand, leading to demand-pull inflation. This statement is correct.
**Inflation-indexing wages**: Inflation-indexed wages are adjusted to keep pace with inflation, which can increase consumers' purchasing power and aggregate demand, potentially contributing to demand-pull inflation. This statement is correct.
**Higher purchasing power:** When consumers have higher purchasing power, they can demand more goods and services, which can increase aggregate demand and potentially cause demand-pull inflation. This statement is correct.
**Rising interest rates:** Rising interest rates generally reduce borrowing and spending, which can decrease aggregate demand. This statement is incorrect, as higher interest rates are usually associated with contractionary policies aimed at curbing inflation.
Based on the explanations above, the correct answer is:
a. 1, 2, and 4 Only

**Q.16) With reference to India, consider the following statements:**
1. Retail investors through demat account can invest in 'Treasury Bills' and 'Government of India Debt Bonds' in primary market.
2. The 'Negotiated Dealing System-Order Matching' is a government securities trading platform of the Reserve Bank of India.
3. The 'Central Depository Services Ltd.' is jointly promoted by the Reserve Bank of India and the Bombay Stock Exchange.
**Which of the statements given below is/are correct?**
a) 1 Only
**b) 1 and 2 Only**
c) 3 Only
d) 2 and 3

**ANSWER: B**
**Retail investors through demat account can invest in 'Treasury Bills' and 'Government of India Debt Bonds' in primary market:** Retail investors can invest a minimum of ₹10,000 and in multiples thereof in Central Government Securities (CG), State Government Securities (SG) and Treasury Bills (T-Bills) under the Reserve Bank of India's 'Retail Direct Scheme. **This statement is correct.**
**The 'Negotiated Dealing System-Order Matching' (NDS-OM) is a government securities trading platform of the Reserve Bank of India:** NDS-OM is an electronic, screen-based, anonymous, and order-driven trading system for government securities, which is owned and operated by the RBI. **This statement is correct.**
**The 'Central Depository Services Ltd.' (CDSL) is jointly promoted by the Reserve Bank of India and the Bombay Stock Exchange:** CDSL is one of the two main depositories in India that provide dematerialization services for securities. It was initially promoted by the Bombay Stock Exchange (BSE), but the Reserve Bank of India (RBI) was not a promoter. **This statement is incorrect.**

**Q.17) With reference to the casual workers employed in India, consider the following statements:**
1. All casual workers are entitled for Employees Provident Fund coverage.
2. All casual workers are entitled for regular working hours and overtime payment.

3. The government can by a notification specify that an establishment or industry shall pay wages only through its bank account.
Which of the above statements are correct?
a) 1 and 2 only
b) 2 and 3 only
c) 1 and 3 only
**d) 1, 2 and 3**

**ANSWER: D**
**Statement 1 is correct.**
A casual worker is a worker on a temporary employment contract with generally limited entitlements to benefits and little or no security of employment. The main attribute is the absence of a continuing relationship of any stability with an employer, which could lead to their not being considered 'employees' at all.
However, the Supreme Court of India has ruled that casual workers are also entitled to social security benefits under the Employees' Provident Funds and Miscellaneous Provisions Act. According to **Section 2(f) of the EPF Act**, the definition of an employee is an inclusive definition and is widely worded to include any person engaged either directly or indirectly in connection with the work of an establishment and is paid wages.
**Statement 2 is correct.**
In India, casual workers have the right to enjoy standard working hours and receive overtime compensation, as mandated by the nation's labour laws. Whenever they work beyond the customary hours, these workers are eligible for overtime pay, which typically surpasses their regular wage rate.
It's important to recognize that casual workers are granted the same rights and privileges as their full-time counterparts, as the Supreme Court's guidelines define an employee to include casual labour. As stipulated by the Minimum Wages Rules of 1950, all employees in India are entitled to standard working hours and overtime payment.
**Statement 3 is correct.**
The government can issue a notification specifying that an establishment or industry shall pay wages only through its bank account. This requirement is aimed at ensuring transparency in wage payments and reducing the chances of exploitation and wage theft.
The Payment of Wages (Amendment) Act 2017 provides that the Government may specify that the employer of any industrial or other establishment shall pay wages to every employee only by cheque or by crediting the wages in their bank account.

**Q.18) Which among the following steps is most likely to be taken at the time of an economic recession?**
a) Cut in tax rates accompanied by increase in interest rate.
b) **Increase in expenditure on public projects.**
c) Increase in tax rates accompanied by reduction of interest rate.
d) Reduction of expenditure on public projects.

**ANSWER: B**
At the time of an economic recession, governments and central banks employ a range of policy measures to counteract the negative effects of the downturn and promote economic recovery. The most suitable step among the given options is:
2. Increase in expenditure on public projects.
Detailed explanation of the policies that can be implemented during a recession:
1. Expansionary fiscal policy: Governments can increase spending on public projects, such as infrastructure development, education, and healthcare, to generate employment opportunities and stimulate demand. This increased spending helps to boost economic activity and raise overall

income levels. Additionally, governments can cut taxes, which increases disposable income for households and businesses, encouraging them to consume and invest more.

2. Expansionary monetary policy: Central banks can reduce interest rates, making borrowing more affordable for consumers and businesses. Lower interest rates encourage spending and investment, as individuals and businesses can access loans at lower costs. Furthermore, central banks can employ quantitative easing, a process by which they purchase government bonds or other financial assets, injecting money into the economy and further lowering interest rates.
3. Targeted assistance programs: Governments can introduce targeted assistance programs, such as unemployment benefits, food assistance, or direct financial support, to help those most affected by the recession. These programs provide a safety net for individuals and businesses, helping them maintain their spending levels and supporting economic activity during difficult times.
4. Business incentives: Governments can introduce incentives for businesses to invest, innovate, and hire workers. These incentives may include tax breaks, subsidies, or low-interest loans. By encouraging businesses to expand and invest, governments can foster economic growth and job creation.

In conclusion, during an economic recession, the most appropriate action is to increase expenditure on public projects, as it is a key component of expansionary fiscal policy. This policy, along with other expansionary fiscal and monetary measures, can help stimulate economic growth, create jobs, and alleviate the negative impacts of a recession.

**Q.19) Consider the following statements:**
Other things remaining unchanged, market demand for a good might increase if,
1. Price of its substitute increases
2. Price of its complement increases
3. The good is an inferior good and income of the consumers increases
4. Its price falls

Which of the statements given above is/are correct?
**a) 1 and 4 only**
b) 2, 3 and 4
c) 1, 3 and 4
d) 1, 2 and 3

**ANSWER: A**
**Price of its substitute increases:** If the price of a substitute good increases, consumers are more likely to shift their demand to the original good, as it becomes relatively cheaper. This statement is correct.
**Price of its complement increases:** When the price of a complement good increases, the demand for the original good is likely to decrease, as the combined price of the goods becomes more expensive, and consumers may reduce their consumption. This statement is incorrect.
**The good is an inferior good and the income of the consumers increases:** For inferior goods, demand decreases when consumer income increases. This is because consumers tend to shift their consumption towards superior goods as their income increases. This statement is incorrect.
**Its price falls:** According to the law of demand, when the price of a good falls, the quantity demanded for that good increases, assuming other factors remain constant. This statement is correct.

**Q.20) Which one of the following is likely to be the most inflationary in its effects?**
a) Repayment of Public debt.
b) Borrowing from the public to finance a budget deficit.
c) Borrowing from the banks to finance a budget deficit.
d) **Creation of new money to finance a budget deficit.**

**ANSWER: D**
Each option has different effects on inflation:

a) Repayment of Public debt: This action, in itself, is not inflationary. However, if the government repays public debt by printing more money, it can be inflationary.
b) Borrowing from the public to finance a budget deficit: Borrowing from the public may not be as inflationary as other options, as it does not directly increase the money supply. However, it may lead to higher interest rates and reduced private investments (crowding-out effect).
c) Borrowing from the banks to finance a budget deficit: This option can be inflationary, as borrowing from banks can increase the money supply in the economy. Higher money supply may lead to higher inflation if the economy is operating near its full capacity.
d) Creation of new money to finance a budget deficit: This option is the most inflationary, as it directly increases the money supply in the economy. An increase in money supply, without a corresponding increase in goods and services, can lead to higher inflation.

**Q.21) Which one of the following effects of creation of black money in India has been the main cause of worry to the Government of India?**
a) Diversion of resources to the purchase of real estate and investment in luxury housing.
b) Investment in unproductive activities and purchase of precious stones, jewellery, gold, etc.
c) Large donations to political parties and growth of regionalism.
d) **Loss of revenue to the State Exchequer due to tax evasion.**

**ANSWER: D**
The main cause of worry among the options provided is:
4. Loss of revenue to the State Exchequer due to tax evasion.
Black money leads to tax evasion, which results in a significant loss of revenue for the government. This loss of revenue can have detrimental effects on government spending, public services, and infrastructure development. The government may have to resort to borrowing or other measures to finance its expenditures, which can further exacerbate economic problems.

**Q.22) The effect of devaluation of a currency is that it necessarily**
1. improves the competitiveness of the domestic exports in the foreign markets.
2. increases the foreign value of domestic currency.
3. improves the trade balance.
**Which of the above statements is/are correct?**
**a) 1 Only**
b) 1 and 2
c) 3 Only
d) 2 and 3

**ANSWER: A**
**Statement 1 is correct.** When a country devalues its currency, the cost of its domestic goods and services decreases for foreign buyers, which enhances the competitiveness of domestic exports in international markets. This can result in an increase in export volume, thereby potentially boosting the domestic economy.
**Statement 2 is incorrect**. When a currency is devalued, its value in terms of foreign currencies declines. As a result, it requires more units of the domestic currency to purchase one unit of a foreign currency, which means the foreign value of the domestic currency decreases.
**Statement 3 is conditionally correct**. Devaluation may lead to an improvement in the trade balance if the positive impact on export volume and the negative impact on import volume offset the lower export prices and higher import prices. However, this improvement is not a certainty, as it is contingent on several factors such as the price elasticity of demand for exports and imports, global economic conditions, and other variables affecting trade.

**Q.23) Consider the following**
1. Foreign Currency convertible bonds
2. Foreign Institutional investment with certain conditions
3. Global depository receipts
4. Non-resident external deposits

**Which of the above can be included in Foreign Direct Investments?**
a) 1, 2 and 3
b) 3 Only
c) 2 and 4
d) 1 and 4

**ANSWER: A**
Under certain conditions, Statements 1, 2, and 3 can be considered as part of Foreign Direct Investments (FDI).
1. Foreign Currency Convertible Bonds (FCCBs) - FCCBs are issued as per the guidelines provided under the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993, and subsequent amendments. The automatic route for FCCB issuance is permitted. Initially, FCCBs are debt instruments, but they can be classified as FDI once converted into equity shares.
2. Foreign Institutional Investment (FII) with specific conditions - FII refers to an investment made by non-resident individuals in capital instruments where the investment is less than 10% of the post-issue paid-up equity capital or less than 10% of the paid-up value of each series of capital instruments of a listed Indian company. The percentage determines if the investment is direct or institutional. FII above 10% of the post-issue paid-up equity capital is regarded as FDI. Once classified as FDI, it remains FDI.
3. Global Depository Receipts (GDRs) - GDRs enable foreign investment in Indian securities, along with Foreign Currency Convertible Bonds and Foreign Currency Bonds issued by Indian issuers listed and traded overseas. Under specific conditions, GDRs can be considered as FDI.

Statement 4 is incorrect. Non-Resident External (NRE) accounts are rupee-denominated accounts that NRIs can open to deposit their foreign currency earnings. These accounts do not qualify as FDI.

**Q.24) India Government Bond Yields are influenced by which of the following?**
1. Actions of the United States Federal Reserve.
2. Actions of the Reserve Bank of India.
3. Inflation and short-term interest rates.

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

**ANSWER: D**
India Government Bond Yields are influenced by various factors, including:
1. Actions of the United States Federal Reserve: Decisions made by the US Federal Reserve regarding monetary policy can significantly impact global financial markets, including India's bond market. Any changes in US interest rates can lead to shifts in capital flows, which in turn, can cause fluctuations in Indian bond yields. For instance, when the Federal Reserve raises interest rates, investors may prefer to invest in US bonds, causing bond yields to rise in emerging markets like India.
2. Actions of the Reserve Bank of India (RBI): The monetary policy decisions taken by the RBI, such as changes in repo rates or open market operations, can directly impact Indian government bond yields. The central bank's actions can affect the overall interest rate environment in India, and in turn, influence the demand and supply dynamics for government bonds. For example, when the RBI

lowers the repo rate, it can lead to lower borrowing costs for banks and other financial institutions, which may result in lower bond yields.

3. Inflation and short-term interest rates: Inflation and short-term interest rates play a crucial role in determining bond yields. Higher inflation can lead to expectations of higher interest rates in the future, which could result in a decrease in bond prices and an increase in yields. Conversely, lower inflation can result in expectations of lower interest rates, which can lead to an increase in bond prices and a decrease in yields. Additionally, fluctuations in short-term interest rates can influence the yields on government bonds, as investors adjust their expectations based on the current interest rate environment. For instance, a rise in short-term interest rates can lead to higher bond yields, as investors demand higher returns to compensate for the increased borrowing costs.

Thus, all three factors - actions of the United States Federal Reserve, actions of the Reserve Bank of India, and inflation and short-term interest rates - play a significant role in influencing India Government Bond Yields.

**Q.25) With reference to 'Urban Cooperative Banks' in India, consider the following statements:**

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

Which of the statements given above is/are correct?

a) 1 only

**b) 2 and 3 only**

c) 1 and 3 only

d) 1, 2 and 3

**ANSWER: B**

**Statement 1 is incorrect**. Urban Cooperative Banks (UCBs) are primarily regulated by the Reserve Bank of India (RBI), and their registration is under the provisions of the respective State Cooperative Societies Acts. While the RBI regulates their banking operations, the state governments' cooperative departments oversee their management and administration.

**Statement 2 is correct.** UCBs are allowed to issue shares, including equity and preference shares, subject to regulatory guidelines and approvals. This helps them raise capital to meet their requirements. Thus,

**Statement 3 is correct.** The Banking Regulation Act, 1949, was amended in 1966 to bring cooperative banks, including UCBs, under the purview of the RBI. This amendment enabled the RBI to exercise control over UCBs, ensuring better regulation and supervision.

**Q.26) If another global financial crisis happens in the near future, which of the following actions/policies are most likely to give some immunity to India?**

1. Not depending on short-term foreign borrowings
2. Opening up to more foreign banks
3. Maintaining full capital account convertibility

Select the correct answer using the code given below:

a) **1 only**

b) 1 and 2 only

c) 3 only

d) 1, 2 and 3

**ANSWER: A**

**Statement 1 is correct**. Avoiding reliance on short-term foreign borrowings can offer some degree of protection for India in the event of a global financial crisis. Relying on short-term foreign borrowings exposes a country to external shocks and the risk of sudden capital outflows, which can exacerbate the negative effects of a financial crisis.

**Statement 2 is incorrect.** Increasing the presence of foreign banks in the Indian market may not provide immunity during a global financial crisis. Although foreign banks can contribute additional capital, technical know-how, and competitive forces to the financial sector, they may also transmit economic shocks from their home countries to the host country, thereby increasing vulnerability during a crisis.

**Statement 3 is incorrect.** Preserving full capital account convertibility is unlikely to provide immunity during a global financial crisis. Full capital account convertibility permits unrestricted cross-border capital flows, which could potentially intensify the impact of a crisis due to greater susceptibility to capital flight and currency speculation.

**Q.27) If you withdraw Rs. 1,00,000 in cash from your Demand Deposit Account at your bank, the immediate effect on aggregate money supply in the economy will be**

a) to reduce it by Rs 1,00,000
b) to increase it by Rs 1,00,000
c) to increase it by more than Rs 1,00,000
**d) to leave it unchanged**

**ANSWER: D**

When discussing the money supply in an economy, we often refer to various monetary aggregates, such as M1, M2, and so on. These aggregates represent different measures of the money supply, with each including a broader range of financial assets.

M1 is the most liquid measure of the money supply and includes currency in circulation (cash held by the public) and demand deposits (checking accounts). When you withdraw Rs. 1,00,000 from your Demand Deposit Account, you are essentially converting a part of demand deposits into currency in circulation.

In this case, the withdrawal leads to a decrease in demand deposits and a corresponding increase in currency in circulation by the same amount. Since both currency in circulation and demand deposits are components of M1, the total M1 money supply remains unchanged.

Therefore, withdrawing Rs. 1,00,000 in cash from your Demand Deposit Account does not impact the aggregate money supply (M1) in the economy, as the total value remains the same, only the distribution between its components has changed.

**Q.28) In India, which of the following can be considered as public investment in agriculture?**

1. Fixing Minimum Support Price for agricultural produce of all crops
2. Computerization of Primary Agricultural Credit Societies
3. Social Capital development
4. Free electricity supply to farmers
5. Waiver of agricultural loans by the banking system
6. Setting up of cold storage facilities by the governments

Select the correct answer using the code given below:

a) 1, 2 and 5 only
b) 1, 3, and 4 and 5 only
c) **2, 3 and 6 only**
d) 1, 2, 3, 4, 5 and 6

**ANSWER: C**

Public investment in agriculture refers to government initiatives that directly allocate financial resources and support services to promote the agricultural sector, enhance productivity, and improve the overall welfare of farmers. These investments can help improve agricultural infrastructure, enhance human capital, and promote the adoption of advanced technology in the sector.

Among the given options:

1. Fixing Minimum Support Price (MSP) for agricultural produce of all crops: MSP is a price policy instrument used by the government to ensure a minimum price for farmers' produce, protecting them from price fluctuations in the market. While MSP can help stabilize farmers' incomes, it is not a direct public investment in agriculture as it does not involve the allocation of resources to improve the sector's infrastructure or services.
2. Computerization of Primary Agricultural Credit Societies: This is an example of public investment, as it involves the allocation of resources to modernize agricultural credit systems. By digitizing credit services, it enables farmers to access credit easily, thereby promoting investment in farming practices, technology, and infrastructure.
3. Social Capital development: This is an example of public investment, as it involves investing in the development of social networks, institutions, and organizations related to agriculture. Building social capital can enhance information sharing, trust, and cooperation among farmers, which can lead to better decision-making, resource management, and overall productivity.
4. Free electricity supply to farmers: Although providing free electricity to farmers can be considered a support measure, it is a subsidy rather than a direct public investment in agriculture. Subsidies can help reduce farmers' costs, but they do not directly contribute to the improvement of agricultural infrastructure or services.
5. Waiver of agricultural loans by the banking system: Loan waivers are debt relief measures designed to ease the financial burden on farmers. While they can provide temporary relief to indebted farmers, they do not constitute direct public investment in agriculture, as they do not allocate resources to improve the sector's infrastructure or services.
6. Setting up of cold storage facilities by the governments: Investing in cold storage infrastructure is an example of public investment, as it helps reduce post-harvest losses, maintain product quality, and ensure better market access for farmers. By improving the supply chain and storage facilities, the government directly supports the agricultural sector, fostering economic growth and food security.

**Q.29) What is the importance of the term "Interest Coverage Ratio" of a firm in India?**

1. It helps in understanding the present risk of a firm that a bank is going to give loan to.
2. It helps in evaluating the emerging risk of a firm that a bank is going to give loan to.
3. The higher a borrowing firm's level of Interest Coverage Ratio, the worse is its ability to service its debt.

Select the correct answer using the code given below:

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

**ANSWER: A**

The Interest Coverage Ratio (ICR) is an essential financial metric that evaluates a company's capacity to cover interest payments on its existing debt obligations. By dividing the earnings before interest and taxes (EBIT) by the interest expenses, this ratio is obtained. A higher ICR reflects a company's stronger ability to meet its interest payments, whereas a lower ICR could indicate potential difficulties in fulfilling these obligations.

**Statement 1 is correct**. ICR is crucial for banks to evaluate the firm's current financial health. The ICR helps banks determine the firm's ability to service its debt, providing insights into its financial stability. A higher ICR typically indicates a lower risk associated with lending to the firm, as it demonstrates the firm's capacity to meet interest payments with its current earnings.

**Statement 2 is correct.** By analysing a firm's ICR trends and comparing them with industry benchmarks, banks can identify potential future risks that may affect the firm's ability to service its debt.

Understanding the emerging risks allows banks to make more informed lending decisions, potentially mitigating the risk of default or financial distress for the borrowing firm.

**Statement 3 is incorrect.** A higher ICR signifies a stronger ability to pay interest expenses, as the company generates enough earnings to cover these payments comfortably. A lower ICR, on the other hand, indicates a higher risk associated with lending to the firm, as it may have difficulty meeting its interest obligations.

In conclusion, the ICR is relevant to investors who analyze a firm's financial health. A high ICR signals a lower risk of default, potentially making the firm's stocks and bonds more attractive to investors. Moreover, a healthy ICR may contribute to the firm's overall credit rating, potentially reducing borrowing costs and enhancing its reputation in the market.

**Q.30) Consider the following statements:**

1. The weightage of food in Consumer Price Index (CPI) is higher than that in Wholesale Price Index (WPI).
2. The WPI does not capture changes in the prices of services, which CPI does.
3. Reserve Bank of India has now adopted WPI as its key measure of inflation and to decide on changing the key policy rates.

Which of the statements given above is/are correct?

a) **1 and 2 only**

b) 2 only

c) 3 only

d) 1, 2 and 3

**ANSWER: A**

**Statement 1 is correct:** The weightage of food in the Consumer Price Index (CPI) is higher than that in the Wholesale Price Index (WPI). This is because the CPI is designed to reflect the cost of living for consumers, and food consumption constitutes a significant part of household budgets. The WPI, on the other hand, measures the price changes at the wholesale level for a wider range of goods, which results in a lower weightage assigned to food items. The difference in weightage illustrates the varying focus of the two indices.

**Statement 2 is correct:** The WPI does not capture changes in the prices of services, while CPI does. This is an important distinction because services form a substantial portion of the economy and significantly impact consumers' expenses. The inclusion of services in CPI makes it a more comprehensive measure of the overall inflation experienced by consumers, whereas WPI provides insights into the pricing dynamics at the production level of goods.

**Statement 3 is incorrect:** The Reserve Bank of India (RBI) uses the Consumer Price Index (CPI) as its key measure of inflation rather than the Wholesale Price Index (WPI). This is because the CPI better reflects the inflation rate faced by households in their day-to-day consumption patterns. The RBI uses inflation targeting as a central part of its monetary policy framework, and focusing on CPI allows the central bank to make more informed decisions about interest rates and other policy tools in order to achieve its inflation objectives.

**Q.31) Consider the following statements:**

1. In the case of all cereals, pulses and oil-seeds, the procurement at Minimum Support Price (MSP) is unlimited in any State/UT of India.
2. In the case of cereals and pulses, the MSP is fixed in any State/UT at a level to which the market price will never rise.

Which of the statements given above is/are correct?

a) 1 only

b) 2 only

c) Both 1 and 2

**d) Neither 1 nor 2**

**ANSWER: D**
**Statement 1 is incorrect**. The procurement at Minimum Support Price (MSP) is not unlimited in any State/UT of India. While MSP aims to provide a safety net to farmers by assuring them a minimum price for their produce, the actual procurement depends on various factors such as logistical constraints, storage capacity, and the efficiency of procurement agencies like the Food Corporation of India (FCI) and other central government-designated agencies.
**Statement 2 is incorrect**. MSP is determined based on various factors, including production costs, demand and supply conditions, and market prices. However, there is no guarantee that market prices will never rise above the MSP in any State/UT. Market prices may sometimes rise above the MSP due to supply constraints, rising demand, or other factors influencing market conditions.
Thus, the correct answer is (d) Neither 1 nor 2.

**Q.32) With reference to the Indian economy, consider the following statements:**
1. 'Commercial Paper' is a short-term unsecured promissory note.
2. 'Certificate of Deposit' is a long-term instrument issued by the Reserve Bank of India to a corporation.
3. 'Call Money' is a short-term finance used for interbank transitions.
4. 'Zero-Coupon Bonds' are the interest-bearing short-term bonds issued by the Scheduled Commercial Banks to corporations.

Which of the statements given above is/are correct?
a) 1 and 2 only
b) 4 only
**c) 1 and 3 only**
d) 2, 3 and 4 only

**ANSWER: C**
**Statement 1 is correct:** Commercial Paper is a short-term unsecured promissory note issued by companies to raise funds to manage their working capital needs. They are often used as a flexible and cost-effective alternative to bank loans and are typically issued at a discount to face value and redeemed at par.
**Statement 2 is incorrect**: A Certificate of Deposit (CD) is a short-term financial instrument issued by banks and other financial institutions. It is considered a safe investment option and offers higher interest rates than savings accounts, catering to short-term investors. CDs are not issued by the Reserve Bank of India to corporations.
**Statement 3 is correct:** Call Money is a short-term finance used for interbank transactions, allowing banks to manage their reserve requirements and short-term liquidity needs. The interest rate in the call money market, known as the call rate, can be influenced by the central bank's monetary policy actions.
**Statement 4 is incorrect:** Zero-Coupon Bonds are long-term debt securities that do not make periodic interest payments. Instead, they are issued at a discount to face value and redeemed at par upon maturity, making them suitable for investors looking for a long-term investment with a predetermined return. Scheduled Commercial Banks may issue zero-coupon bonds, but they are not specifically short-term instruments.

**Q.33) In the context of the Indian economy, non-financial debt includes which of the following?**
1. Housing loans owed by households.
2. Amounts outstanding on credit cards.
3. Treasury bills

Select the correct answer using the code given below:

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

**ANSWER: D**
Non-financial debt typically refers to debt held by sectors of the economy other than the financial sector. This includes the debt held by households, non-financial corporations, and the government. For households, this could include things like housing loans, student loans, car loans, or credit card debt. For non-financial corporations, this could involve debt taken on for operational expenses, capital expenditure, or expansion activities. In each of these cases, the debt is used for real, tangible things – buying a house or a car, taking education, running a business, etc.
Financial debt, on the other hand, is typically held by the financial sector and involves the borrowing and lending of funds within the financial system. This includes things like bank loans provided to other financial corporations or investments in financial instruments like bonds and treasury bills.
**Statement 1 is correct:** Housing loans owed by households are considered non-financial debt since households are non-financial entities.
**Statement 2 is correct:** Amounts outstanding on credit cards also qualify as non-financial debt as they are liabilities of households, which are non-financial entities.
**Statement 3 is correct:** Treasury bills are short-term debt instruments issued by the government. As the government is also a non-financial entity, its debt, including treasury bills, can be considered non-financial debt from the perspective of the debtor.
**Note:** Treasury bills are not generally considered non-financial debt in economic literature because they are a financial instrument issued by the government. They represent a financial liability for the government and an asset for the holder.
However, in the context of the question, if we consider the purchaser of the treasury bills as a non-financial entity like a household or non-financial corporation, this could be viewed as non-financial debt as they have borrowed (purchased the bills) from the government.
This is a nuanced interpretation and depends on how broadly one defines non-financial debt. If we consider non-financial debt strictly as loans taken for non-financial purposes (like purchasing goods, services, or real estate), then treasury bills would not fit this definition. But if we consider any borrowing by non-financial entities to be non-financial debt, then treasury bills could potentially be included.

**Q.34) With reference to the Trade-Related Investment Measures (TRIMS), which of the following statements is/are correct?**
1. Quantitative restrictions on imports by foreign investors are prohibited.
2. They apply to investment measures related to trade in both goods and services.
3. They are not concerned with the regulation of foreign investments.

Select the correct answer using the code given below:
a) 1 and 2 only
b) 2 only
c) **1 and 3 only**
d) 1, 2 and 3 only

**ANSWER: C**
**Statement 1**: "Quantitative restrictions on imports by foreign investors are prohibited." **This is correct.** The Trade-Related Investment Measures (TRIMs) indeed prohibit quantitative restrictions on imports by foreign investors. TRIMs are designed to ensure that foreign and domestic goods are treated equally and that no measures are in place that could restrict or discriminate against foreign goods.
**Statement 2:** "They apply to investment measures related to trade in both goods and services." **This is incorrect**. The TRIMs agreement applies solely to investment measures related to trade in goods, not

services. This is clearly outlined in Article 1 of the TRIMs agreement. Therefore, any investment measures pertaining to trade in services are not covered under TRIMs.

**Statement 3:** "They are not concerned with the regulation of foreign investments." This is correct. While TRIMs do pertain to certain aspects of foreign investments, they do not regulate foreign investment in a comprehensive manner. The regulation of foreign investment in India, for instance, is largely governed by the Foreign Exchange Management Act (FEMA) and regulations/guidelines issued by the Department for Promotion of Industry and Internal Trade (DIPP). TRIMs primarily restrict the preference of domestic firms and allow international firms to operate more easily within foreign markets.

**Q.35) With reference of the Indian economy after the 1991 economic liberalization, consider the following statements:**

1. Worker productivity (Rs per worker at 2004-05 prices) increased in urban areas while it decreased in rural areas.
2. The percentage share of rural areas in the workforce steadily increased.
3. In rural areas, the growth in non-farm economy increased.
4. The growth rate in rural employment decreased.

Which of the statements given above is/are correct?

a) 1 and 2 only

b) **3 and 4 only**

c) 3 only

d) 1, 2, and 4 only

**ANSWER: B**

**Statement 1:** "Worker productivity (` per worker at 2004-05 prices) increased in urban areas while it decreased in rural areas." - **This statement is incorrect**. After liberalization, there has been a significant increase in worker productivity in urban areas due to the growth of industries and services sectors, the adoption of new technologies, and improved access to education and skills training. In contrast, worker productivity in rural areas has grown at a slower pace due to factors such as lower access to technology, education, and infrastructure. However, it's important to note that productivity in rural areas has not necessarily decreased but rather grown at a slower pace compared to urban areas.

**Statement 2**: "The percentage share of rural areas in the workforce steadily increased." - **This statement is incorrect**. Since liberalization, the share of the rural workforce has generally been decreasing. A significant section of the rural population has migrated to urban areas for better employment opportunities, contributing to the urbanization trend in India.

**Statement 3:** "In rural areas, the growth in the non-farm economy increased." - **This statement is correct.** After liberalization, there has been an increase in non-farm activities in rural areas, including industries such as manufacturing, services, and construction. This has been driven by several factors, including government initiatives to promote rural industrialization, improved infrastructure, and the growth of micro, small, and medium enterprises (MSMEs) in rural areas.

**Statement 4**: "The growth rate in rural employment decreased." - This statement is generally correct. Although there has been growth in non-farm activities in rural areas, the overall growth rate of rural employment has not kept pace with the rate of the workforce entering the job market. The rate of job creation in rural areas has been slower due to various reasons including mechanization of agriculture, population growth, and limited industrialization. Additionally, many rural workers have migrated to urban areas in search of better job opportunities, further contributing to a decrease in the growth rate of rural employment.

**Q.36) Consider the following statements:**

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

Which of the statements given above is/are correct?

a) 1 only

b) **2 only**

c) Both 1 and 2

d) Neither 1 nor 2

**ANSWER: B**

**Statement 1**: "In terms of short-term credit delivery to the agriculture sector, District Central Cooperative Banks (DCCBs) deliver more credit in comparison to Scheduled Commercial Banks and Regional Rural Banks" - **This statement is incorrect**. While DCCBs play a significant role in delivering credit to the agriculture sector, the extent of their contribution compared to Scheduled Commercial Banks and Regional Rural Banks can vary depending on the specific region and time period.

**Statement 2:** "One of the most important functions of DCCBs is to provide funds to the Primary Agricultural Credit Societies" - **This statement is correct**. DCCBs form an integral part of the rural cooperative credit structure in India. Their role is to provide funds to Primary Agricultural Credit Societies (PACS), which in turn provide loans to individual farmers. This function is critical as it facilitates the flow of credit to farmers and rural communities, which might not have easy access to other forms of institutional credit.