



## FACT SHEET PREP SERIES

### Prep Series Part - 2

## ANSWER KEY WITH EXPLANATION

# ECONOMY

#### 1 Ans. a

**Explan** - The economic activities will also determine how and among whom the goods and services that are produced in the country would be shared. The economic activities are carried on or are controlled not only by individuals, firms and private institutions but also by the government. Individuals and firms usually work for private gain or profit. Governments have to consider not only the private gains of individuals or groups, but also what it sees as the good of society- taking the people as a whole. A framework within which all the economic activities of a country can be described is called the economy.

#### 2. Ans. c

**Explan** - By 'private enterprise' is meant a system of production that is based on private ownership of 'capital' (which is the general name for all kinds of property needed for production). Capital can be physical assets like land, factories and machines or it can be money and other financial assets which are necessary for owning and operating firms and businesses. Production in the capitalist economy is controlled by owners of capital who operate for their private profit or gain. The United States of America and the United Kingdom are examples of capitalist economies. They are also examples of developed economies. The erstwhile Soviet Union and China are both socialist economies. But while the Soviet Union is developed, China like India is still a developing economy.

#### 3. Ans. d

**Related Information** - Monetary policy involves changing the interest rate and influencing the money supply. Fiscal policy involves the government changing tax rates and levels of government spending to influence aggregate demand in the economy.

They are both used to pursue policies of higher economic growth or controlling inflation.

**Monetary policy:** Monetary policy is usually carried out by the Central Bank/Monetary authorities and involves: Setting base interest rates (e.g. Bank of England in UK and Federal Reserve in US); Influencing the supply of money. E.g. Policy of quantitative easing to increase the supply of money.

#### How monetary policy works

The Central Bank may have an inflation target of 2%. If they feel inflation is going to go above the inflation target, due to economic growth being too quick, then they will increase interest rates. Higher interest rates increase borrowing costs and reduce consumer spending and investment, leading to lower aggregate demand and lower inflation. If the economy went into recession, the Central Bank would cut interest rates.

**Fiscal policy:** Fiscal policy is carried out by the government and involves changing: Level of government spending; Levels of taxation.....

To increase demand and economic growth, the government will cut tax and increase spending (leading to a higher budget deficit)



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To reduce demand and reduce inflation, the government can increase tax rates and cut spending (leading to a smaller budget deficit).

#### 4. Ans. b

**Explan** - The WTO agreements cover trade in goods as well as services to facilitate international trade (bilateral and multilateral) through removal of tariff as well as non-tariff barriers and providing greater market access to all member countries.

The WTO was founded in 1995 as the successor organisation to the General Agreement on Trade and Tariff (GATT). GATT was established in 1948 with 23 countries as the global trade organisation to administer all multilateral trade agreements by providing equal opportunities to all countries in the international market for trading purposes.

WTO is expected to establish a rule-based trading regime in which nations cannot place arbitrary restrictions on trade. In addition, its purpose is also to enlarge production and trade of services to ensure optimum utilisation of world resources and to protect the environment.

As important member of WTO, India has been in the forefront of framing fair global rules, regulations and safeguards and advocating the interests of the developing world. India has kept its commitments towards liberalisation of trade made in the WTO, by removing quantitative restrictions on imports and reducing tariff rates.

Some scholars question the usefulness of India being a member of the WTO as a major volume of international trade occurs among the developed nations. They also say that while developed countries file complaints over agricultural subsidies given in their countries, developing countries feel cheated as they are forced to open up their markets for developed countries but are not allowed access to the markets of developed countries.

#### 5. Ans. b

**Explan** - GDP is the sum of values of all final goods and services produced in a year without making any deduction for the 'wear and tear' of the land, buildings and machinery used in production. When this deduction is made, what we get is the Net Domestic Product or NDP.

It may be interesting to note that the people living in the economy may have earnings or "remittances from (or send remittance to) other countries (through trade, for example). NNP is also called the National Income of the country. This is because the value of the NNP is nothing but the total of what people will get as profits, wages,

interest and rent, i.e. as income while producing the NNP.

#### 6. Ans. a

**Explan** - The division into public and private sector enterprises in India's mixed economy follows mainly from the Indian Parliament's Industrial Policy Resolution of 1956. According to it the industries are classified into three categories.

In the first category are enterprises which are of basic importance. These are in industries like iron and steel, petroleum, air transport, railways, etc. All new undertakings in this category are to be in the public sector.

The second category consists of industries which are only a little less vital than those in the first. The list includes drugs, fertilizers, road transport, shipping and machine tools. New undertakings in this category can be both in the public and in the private sectors.

In the third category are all the remaining industries which are left entirely to private enterprises. Old enterprises in the first two categories which are set up by private enterprise can remain in the private sector even now. Tata Steel in the iron and steel industry is a well-known example of this kind.

#### 7. Ans. d

**Extra Information** - Apart from the banks there are also other financial institutions granting loans, and there are, of course, private money-lenders. When an individual advances credit in the form of a loan he can do so only out of his own cash holding. But the banking system can create credit and lend out several times the size of its cash holdings. When we deposit our cash with a bank for safe-keeping we use only a small part of it regularly by withdrawing it from the bank. The remaining part the bank can safely lend out. The person who borrows from the bank also keeps it in deposit, withdrawing parts of it as and when needed.

Thus, the banking system can safely offer as loans a sum larger than the cash deposits in their hands knowing that the whole of the amount promised as loan will never be sought to be taken out all at the same time. This is how bank credit (i.e. promise of loans) can be created with only a fraction of it being held as the actual cash reserve of the banking system.

#### 8. Ans. d

**Extra Information** - SSEs (Small Scale Enterprises) are dispersed across wide range of areas and regions. The large scale industries are concentrated in big metropolitan cities as these cities provide an easy access to the basic facilities of power, transport, roads, banking



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etc. as such it resulted into regional disparities with already well-off states developed faster than other. The small scale industries with localized operations spread in the remote corner of the economy. These industries can be easily set up in different parts of the country and energizes the village industries. This led to reduction of regional economic disparities.

**9. Ans. c**

**Related Information** - The rate of exchange between the rupee and the dollar is determined, in a free market situation, by the relative demand for U.S. goods and capital in our country and for our goods and capital in the United States. The actual rate of exchange is often fixed officially by the two countries largely on this consideration though day-to-day changes may not necessarily be made for temporary ups and downs in the two sets of demand.

**10. Ans. a**

**Explan** - There is a special United Nations agency called the International Monetary Fund or IMF. When one member country is temporarily in short supply of a particular foreign currency, it can draw on the IMF reserves against its own quota or against other special arrangements. When its supply of that currency is eventually replenished it can return what it had drawn from the IMF. In this manner any unexpected demands of foreign currencies can be met temporarily through the IMF. This helps in stabilizing the rates of exchange to a certain extent, even if not fully, by sheltering it from the effects of temporary demand fluctuations. It is clear, then, that if we do not count temporary accommodations from the IMF or other ways of raising loans abroad our purchases from abroad or our imports have to be paid for by our exports. Or else, the country's foreign exchange reserves will go down.

**11. Ans. c**

**Explan** - Taxes can be of many kinds. For example, there are taxes on personal incomes and taxes on personal wealth: These are what are called direct taxes. A direct tax, called direct because it is payable directly by the person from whom it is collected. Estate duty, gift tax and expenditure tax are other examples of direct taxes: There are also taxes that are collected not directly but indirectly on the basis of some specific economic transactions. A commodity sales tax is an example of such an indirect tax when the seller sells a commodity, he collects a sales tax levied by government. The buyer pays the tax but government will collect it from the seller. In this way it is indirect and linked to a particular transaction rather, than to a particular person. Stamp

duty, excise duty, customs duty, etc. are all taxes of this indirect kind.

**12. Ans. b**

**Extra Information** - The first area of government action in the field of production had been that of industrial licensing. The second area of government's physical control of the economy has been that of food procurement, food price control and rationing all as part of a large public distribution system for the entire country.

In the past under the IDRA 1951 all manufacturing units in India have to be registered with the government. Furthermore, government permission (or 'licence'), was required for (a) establishing a new undertaking; (b) expanding the capacity of existing undertakings; or (c) manufacturing of new goods by an existing undertaking. This has now been changed. Abolition of all industrial licences except for a short list, automatic permission for direct investment up to 51 percent and increase in foreign equity base are some of the salient parts of the new industrial policy. We are now entering in a new era of industrial policy.

**13. Ans. d**

**Explan** - The idea of a 'mixed economy' dividing enterprises into public or private sector institutions on the basis of their ownership does not apply to rural India very much, because agriculture and our small-scale rural industries are almost entirely under private ownership.

The division into the public and the private sectors applies mainly to enterprises within our modern large-scale industries and enterprises providing services like banking, insurance, air, rail and road transport and so on.

**14. Ans. d**

**Extra Information** - By economic institutions we mean the small and large productive enterprises and business houses owned by private individuals or government bodies, the banks, insurance companies and similar financial institutions providing productive services, and above all the government agencies engaged in the regulation of the economy such as the different ministries of the central government, the state governments, the Reserve-Bank of India and so on. All these together provide the institutional set-up of the economy.

The institutional set-up of the Indian economy has three major characteristic features. One principal feature of the Indian economy is that it is a mixed economy with a large public sector. Another major feature to note is that India is a developing economy. It has a large traditional



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rural sector and a small modern urban sector. The economic activities in rural India are mainly agricultural, while the main industries are in the urban part.

The third major characteristic of the institutional set-up of the Indian economy follows from the federal character of the Indian Constitution itself. Under the Constitution the power to regulate the economic life of the people is distributed between the Centre and the states, in a well-defined manner. The Centre has the overall responsibility of guiding and, if necessary, control-ling most of the major economic activities of the country. But a large sphere of important economic activities is still left to the jurisdiction of the states.

**15. Ans. c**

**Explan -** Emerging Alternate Marketing Channels: It has been realised that if farmers directly sell their produce to consumers, it increases their incomes. Some examples of these channels are Apni Mandi (Punjab, Haryana and Rajasthan); Hadaspar Mandi (Pune); Rythu Bazars (vegetable and fruit markets in Andhra Pradesh) and Uzhavar Sandies (farmers markets in Tamil Nadu).

Further, several national and multinational fast food chains are increasingly entering into contracts/ alliances with farmers to encourage them to cultivate farm products (vegetables, fruits, etc.) of the desired quality by providing them with not only seeds and other inputs but also assured procurement of the produce at pre-decided prices.

**16. Ans. a**

**Explan -** Formal Sector Employment: The information relating to employment in the formal sector is collected by the Union Ministry of Labour through employment exchanges located in different parts of the country. Do you know who the major employer is in the formal sector in India? In 2001, out of about 28 million formal sector Workers, about 20 million workers were employed by the public sector. Here also men form the majority, as women constitute only about one-sixth of the formal sector workforce. Economists point out that the reform process initiated in the early 1990s resulted in a decline in the number of workers employed in the formal sector.

Since the late 1970s, many developing countries, including India, started paying attention to enterprises and workers in the informal sector as employment in the formal sector is not growing. Workers and enterprises in the informal sector do not get regular income; they do not have any protection or regulation from the government. Workers are dismissed without any compensation. Technology used in the informal sector enterprises is outdated; they also do not maintain

any accounts. Workers of this sector live in slums and are squatters.

Of late, owing to the efforts of the International Labour Organisation (ILO), the Indian government has initiated the modernization of informal sector enterprises and provision of social security measures to informal sector workers.

**17. Ans. c**

**Explan -** The poorer countries have relatively small industrial sectors. They also have very little access to modern technology whether in industry or agriculture. The poorer countries are generally described as less developed countries (LDCs). Some of them, however, should be called developing economies because though they have only a small modern industrial sector, they are going through a distinct process of industrialization. Countries of the West which had long been industrialized and Japan, Korea and other newly industrialized countries of Asia are developed economies. They are relatively rich countries that lack the usual characteristics of a modern industrial society.

**18. Ans. a**

**Explan -** The education system is, in some senses, outside most economic processes. So is the system of health services. But both provide services which affect (sometimes quite significantly), these same economic processes. Both can add to the productive capacity of the people.

What is interesting to notice is that these services are generated in the economy by institutions like schools and hospitals that do not directly help a process of production. But such institutions nevertheless constitute one major supporting structure for the economy. This supporting structure is the economy's social infrastructure.

The second kind of structure that helps services in the economy is located not outside, but mainly within the system of production and distribution. The transport system of the country - the roads, the railways, the airlines - provides services to the process of production and distribution by being part of these processes themselves. Similarly, the banking system is an active constituent of the money and capital market from where finance for industry and agriculture is obtained. Both the transport system and the banking system are examples of the kind of service-generating institutions which operate wholly within the economic processes. Systems like these constitute the other major supporting structure for the economy. This is the economic infrastructure as distinct from the social infrastructure.

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**19. Ans. c**

**Explan** - The overall purpose of taxation in a developing economy is not necessarily only to reduce inequalities of income, or to charge the priorities of the private producers by making some lines of production more (or less) attractive than others. The main purpose of taxation in a developing economy will also be the mobilization of resources for the investments that are needed for development.

The whole range of direct and indirect taxes, if well coordinated, can be a very powerful instrument in the hands of the state for this purpose. Through raising the revenue it makes larger volumes of saving available for financing the right kinds of enterprises both in the public and the private sectors of the economy. More importantly it can support, the social and economic infrastructures such as communication, education, health, transport services, etc. which depend largely on public investments in a developing economy. For financing the development of these infrastructures mobilisation of public resources often constitutes the most difficult problem.

**20. Ans. a**

**Extra Information** - Many distinguished thinkers contributed to the formulation of our five year plans. Among them, the name of the statistician, Prasanta Chandra Mahalanobis, stands; out.

Planning, in the real sense of the term, began with the Second Five Year Plan. The Second Plan, a landmark contribution to development planning in general, laid down the basic ideas regarding goals of Indian planning; this plan was based on the ideas of Mahalanobis. In that sense, he can be regarded as the architect of Indian planning.

Mahalanobis was born in 1893 in Calcutta. He was educated at the Presidency College in Calcutta and at Cambridge University in England. His contributions to the subject of statistics brought him international fame. In 1946 he was made a Fellow (member) of Britain's Royal Society, one of the most prestigious organisations of scientists; only the most outstanding scientists are made members of this Society.

Mahalanobis established the Indian Statistical Institute (ISI) in Calcutta and started a journal, Sankhya, which still serves as a respected forum for statisticians to discuss their ideas. Both, the ISI and Sankhya, are highly regarded by statisticians and economists all over the world to this day.

**21. Ans. d**

**Explan** - Foreign Institutional Investors (FII) such as merchant bankers, mutual funds and pension funds are now allowed to invest in Indian financial markets. Foreign institutional investors (FIIs) are those institutional investors which invest in the assets belonging to a different country other than that where these organizations are based. Foreign institutional investors play a very important role in any economy. These are the big companies such as investment banks, mutual funds etc, who invest considerable amount of money in the Indian markets. With the buying of securities by these big players, markets trend to move upward and vice-versa. They exert strong influence on the total inflows coming into the economy.

Market regulator SEBI has over 1450 foreign institutional investors registered with it. The FIIs are considered as both a trigger and a catalyst for the market performance by encouraging investment from all classes of investors which further leads to growth in financial market trends under a self-organized system.

**22. Ans. d**

**Explan** - Three major programmes that aim at improving the food and nutritional status of the poor are Public Distribution System, Integrated Child Development Scheme and Midday Meal Scheme. Pradhan Mantri Gram Sadak Yojana, Pradhan Mantri Gramodaya Yojana, Valmiki Ambedkar Awas Yojana are also attempts in the same direction. It may be essential to briefly state that India has achieved satisfactory progress in many aspects.

The government also has a variety of other social security programmes to help a few specific groups. National Social Assistance Programme is one such programme initiated by the central government. Under this programme, elderly people who do not have anyone to take care of them are given pension to sustain themselves. Poor women who are destitute and widows are also covered under this scheme.

**23. Ans. c**

**Explan** - Economic development cannot be measured by GNP or the Gross National Product alone. This is because the level of GNP does not show how the welfare of the people stands in respect of such important aspects as, say, per capita food intake, schooling, health, life expectancy and so on. The consumption level of energy (electricity, oil, coke, etc.) is also known to be a good indicator of economic development because it is associated with modernisation of the economy.

India's economic development is poor in terms of all these indicators, though with the passage of time they are improving since investments in the Five Year Plans

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in industry, agriculture, health, education and other sectors of the economy are gradually showing results.

**24. Ans. c**

**Explan -** The second kind of producers are those engaged in manufacture of goods on large small scale in various industries such as cotton textiles, steel, etc. they are called the secondary producers. The broad difference of their activities from primary production lies in the fact that they produce what may be called man-made goods - goods that did not exist in the same form in nature. The first kinds of producers are those who produce food and other crops, forest products, etc. - goods that may be called the products of nature. They are called the primary producers. Obviously, there's were historically the first productive activities of man comprising agriculture, cattle-raising, poultry farming, forestry, stone quarrying, mining and so on.

There is a third kind of productive activity in the economy apart from primary, production like agriculture and secondary production like manufacture or industry As the primary and the secondary productive activities grew in society men found that the economy needed people who provided not physical goods only but also services like transport by road or by ship, storage of goods, banking and insurance and so on. In fact it is more sensible today to think of production not as the production of goods only but as production of goods and services. Those who are engaged in providing services are, therefore, the tertiary producers.

**25. Ans. c**

**Extra Information -** The Problem of achieving full employment for the working population is relatively simple to visualise for a developed economy even if it is not always easy to solve. A developed economy has, essentially, a capital structure that is large enough to match the labour force - in the sense that when capital is fully utilised, labour also is fully employed. A developed economy is one which has had the historical advantage of building up this capital structure over a comparatively long period of time. The problem with the LDC, however, is that it is at a period of its history when its labour force is far too large or rather the capital structure is still far too small for the two to be matched at least in terms of modern technology.

**26. Ans. c**

**Extra Information -** Side by side with the banking system our economy has a large number of non-banking financial institutions. Long-term financing of industry comes more from these institutions than from the banks. Some of these institutions in the public sector have been specifically set up to provide long-term and medium-

term financial assistance to specific sectors of industry and agriculture. Some others are indirect participants like the Life Insurance Corporation of India. Its huge investments, for example, provide large funds to the private sector in several ways. The industries seeking money capital traditionally also sell shares in their companies to the public or raise loans from the public to obtain finance. The institution which facilitates these transactions is called the Stock Exchange.

**27. Ans. a**

**Explan -** Each state in the country has a State Housing Board. The State Housing Boards are assisted under the Plan to expand or initiate programmes of constructing housing colonies in urban areas for low and middle-income groups.

There is, at the same time, a large-scale programme for the provision of house-sites to landless labourers in rural areas. The bulk of this programme is being undertaken by the states. **The Housing and Urban Development Corporation (HUDCO) in the Central sector is also involved in this task.**

The service of housing that we expect from society is wider, than the provision of a mere house. Housing involves providing a neighbourhood with amenities of living such as a clean water supply, sewerage, etc. An individual can buy or build a house for himself but he cannot build in the advantage of a neighbourhood for himself.

Like the other constituents, such as the system of education and health, housing also can either reduce or enhance the disparities in society. Separate provisions are also made for subsidised housing for plantation labourers and dock labourers. A greater emphasis is also being laid on research and development activities for generating better and cheaper housing designs.

**28. Ans. a**

**Explan -** The special treatment for the small sector has been based on three accepted priorities' in the policy for balanced-industrial growth of India. These are:

- (i) Generation of employment,
- (ii) Avoidance of further concentration of wealth and industrial power in the hands of a small number of big industrial houses, and
- (iii) Regional dispersal in the location of new industrial units giving special preference to backward regions.

Towards fulfilling the three objectives distribution of wealth and industrial power and equitable distribution of industries between regions, government initiated the

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following kinds of promotional measures for the small scale sector:

- (a) A number of products (now the list includes 847 items) were especially reserved for the small-scale units. Big enterprises would not be given fresh licenses to produce goods covered in the reserved list.
- (b) The produce of the small-scale sector would be given preference over the produce of large-scale industries- in the purchase policy of government (and public sector) institutions!
- (c) The small-scale units would enjoy a host of tax and duty reliefs as well as other financial incentives that were not available to large-scale units.

**29. Ans. d**

**Explan** - The Reserve Bank of India also issues currency on behalf of the government. It is the amount of cash deposited by the public with the banks, as we have already seen, that provides the base for the banks' creation of credit. The Reserve Bank of India uses various devices to control the creation of credit by the banking system.

These devices mainly consist of controlling the amount of cash deposits in banks held by the public or regulating the rate of interest that banks can charge on loans.

The State can control to a great extent the amount and the direction of loans given (or credit created) by monetary institutions. Such monetary control can, therefore, be a major instrument of state intervention in the economy.

All monetary controls in the Indian economy rest with the Reserve Bank of India. As the central bank of the country, it is at the head of the banking system. It guides and controls the commercial banks as the custodian of the State's monetary policy. It also adds to or reduces the currency supply in the hands of the public, again acting as the agent of the government through devices like borrowing from the public.

**30. Ans. a**

**Explan** - A plan spells out how the resources of a nation should be put to use. It should have some general goals as well as specific objectives which are to be achieved within a specified period of time; in India plans are of five years duration and are called five year plans (we borrowed this from the former Soviet Union, the pioneer in national planning).

Our plan documents not only specify the objectives to be attained in the five years of a plan but also what is to be achieved over a period of twenty years. This long-term plan is called 'perspective plan'. The five year plans are supposed to provide the basis for the perspective plan.

It will be unrealistic to expect all the goals of a plan to be given equal importance in all the plans. In fact the goals may actually be in conflict. For example, the goal of introducing modern technology may be in conflict with the goal of increasing employment if the technology reduces the need for labour. The planners have to balance the goals, a very difficult job indeed. We find different goals being emphasised in different plans in India.

Our five year plans do not spell out how much of each, and every good and service is to be produced. This is neither possible nor necessary (the former Soviet Union tried to do this and failed). It is enough if the plan is specific about the sectors where it plays a commanding role, for instance, power generation and irrigation, while leaving the rest to the market.

**31. Ans. a**

**Explan** - The Poor Women's Bank: 'Kudumbashree' is a women-oriented community-based poverty reduction programme being implemented in Kerala. In 1995, a thrift and credit society was started as a small savings bank for poor women with the objective to encourage savings. The thrift and credit society mobilised Rs 1 crore as thrift savings. These societies have been acclaimed as the largest informal banks in Asia in terms of participation and savings mobilised.

**32. Ans. d**

**Related Information** - Related information- Today the overall picture is very much better than that in the fifties about the credit in many parts of the country. The cooperative movement, based on registered societies of farmers has flourished. Cooperative societies providing credit facilities to members have multiplied and in many areas replaced money-lenders. The situation has improved to the extent that institutional credit coming from cooperative agencies, the cooperative land development banks and commercial banking institutions now together account for about one-third of the short- and medium-term credit provided to farmers.

But if we look at the picture a little more closely we shall find that it is still dismal enough. In the first place, even a one-third share of rural credit coming from institutional sources is much too low to be able to give any real protection to the cultivator from the clutches of the oppressive indigenous money-lending system. In the second place, the distribution of credit obtained from the institutional sources among the different classes of rural households is extremely lop-sided.

It is for this reason mainly that a new experiment for meeting the credit needs of the small and marginal farmers is warranted. It was decided by the Government of India in 1975 that a chain of regional-rural banks would be set up. These would be located, particularly in backward areas and other areas which have not been adequately covered by the cooperative and the



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commercial banks. These banks would be specifically oriented towards meeting the credit needs of the weaker sections.

**33. Ans. a**

**Related Information** - The hired agricultural labourer having no ownership rights cannot in any case change over to modern methods of agriculture, This leads to low productivity and a particular kind of unemployment or underemployment in the rural sector.

To take a simple example of this kind of unemployment let us suppose that only two members in a family of three working members are really needed on the family's agricultural land - if modern techniques are adopted, but all three are employed on the family land because the old ways continue.

This phenomenon of more members in the family being employed in agricultural production than are actually needed by modern methods of production is known as disguised unemployment.

We should remember that the cultivator often sticks to primitive methods of agriculture not necessarily due to his ignorance. He cannot change to modern technology often because a repressive system of land tenure keeps him in poverty and also denies or severely curtails his rights on the land that he cultivates. There is a third factor that creates another kind of unemployment problem in the rural sector. This factor exists in the nature of agricultural operations itself. Agriculture, at least as a whole time occupation, is essentially seasonal.

**34. Ans. c**

**Extra Information** - They mention broadly three reasons for this inadequacy. The first reason is that the forces of market supply and demand do not represent the economic needs of all the people equally in the way, say, voting by ballot represents their political needs in a democracy. Market demand is naturally weighted in favour of those who can spend more on their purchases.

The second reason why the market mechanism may not serve social purpose adequately is that market forces only represent the consumer's self-interest, as expressed through his or her purchases but the same individual himself or herself, may express a different social interest if asked.

The third reason why the market forces -of demand and supply may be considered inadequate is that some of the basic structures of our economy that are called its 'infrastructures are still in an undeveloped stage. The nature of the market being what it is these structures cannot be built rapidly through the market mechanism alone.

Under the market mechanism prices are determined by what people demand and what producers supply at different prices of a product. If at a given price demand exceeds supply in the market, the price is freely allowed to rise until demand falls and supply rises to meet each other. When there is no excess of demand or supply of

any product in any market, the economy can be said to have solved the basic, problems of what to produce (and in what quantities) more or less satisfactorily. Those who believe in the efficiency of the price mechanism completely, hold that solving this basic problem would lead to the solution of all other basic problems including that of fair 'and just distribution also.

**35. Ans. c**

**Explan** - It may be interesting to note that the people living in the economy may have earnings or "remittances from (or send remittance to) other countries (through trade, for example). When we add the net earnings from abroad (i.e. remittances brought in minus remittances sent out) to the GDP we call it the Gross National Product or GNP. When we add such net earnings to the NDP we call it the Net National Product or NNP.

**36. Ans. d**

**Extra Information** - The consumption level of energy (electricity, .oil, coke, etc.) is also known to be a good indicator of economic "development because it is associated with modernisation of the economy.

India's economic development is poor in terms of all these indicators, though with the passage of time they are improving since investments in the Five Year Plans in industry, agriculture, health, education and other sectors of the economy are gradually showing results.

India's total installed power generation capacity has crossed the 300-GW mark, which includes 42 GW of renewable energy sources, including solar and wind. India's total power generation capacity was 3,03,118.21 MW as on June 30, 2016, which includes 42,848.43 MW, stated Power Minister Piyush Goyal in a written reply to the Rajya Sabha today.

According to the statement, private sector's cumulative installed power generation capacity was 1,24,995.51 MW as on June 30, 2016 while central plants account for 76,296.76 MW and state capacities 101,825.94 MW. The minister also stated that the country has generated 12.01 billion units of electricity from renewable energy sources till June-end this fiscal while the output was 65.78 billion units in 2015-16 and 61.78 billion units in 2014-15. The target from clean sources in 2015-16 was 70 billion units.

The minister also told the House that 1,107.82 billion units of electricity were generated last fiscal. Thermal power constituted 85.19 per cent of the total generation in 2015-16 while hydro contributed 10.96 per cent and nuclear power's share was 3.38 per cent. India imported 5.24 billion units of electricity from Bhutan last fiscal, which was 0.47 per cent of the total output.

Goyal also said that to meet the rising demand of power, as per 18th Electric Power Survey (EPS), the capacity addition target of 88,537 MW from conventional sources has been planned during 12th Five-Year Plan. Against this target, 86,565.72 MW has been achieved till June 30, 2016, he added.



**37. Ans. b**

**Explan** - The mismatch of the economy's capital structure and the size of its available labour force - this causes what is called structural unemployment. The continuance of primitive methods of production in agriculture mainly due to the poverty and the lack of ownership rights of the tillers of the soil under the existing land tenure systems - this causes disguised unemployment in the rural sector. The seasonal character of all agricultural operations which creates unemployment in the rural sector in the lean seasons when the cultivators, particularly the hired agricultural labourers, find little work to do - this causes seasonal unemployment for workers engaged in agriculture.

We have to remember that the three factors referred to above create types of unemployment in a developing economy that are in addition to the usual kind of unemployment faced by all economies including the developed ones.

**38. Ans. d**

**Explan** - The basic industries are those that provide essential inputs to all important industries and agriculture. They comprise coal, iron, ore, fertilizers, caustic soda, cement, steel, aluminium and electricity.

Basic industries are those Industrial sectors which exports all or nearly all of its production. Basic industries, as a result of their foreign exchange earnings, create new incomes and additional spending power in their country's economy. Therefore any drastic or inordinate change in a basic industry's output or earnings will produce correspondingly widespread and deep effect on the entire local economy. In contrast, changes in the non-basic or support industries will only require a readjustment of incomes and spending patterns and the country's overall economic condition will remain largely unaffected.

**39. Ans. a**

**Extra Information** - Besides total utility, there is another important concept called marginal utility, defined as the utility from the last unit consumed. This pattern of marginal utility is called the law of diminishing marginal utility. It states that, after consuming a certain amount of a good or service, the marginal utility from it diminishes as more and more is consumed. If you think about it, this law is very natural and should hold for any product one consumes. In fact it is considered as a fundamental psychological law.

**40. Ans. d**

**Related Information** - There are three central problems facing any economy, namely, "what", "how" and "for whom". "What" problem refers to which goods and services will be produced in an economy and in what quantities. The "How" problem refers to the choice of methods of production of goods and services. The "for whom" problem concerns with the distribution of

income and wealth. In a capitalist or market-oriented economy, these problems are addressed through the operation of markets. Normally, the production possibility curve is concave to the origin. It is because of increasing marginal opportunity cost. A production possibility curve shifts out due to technological progress or increases in the supply of resources available to an economy or both.

**41. Ans. c**

**Extra Information** - India's health infrastructure and health care is made up of a three-tier system -Primary, Secondary and Tertiary. Primary health, care includes education concerning prevailing health problems and methods of identifying, preventing and controlling them; promotion of food supply and proper nutrition and adequate supply of water and basic sanitation; maternal and child health care; immunisation against major infectious diseases and injuries; promotion of mental health and-provision of essential drugs.

Auxiliary Nursing Midwife (ANM) is the first person who provides primary healthcare in rural areas. In order to provide primary health care, hospitals have been set up in villages and small towns which are generally manned by a single doctor, a nurse and a limited quantity of medicines. They are known as Primary Health Centres (PHC), Community Health Centres (CHC) and sub-centres. When the condition of a patient is not managed by PHCs, they are referred to secondary or tertiary hospitals.

Hospitals which have better facilities for surgery, X-ray, Electro Cardio Gram (ECG) are called secondary health care institutions. They function both as primary health care provider and also provide better healthcare facilities. They are mostly located in district' headquarters' and in big towns. All those hospitals which have advanced level equipment and medicines and undertake all the complicated health problems, which could not be managed by primary and secondary hospitals, come, under the tertiary sector.

**42. Ans. d**

**Explan** - There are three sources of data on unemployment: Reports of Census of India, National Sample Survey Organisation's Reports of Employment and Unemployment Situation and Directorate General of Employment and Training Data of Registration with Employment Exchanges. Though they provide different estimates of unemployment, they do provide us with the attributes of the unemployed and the variety of unemployment prevailing in our country.

NSSO defines unemployment as a situation in which all those who, owing to lack of work, are not working but either seek work through employment exchanges, intermediaries, friends or relatives or by making applications to prospective employers or express their willingness or availability for work under the prevailing condition of work and remunerations. There are a variety

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of ways by which an unemployed person is identified. Economists define unemployed person as one who is not able to get employment of even one hour in half a day... Do we have different types of unemployment in our economy? Economists call unemployment prevailing in Indian farms as disguised unemployment.

**43. Ans. c**

**Explan** - The first programme aims at creating self-employment opportunities in rural areas and small towns. The Khadi and Village Industries Commission are implementing it. Under this programme, one can get financial assistance in the form of bank loans to set up small industries. The educated unemployed from low-income families in rural and urban areas can get financial help to set up any kind of enterprise that generates employment under PMRY. SJSRY mainly aims at creating employment opportunities-both self-employment and wage employment-in urban areas.

Earlier, under self-employment programmes, financial assistance was given to families or individual. Since the 1990s, this approach has been changed. Now those who wish to benefit from these programmes are encouraged to form self-help groups. Initially they are encouraged to save some money and lend among themselves as small loans. Later, through banks, the government provides partial financial assistance to SHGs which then decide whom the loan is to be given to for self-employment activities. Swarnajayanti Gram Swarozgar Yojana (SGSY) is one such programme.

The government has a variety of programmes to generate wage employment for the poor unskilled people living in rural areas. Some of them are National Food for Work Programme (NFWP) and Sampoorna Grameen Rozgar Yojana (SGRY).

**44. Ans. d**

**Extra Information** - The financial sector in India is controlled by the Reserve Bank of India (RBI). You may be aware that all the banks and other financial institutions in India are controlled through various norms and regulations of the RBI.

The RBI decides the amount of money that the banks can keep with themselves, fixes interest rates, nature of lending to various sectors etc. One of the major aims of financial sector reforms is to reduce the role of RBI from regulator to facilitator of financial sector. This means that the financial sector may be allowed to take decisions on many matters without consulting the RBI.

The reform policies led to the establishment of private sector banks, Indian as well as foreign. Foreign investment limit in banks was raised to around 50 per cent. Those banks which fulfil certain conditions have been given freedom to set up new branches without the approval of the RBI and rationalise their existing branch networks.

**45. Ans. d**

**Related Information** - All those who are actually engaged in the economic activities that generate the

domestic product, make up the working population or the work force of the economy. Adding the total number of persons counted as unemployed workers to the work force, we get the strength of the labour force of the country.

All workers in India, urban or rural are generally classified in the Census under nine broad categories.

1. Cultivators;
2. Agricultural labourers;
3. Workers in livestock, forestry, fishing, hunting and plantations, orchards and allied activities;
4. Workers in mining and quarrying
5. Workers in manufacturing, processing, servicing and repairs in (a) household industries and (b) factories and other non-household industries;
6. Workers in construction;
7. Workers in trade and commerce;
8. Workers in transport, storage and communication;
9. Workers in other services;

As is to be expected, cultivators, agricultural labourers, etc. are mostly to be found in the rural sector. But interestingly, some agricultural work goes on in the urban sector too. Similarly, though most manufacturing workers are in the urban sector, some manufacture is to be seen also in the rural sector.

One main feature of the working population is continued high rate of migration of workers (and their families) from the rural to the urban sector a factor that mainly accounts for the steady growth of our towns and cities.

**46. Ans. d**

**Explan** - The capital goods industries are those that produce the machinery and equipment for all industries and agriculture. These industries include machine tool, tractors power transformers and motor vehicles.

The intermediate goods industries produce goods that are used in the process of production in other industries or as accessory to the capital goods in the industries, like automobile tyres and petroleum refinery products.

The consumer goods industries include textiles, sugar, paper, bicycles, etc. The basic industries are those that provide essential inputs to all important industries and agriculture. They comprise coal, iron, ore, fertilizers, caustic soda, cement, steel, aluminium and electricity.

India is practically self-sufficient in respect of many basic and capital goods industries in the sense that these can now produce sufficiently to meet the domestic demand of the economy. For instance, India can produce all the electricity generation and transmission equipment that the economy needs and meet a large part of the demand for machine tools and other equipment.

**47. Ans. c**

**Explan** - Big Push to Private Participation in Defence Manufacturing: Government Provides Level Playing Field with Defence PSUs-Defence manufacturing is one of

the key sectors among the 25 sectors identified under the Make in India campaign launched by the Government of India. A number of initiatives have been taken by the new Government to incentivise private sector, including foreign OEMs to engage in the Defence and Civil Aerospace sector. There was a long standing demand of the Private Sector Manufacturers to bring parity between Domestic Private Players with Ordinance Factory Board and Defence PSUs in the matter of payment of Central Excise and Customs Duty. As a major game changer, Government of India has withdrawn excise and customs duty exemptions presently available to goods manufactured and supplied to Ministry of Defence by Ordinance Factory Board and Defence PSUs vide Notifications No. 23/2015-Central Excise and No. 29/2015-Customs dated 30.04.2015. This will provide a level playing field to Domestic Private Players bidding for the Government contracts by taking away the strategic advantage with PSUs for quoting lower rates in open bids.

**48. Ans. b**

**Explan** - A 'small-scale industry' is defined with reference to the maximum investment allowed on the assets of a unit. In 1955, the Village and Small-Scale Industries Committee, also called the Karve Committee, noted the possibility of using small-scale industries for promoting rural development. It is believed that small-scale industries are more 'labour intensive' i.e., they use more labour than the large-scale industries and, therefore, generate more employment. But these industries cannot compete with the big industrial firms; it is obvious that development of small-scale industry requires them to be shielded from the large firms.

For this purpose, the production of a number of products was reserved for the small-scale industry; the criterion of reservation being the ability of these units to manufacture the goods. They were also given concessions such as lower excise duty and bank loans at lower interest rates.

**49. Ans. d**

**Explan** - In accordance with the goal of the state controlling the commanding heights of the economy, the Industrial Policy Resolution of 1956 was adopted.

This resolution formed the basis of the Second Five Year Plan, the plan which tried to build the basis for a socialist pattern of society. This resolution classified industries into three categories.

The first category comprised industries which would be exclusively owned by the state; the second category consisted of industries in which the private sector could supplement the efforts of the state sector, with the state taking the sole responsibility for starting new units; the third category consisted of the remaining industries which were to be in the private sector.

Although there was a category of industries left to the private sector, the sector was kept under state control through a system of licenses. No new industry was allowed unless a license was obtained from the government. This policy was used for promoting industry in backward regions; it was easier to obtain a license if the industrial unit was established in an economically backward area. In addition, such units were given certain concessions such as tax benefits and electricity at a lower tariff. The purpose of this policy was to promote regional equality.

**50. Ans. d**

**Extra Information** - Our analysis of consumer's equilibrium, implies that the price of a product is an important factor in determining how much of the product a consumer will be willing to buy within a given time period. It is because, as the product price changes, the ratio of marginal utility to price changes so that the consumer's equilibrium will occur at a different level of consumption.

This forms the basis of defining demand for a particular good by a consumer: it is the quantity of the good that she is willing to buy at different prices within a given period of time.

However, the price of a product is not the only factor that influences how much a consumer should buy of that product. For example, if there is a taste. Change, it will change the marginal utilities from a product, and, the consumer's equilibrium condition will be fulfilled at some other level of consumption even when there is no change in price.

**Director : Ms. Akhtar J. Khan**

**Add.: 57/17 old Rajender Nagar Call :. 8826506054, 8826506099  
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