



Fact Sheet Prep Series Part - 8

ANSWER KEY WITH EXPLANATION

ECONOMY

(PART - II)

1. Ans. d

2. Ans. d

Explan - 12th FY plan recommended the following in order to leverage the benefits of IP:

- Build awareness about IP through education and training.
- Create national IP mission to continually evolve the IP strategy of the nation.
- Encourage joint awareness about IP through education and training. IP filings by industry/academia/research institutes.
- Encourage the formation of companies specializing in IPs (through tax incentives).
- Exempt income tax for the income generated from domestic IPs.

3. Ans. b

Explan - IIF is an impact investment fund that will invest in ventures catering to the country's poor. It is an autonomous Rs. 500 crore funds with the union Government contributing 20% and the balance will come from public sector banks, financial institution etc. It will address social needs of less privileged citizens in areas like healthcare, food nutrition, agriculture etc.

4. Ans. d

Explan - Liability is what the banks need to pay back. So, say if you deposit some money in a bank, then that deposit is the bank's liability. Similarly if bank takes money from someone (other bank or RBI) then that again is their liability. So, demand deposits and borrowings from other banks are liabilities, while cash kept with other banks is an asset. Endorsement of bills of exchange is also a liability.

5. Ans. c

6. Ans. d

Explan - M1 includes currency with public and only demand deposits with bank and not time deposits. It is known as narrow money. M3 includes M1 and time deposits with banks (not post office deposits) and known as broad money.

7. Ans. a

Explan - RBI has directed all the commercial banks to offer zero balance account with minimum facilities like cheque book and ATM to all customers. No-frill savings account scheme is provided by both public and private sector banks.

8. Ans. a

Explan - Statement 1 and 2 are correctly stated. The central government usually don't relies on ways and means advances and overdraft from the R.B.I. to cover their deficit.

9. Ans. b

Explan - The correctly matched pairs are –

Hard currency - A currency the exchange value of which is expected to remain stable due to strong performance by its economy.

Soft currency - A currency the exchange value which keeps on fluctuating vis-a-vis other currencies.

Hot Money - Money which flees quickly from country to country either in response to better earnings or in apprehension of adverse circumstances.

10. Ans. b

Explan - The qualitative credit control methods includes - Rationing of credit; Moral Suasion and Equal interest



rate on each type of advances.

11. Ans. a

Explain - The correctly matched pairs are

- A. **IDBI** - It is the principal financial institution for providing credit and other facilities for developing industries and assisting developing institutions.
- B. **National Equity Fund Scheme** - For providing equity assistance to tiny small scale units.
- C. **ICICI** - For developing medium and small industries of private sector.
- D. **IIBIL** - To revive sick and closed industrial units and to act as a prime loan and reconstruction agency.

12. Ans. a

Explain - As per the RBI website, the types of money supply can be given as:

- 1. **M0 (Reserve Money)** = Currency in Circulation + Bankers' Deposits with RBI + Other deposits with RBI.
- 2. **M1 (Narrow Money)** = Currency with public + Demand deposits with the Banking system + Other deposits with RBI.
- 3. **M2** = M1 + Post office bank savings; Similar to regular banks, Post office also offers their time savings account, recurring deposit account, time deposit account. Here we count the Post office savings (= "DEMAND deposit" type) only.
- 4. **M3 (Broad Money)** = M1 + Time deposits with commercial banks (Fixed deposits, Recurring deposits).

13. Ans. c

Explain - The Asian Clearing Union (ACU) was established with its head quarters at Tehran, Iran, on December 9, 1974 at the initiative of the United Nations Economic and Social Commission for Asia and Pacific (ESCAP), for promoting regional co-operation.

14. Ans. c

Explain - It increased the state's share in net proceeds from tax collections to 42% from the earlier 32%. It added new criteria of forest cover for devolution of central taxes. There is a shift from scheme and grant based support from centre to a devolution based one.

15. Ans. b

Explain - Statement 1 and 4 are incorrectly stated. It is not adopted to increase the credit utilization facilities in the economy; Secondly, under this policy interest rate is not decreased which helps in controlling inflation in the economy.

16. Ans. b

Explain - The correctly matched pairs are –

- A. **Bank Rate** - The official rate at which the RBI will rediscount the bills of commercial banks.
- B. **Prime Lending Rate** - The rate of interest charged by the banks on the loans given upto certain limit to their clients.
- C. **CRR** - A commercial bank is required to keep in cash a portion of its deposit with the RBI.
- D. **SLR** - A commercial bank invest a designated minimum proportion of its total assets in liquid assets.

17. Ans. a

Explain - Non-Plan expenditure of the central Government includes Interest payment; Defense revenue; and Grants to foreign governments.

18. Ans. c

19. Ans. d

Explain - Real GDP - A macroeconomic measure of the value of the economy's output adjusted for price changes (inflation or deflation). Nominal GDP-A macroeconomic measure of the value of the economy's output that is not adjusted for inflation. GDP deflator-A measure of the level of prices of all new, domestically produced final goods and services in an economy. It is calculated by computing the ratio of nominal GDP to the real measure of GDP.

20. Ans. a

Explain - The G20 works closely with international organizations including the Financial Stability Board, the International Labour Organization, the International Monetary Fund, the Organization for Economic Co-operation and Development, the United Nations, the World Bank and the World Trade Organization. These and a number of other organizations are invited to attend key G20 meetings. G20 members represent around 85 per cent of global gross domestic product, over 75 per cent of global trade, and two-thirds of the world's population. The members of the G20 are: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom, United States, and European Union.

21. Ans. d

Explain - The major traits of depression are:

- (a) An extremely low aggregate demand in the economy causes activities to decelerate;
- (b) The inflation being comparatively lower;
- (c) The employment avenues start shrinking forcing unemployment rate to grow fast;



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- (d) To keep the business going, production houses go for forced labour-cuts or retrenchment (to cut down the production cost and be competitive in the market) etc.

22. Ans. d

23. Ans. d

24. Ans. b

Explan - A capitalist economy can be defined as an economy in which most of the economic activities have the following characteristics (a) there is private ownership of means of production (b) production takes place for selling the output in the market (c) there is sale and purchase of labour services at a price which is called the wage rate (the labour which is sold and purchased against wages is referred to as wage labour).

25. Ans. d

26. Ans. a

Explan - It was established in 1956 as the private sector arm of the World Bank Group to advance economic development by investing in strictly for-profit and commercial projects that purport to reduce poverty and promote development.

27. Ans. c

Explan - Companies and organizations can use MOUs to establish official partnerships. MOUs are not legally binding but they carry a degree of seriousness and mutual respect, stronger than a gentlemen's agreement. Often, MOUs are the first steps towards a legal contract. In US law, a memorandum of understanding is synonymous with a letter of intent (LOI), which is a non-binding written agreement that implies a binding contract is to follow.

28. Ans. d

Related Information - SDRs: The IMF issues an international reserve asset known as Special Drawing Rights (SDRs) that can supplement the official reserves of member countries. Total allocations amount to about SDR 204 billion (some \$286 billion). IMF members can voluntarily exchange SDRs for currencies among themselves.

29. Ans. c

30. Ans. d

Explan - IBRD is the original World Bank institution. It works closely with the rest of the World Bank Group to help developing countries reduce poverty, promote economic growth, and build prosperity. IBRD is owned by the governments of its 188 member countries, which are represented by a 25-member board of 5 appointed and 20 elected Executive Directors. IBRD: Preserves

borrowers' financial strength by providing support in times of crisis, when poor people are most adversely affected. Promotes key policy and institutional reforms (such as safety net or anti-corruption reforms). Creates a favourable investment climate to catalyze the provision of private capital. Facilitates access to financial markets often at more favourable terms than members can achieve on their own.

31. Ans. a

Extra Information - Major programmes/schemes to be covered under NMFP - Scheme for technology up-gradation/setting up/Modernization/expansion of food processing industries. Scheme for supporting cold chain facilities for non-horticultural produces and reefer vehicles, Scheme for creating primary processing centres/collection centres in rural areas, Scheme for modernization of abattoirs, Scheme For Modernization of Meat Shops, Scheme for Human Resource Development, Scheme for Promotional Activities, Scheme for Upgradation of Quality of Street Food.

32. Ans. c

Explan - Private sector insurers with adequate infrastructure and experience would also be allowed in the implementation of MNAIS. Actuarial premiums will be paid for insuring the crops; hence the claims liability would be on the insurer. All farmers availing Seasonal Agricultural Operations (SAO) loans from Financial Institutions (i.e. loanee farmers) would be covered compulsorily. The Scheme would be optional for all non-loanee farmers.

33. Ans. c

34. Ans. d

35. Ans. b

Explan - The practice of universal banking is common in European countries in which it is found in three forms: In-house universal banks, Universal banking through separate subsidiaries, Universal banking through holding companies. In a nutshell, a Universal Banking is a superstore for financial products under one roof. Corporate can get loans and avail of other handy services, while can deposit and borrow. It includes not only services related to savings and loans but also investments. Universal Banking is usually undertaken by large banks who can manage the cost of such widespread operations.

36. Ans. d

Extra Information - Importance of Disinvestment - Presently, the Government has about Rs. 2 lakh crore locked up in PSUs. Disinvestment of the Government stake is, thus, far too significant. The importance of disinvestment lies in utilisation of funds for: Financing



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the increasing fiscal deficit, Financing large-scale infrastructure development, For investing in the economy to encourage spending, For retiring Government debt- Almost 40-45% of the Centre's revenue receipts go towards repaying public debt/interest, For social programs like health and education. Disinvestment also assumes significance due to the prevalence of an increasingly competitive environment, which makes it difficult for many PSUs to operate profitably. This leads to a rapid erosion of value of the public assets making it critical to disinvest early to realize a high value.

37. Ans. c

Explan - In 2009, the government established the Maharatna status, which raises a company's investment ceiling from Rs. 1,000 crore to Rs. 5,000 crore. The Maharatna firms can now decide on investments of up to 15 per cent of their net worth in a project; the Navaratna companies could invest up to Rs 1,000 crore without explicit government approval. List of Maharatnas, 1. Coal India Limited, 2. Indian Oil Corporation Limited, 3. NTPC Limited, 4. Oil and Natural Gas Corporation Limited 5. Steel Authority of India Limited 6. Bharat Heavy Electricals Limited 7. GAIL (India) Limited. Bharat Petroleum Corporation Limited and Bharat Electronics Limited are Navratna companies.

38. Ans. b

Explan - Foreign institutional investment (FII) are part of capital account. Remittances and foreign aid (under the heading of transfers) come under current account.

39. Ans. a

Related Information - Why base year changes by every 10 years there are change and will be minimum 4% rise in price of items so base year has to be changed. Suppose India's GDP is Rs. 100 and base year is 2000. Now, in 2015, many sectors such as IT, e-commerce, mobile telephony etc contribute to our economy, which were not present in 2000. Thus, India might be showing wrong GDP figures, since majority of economic activities driving sectors are not represented in Rs. 100.

40. Ans. b

Explan - The Human Poverty Index is a combined measure using the dimensions of human life already considered in the HDI: life length, knowledge, a decent living standard. Instead of short term, it is long term unemployment indicators used. The index is calculated annually by the UNDP for all countries according to the availability of statistical data.

41. Ans. c

Explan - Although initially reported as a bank exclusively for women, the bank allows deposits to flow from everyone, but lending will be predominantly for women. The bank will also place emphasis on funding for skills

developments to help in economic activity. Moreover, the products will be designed in a manner to give a slight concession on loan rates to women. The bank shall also aim to inspire people with entrepreneurial skills and, in conjunction with NGOs, plans to locally mobilise women to train them in vocations like toy-making or driving tractors or mobile repairs, according to Usha Ananthasubramanian (CMD).

42. Ans. a

Extra Information - The Government of India permits ECBs as a source of finance for Indian Corporates for expansion of existing capacity as well as for fresh investment. Government permits the ECBs as an additional source of financing for expanding the existing capacity as well as for fresh investments. The ECB policy of the Government seeks to emphasize the priority of investing in the infrastructure and core sectors such as Power, telecom, Railways, Roads, Urban infrastructure etc. There is also emphasis on the need of capital for Small and Medium scale enterprises.

43. Ans. c

Explan - IDF-NBFCs would take over loans extended to infrastructure projects which are created through the Public Private Partnership (PPP) route and have successfully completed one year of commercial production. Such take-over of loans from banks would be covered by a Tripartite Agreement between the IDF, Concessionaire and the Project Authority for ensuring a compulsory buyout with termination payment in the event of default in repayment by the Concessionaire.

44. Ans. a

Related Information - NSE has played a catalytic role in reforming the Indian securities market in terms of microstructure, market practices and trading volumes. The market today uses state-of-art information technology to provide an efficient and transparent trading, clearing and settlement mechanism, and has witnessed several innovations in products & services viz. demutualisation of stock exchange governance, screen based trading, compression of settlement cycles, dematerialisation and electronic transfer of securities, securities lending and borrowing, professionalization of trading members, fine-tuned risk management systems, emergence of clearing corporations to assume counterparty risks, market of debt and derivative instruments and intensive use of information technology.

45. Ans. c

Explan - The head office is in Basel, Switzerland and there are two representative offices: in the Hong Kong Special Administrative Region of the People's Republic of China and in Mexico City. Established on 17 May 1930, the Bank for International Settlements (BIS) is the world's oldest international financial organisation. The



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BIS has 60 member central banks, representing countries from around the world that together make up about 95% of world GDP. In broad outline, the BIS pursues its mission by: fostering discussion and facilitating collaboration among central banks; supporting dialogue with other authorities that are responsible for promoting financial stability; carrying out research and policy analysis on issues of relevance for monetary and financial stability; acting as a prime counterparty for central banks in their financial transactions; and serving as an agent or trustee in connection with international financial operations.

46. Ans. c

Explan - RBI Act was amended in 1997 to bring the NBFCs under its regulatory framework. They are similar to banks but are different from the latter as they cannot accept demand deposits and cannot issue cheques. There are a host of regulations which NBFCs have to follow to smoothly operate within India like accept deposit for a minimum period, cannot accept interest rate beyond the prescribed rate given by RBI. RBI has set up special Recovery Tribunals which provide legal assistance to banks for recovery of dues.

47. Ans. b

Explan - Liquidity Adjustment Facility (LAF) is the primary instrument of Reserve Bank of India for modulating liquidity and transmitting interest rate signals to the market. It refers to the difference between the two key rates viz. repo rate and reverse repo rate.

48. Ans. a

Related Information - Generally, this market trades mostly in long-term securities. Capital markets help channelize surplus funds from savers to institutions which then invest them into productive use.

49. Ans. d

Extra Information - Three crucial elements in the negotiation.

Extra Information - Three crucial elements in the negotiation.

- To cut tariffs according to general formula based on a coefficient. Overall around 40 countries, which include the world's largest traders, will apply the formula. All the others have different specific provisions.
- Flexibilities for developing countries (that would allow these countries to make smaller or no cuts in tariffs for limited percentages of their most sensitive sectors).

Special treatment for small, vulnerable economies (31); least-developed countries (LDCs) (32); recently acceded members (RAMs) (16); members with low binding coverage (12); and others.

50. Ans. d

Extra Information - Benefits of Hedge Funds-Many hedge fund strategies have the ability to generate positive returns in both rising and falling equity and bond markets. Inclusion of hedge funds in a balanced portfolio reduces overall portfolio risk and volatility and increases returns. Huge variety of hedge fund investment styles – many uncorrelated with each other – provides investors with a wide choice of hedge fund strategies to meet their investment objectives. Academic research proves hedge funds have higher returns and lower overall risk than traditional investment funds. Hedge funds provide an ideal long-term investment solution, eliminating the need to correctly time entry and exit from markets. Adding hedge funds to an investment portfolio provides diversification not otherwise available in traditional investing.



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