



## Fact Sheet Prep Series Part - 14

### ANSWER KEY WITH EXPLANATION

# ECONOMY

## (PART - III)

#### 1. Ans. d

**Extra Information** - The GNH Index is constructed based upon a robust multi-dimensional methodology known as the Alkire-Foster method. Lately the four pillars have been further classified into nine domains in order to create widespread understanding of GNH and to reflect the holistic range of GNH values. The nine domains are: psychological wellbeing, health, education, time use, cultural diversity and resilience, good governance, community vitality, ecological diversity and resilience, and living standards. The domains represents each of the components of wellbeing of the Bhutanese people, and the term 'wellbeing' here refers to fulfilling conditions of a 'good life' as per the values and principles laid down by the concept of Gross National Happiness.

#### 2. Ans. d

**Related Information** - Foreign currency convertible bond (FCCB) - A type of convertible bond that is purchased and distributes principle payments in a foreign currency. It also allows the option to convert the bond into stock. As long as the issuing company remains viable, this debt instrument is attractive for both the issuer and the bondholders. The company can usually obtain lower interest financing terms in exchange for the warrants which can dramatically add value to the bonds. This arrangement helps ensure that the bondholders will be compensated for their investment. It also allows them to take advantage of any significant increase in the company's stock price.

#### 3. Ans. c

**Explan** - Economic Growth does not take into account the size of the informal economy. The informal economy is also known as the black economy which is unrecorded economic activity. Development alleviates people from

low standards of living into proper employment with suitable shelter.

#### 4. Ans. a

**Explan** - Hampers the future growth: Borrowings increase the financial burden for future generations. It adversely affects the future growth and development prospects of the country.

#### 5. Ans. b

**Explan** - The Act binds not only the present government but also the future Government to adhere to the path of fiscal consolidation. The Government can move away from the path of fiscal consolidation only in case of natural calamity, national security and other exceptional grounds which Central Government may specify. Further, the Act prohibits borrowing by the government from the Reserve Bank of India, thereby, making monetary policy independent of fiscal policy. The Act bans the purchase of primary issues of the Central Government securities by the RBI after 2006, preventing monetization of government deficit. The Act also requires the government to lay before the parliament three policy statements in each financial year namely Medium Term Fiscal Policy Statement; Fiscal Policy Strategy Statement and Macroeconomic Framework Policy Statement.

#### 6. Ans. d

**Explan** - Non-plan expenditure is accounted for by interest payments, subsidies (mainly on food and fertilisers), wage and salary payments to government employees, grants to States and Union Territories governments, pensions, police, economic services in various sectors, other general services such as tax collection, social services, grants to foreign governments, defence, loans to public enterprises, loans to States, Union Territories.



**7. Ans. d**

**Explan** - This technique of budgeting was developed by Peter Phyr and was first implemented at Texas Instruments in the 1960s. The then President Jimmy Carter introduced this Budgeting system in USA. In India, the System was first implemented in the Department of Science and Technology in the year 1983. The need for zero-based budgeting was also emphasized in the seventh five-year plan. However not much has happened on this front since. The Zero-base is however, least bothered about the overall increase or reduction of the budget.

**8. Ans. b**

**Explan**- Sale of a new car is calculated in GDP because it is a final good. Purchase of tyre by a car manufacturer is an intermediate good for a car and hence not included in GDP. Buying share of a car company is a transaction in financial products without any real capital or product formation. Hence, it is also excluded from GDP calculation. Profits earned by a foreign-owned car company are included in GDP as it is within the domestic territory of an economy. Hence, only 2 and 3 are excluded from GDP calculations.

**9. Ans. b**

**Explan** - Remittance money is Net factor Income from Abroad (NFIA). GDP doesn't include NFIA. GNP is sum of GDP and NFIA. It is basically sum of values of final goods and services produced by nationals of an economy whether within or outside the economic territory of the country. National income is Net National Product at factor cost and hence it also includes NFIA.

**10. Ans. d**

**Explan** - Black money in the economy is unaccounted money. It is the money generated in illegal activities or legal activities for which tax has not been paid. This amounts to not reporting the production of goods and services in the economy and hence it conceals the real level of GDP. Household services by women and Voluntary and charitable work are forms of care economy, hence it conceals the real level of GDP. Pollution of a water body is a form of Green economy and it is not calculated in India while calculating GDP.

**11. Ans. b**

**12. Ans. d**

**13. Ans. c**

**Explan** - The duration of the call money loan is 1 day. Demand and supply of liquidity affect the call money rate. A tight liquidity condition leads to a rise in call money rate and vice versa.

**14. Ans. a**

**Explan** - The merchant banks do not act as repositories

for savings of the individuals. The State Bank of India was the first Indian Commercial Bank having set up separate Merchant Banking Division in 1972. In India merchant banks have been primarily operating as issue houses than full-fledged merchant banks as in other countries.

**15. Ans. d**

**Related Information** - An important point to remember here is that in the primary market, securities are directly purchased from the issuer. Here, the transaction is conducted between the issuer and the buyer.

**16. Ans. c**

**Explan** - Bear is an investor who believes that market will go down. Bull is an investor who believes that market will go up-optimistic.

**17. Ans. a**

**Explan** - The National Stock Exchange already has an Islamic index that is linked to Standard and Poor's Shariah-compliant index. The BSE Tasis Shariah 50 index consists of the 50 largest and most liquid Shariah compliant stocks within the BSE 500. Some of the major stocks that are part of the BSE Tasis Shariah 50 include Tata Consultancy Services, Maruti Suzuki, Bharti Airtel, Reliance Industries Ltd, etc.

**18. Ans. c**

**Explan** - The GDP deflator is a measure of price inflation. It is calculated by dividing Nominal GDP by Real GDP and then multiplying by 100. The GDP deflator is a tool used to measure the level of price changes over time so that current prices can be accurately compared to historical prices. In other words, it eliminates the effects of price changes over time.

**19. Ans. b**

**Explan** - The raw GDP figure of the current financial year is called the nominal GDP.

**20. Ans. a**

**Explan** - However, foreign companies with income sources in India are liable under MAT. The MAT paid can be carried forward and set-off (adjustment) against regular tax payable during the subsequent five-year period subject to certain conditions.

**21. Ans. b**

**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. The mission of the BIS is to serve central banks in their pursuit of monetary and financial stability, to foster international cooperation in those areas and to act as a bank for central banks.



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**22. Ans. b**

**Explan** - The Bank also conducts programmes on financial literacy, skill development, training for women of all segments of the society so that women in turn generate more income, more jobs and growth opportunities and contribute significantly for the economic growth of the nation. The Bank has been allocated with an initial capital of Rs. 1000 Crores. The Bank has received two awards – The Asian Banker Achievement Award 2015 for Technology Implementation in the category of Best Outsourcing Project (New Bank) and the Core Banking Initiative Award 2014 by Asian Banking and Finance, Singapore.

**23. Ans. d**

**Related Information – How is it different from bank prime lending rate?**

BR is a more objective reference number than the bank prime lending rate (BPLR) - the current benchmark. BPLR is the rate at which a bank is willing to lend to its most trustworthy, low-risk customer. However, often banks lend at rates below BPLR. For example, most home loan rates are at sub-BPLR levels. Some large corporates also get loans at rates substantially lower than BPLR. For all banks, BR will be much lower than their BPLR.

**24. Ans. a**

**Extra Information** - The initiative also enables Government subsidies and social security benefits to now be directly credited to the accounts of the beneficiaries so that they could draw the money from the Business Correspondents (BCs) in their village itself. This programme now makes it possible for the large number of migrant workers in urban areas to remit money to their relatives in distant villages quickly and safely. The facilities provided through banking outlets will enhance social security by facilitating the availability of allied services in course of time like micro insurance, access to mutual funds, pensions, etc. Banking facilities like Savings Bank, recurring Deposits, Fixed deposits, Remittances, Overdraft facility, Kisan Credit Card (KCCs), General Credit Cards (GCC) and collection of cheques will be provided.

**25. Ans. a**

**26. Ans. b**

**Explan** - Aajeevika - Aided in part through investment support by the World Bank, the Mission aims at creating efficient and effective institutional platforms of the rural poor enabling them to increase household income through sustainable livelihood enhancements and improved access to financial services. National Rural Livelihoods Mission (NRLM) was launched by the Ministry of Rural

Development (MoRD), Government of India in June 2011. In addition, the poor would be facilitated to achieve increased access to their rights, entitlements and public services, diversified risk and better social indicators of empowerment.

**27. Ans. a**

**28. Ans. d**

**Related Information** - The scheme was launched in 2010 and focused on according property rights to slum dwellers and the urban poor by the states and union territories. It was also to provide subsidized credit. The scheme is applicable to all slums within a city, whether notified or non-notified (including identified and recognized), whether on lands belonging to Central Government or its Undertakings, Autonomous bodies created under the Act of Parliament, State Government or its Undertakings, Urban Local Bodies or any other public agency and private sector. It is also applicable to “urbanized villages” inside the planning area of the city, urban homeless and pavement dwellers.

**29. Ans. b**

**Explan** - The index identifies deprivations across the same three dimensions as the HDI and shows the number of people who are multi-dimensionally poor (suffering deprivations in 33% or more of weighted indicators) and the number of deprivations with which poor households typically contend with. Like development, poverty is multidimensional - but this is traditionally ignored by headline money metric measures of poverty. The Multidimensional Poverty Index (MPI), published for the first time in the 2010 Report, complements monetary measures of poverty by considering overlapping deprivations suffered at the same time.

**30. Ans. c**

**Explan** - Account can be opened in any bank branch or Business Correspondent (Bank Mitra) outlet. Special Benefits under PMJDY Scheme-Interest on deposit, accidental insurance cover of Rs.1.00 lakh no minimum balance required. Life insurance cover of Rs.30,000/- Easy Transfer of money across India Beneficiaries of Government Schemes will get Direct Benefit Transfer in these accounts. After satisfactory operation of the account for 6 months, an overdraft facility will be permitted. Access to Pension, insurance products, Accidental Insurance Cover, RuPay Debit Card must be used at least once in 45 days. Overdraft facility upto Rs.5000/- is available in only one account per household, preferably lady of the household.

**31. Ans. b**

**Explan** - Replies to the farmers’ queries are given in 22



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local languages. These call Centres are working in 14 different locations covering all the States and UTs. A countrywide common eleven digit Toll Free number 1800-180-1551 has been allotted for Kisan Call Centre. This number is accessible through mobile phones and landlines of all telecom networks including private service providers. A Kisan Knowledge Management System (KKMS) to facilitate correct, consistent and quick replies to the queries of farmers and capture all the details of their calls has been developed.

**32. Ans. d**

**Extra Information** - Krishi Karman awards were instituted in the year 2010-11 to reward the best performing States in foodgrains and individual crops of Rice, Wheat, Pulses and Coarse Cereals. Krishi Karman awards are given to Best performer States for raising country's food grain production. Krishi Karman Awards comprises of three awards for total food grain production and four awards for production of rice, wheat, coarse cereals and pulses - the crops that constitute the food grain.

**33. Ans. a**

**34. Ans. a**

**35. Ans. d**

**36. Ans. c**

**Explan** - National Bank for Agriculture and Rural Development (NABARD) is an apex development bank in India, having headquarters in Mumbai (Maharashtra) and other branches are all over the country.

**37. Ans. b**

**Explan** - PURA in the shorter version of Providing Urban amenities in Rural Areas to tackle the problem of migration of people from rural to urban areas for employment. PURA priorities rural development, because about 70% of our population lives in rural areas, by neglecting them India cannot be a developed nation by 2020.

**38. Ans. a**

**Explan** - The Government of India constituted the National Investment Fund (NIF) on 3rd November, 2005, into which the proceeds from disinvestment of Central Public Sector Enterprises were to be channelized. Salient features of the fund includes -

- (i) The proceeds from disinvestment of CPSEs will be channelized into the National Investment Fund which is to be maintained outside the Consolidated Fund of India
- (ii) The corpus of the National Investment Fund will be of a permanent nature
- (iii) The Fund will be professionally managed to provide sustainable returns to the Government, without

depleting the corpus. Selected Public Sector Mutual Funds will be entrusted with the management of the corpus of the Fund

- (iv) 75% of the annual income of the Fund will be used to finance selected social sector schemes, which promote education, health and employment. The residual 25% of the annual income of the Fund will be used to meet the capital investment requirements of profitable and revivable CPSEs that yield adequate returns, in order to enlarge their capital base to finance expansion/diversification.

**39. Ans. b**

**Explan** - 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. MOUs may also be used to modify existing legal treaties.

**40. Ans. c**

**Explan** - Primary deficit is the difference between the fiscal deficit and the interest payments. Monetized deficit is the borrowings made from the RBI through printing fresh money.

**41. Ans. b**

**Explan** - Under MSF, banks can borrow funds up to one percentage of their net demand and time liabilities (NDTL).

**42. Ans. b**

**Explan** - Repo rate is the rate at which RBI lends to commercial banks generally against government securities. Reduction in Repo rate helps the commercial banks to get money at a cheaper rate and increase in Repo rate discourages the commercial banks to get money as the rate increases and becomes expensive. Reverse Repo rate is the rate at which RBI borrows money from the commercial banks. The increase in the Repo rate will increase the cost of borrowing and lending of the banks which will discourage the public to borrow money and will encourage them to deposit. As the rates are high the availability of credit and demand decreases resulting to decrease in inflation. This increase in Repo Rate and Reverse Repo Rate is a symbol of tightening of the policy.

**43. Ans. b**

**Explan** - Deflation is an indication that economic conditions are deteriorating. Deflation is usually associated with significant unemployment, which is only corrected after wages drop considerably. "Deflation" is often confused with "disinflation." While deflation represents a decrease in the prices of goods and services



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throughout the economy, disinflation represents a situation where inflation increases at a slower rate.

**44. Ans. b**

**Explan** - The term became widely used in the 1980s until the 1990s because the United States experienced the “twin” deficits during this timeframe. However, there is no reason why current account deficits and government budget deficits occurs at the same time. The term “twin deficit” is now mostly used to refer to the relationship between the country’s current account deficit and fiscal deficit. It’s one of the reasons due to which the precious metals market is likely take off in the coming years.

**45. Ans. d**

**Explan** - The International Bank for Reconstruction and Development (IBRD) lends to governments of middle-income and creditworthy low-income countries. The International Development Association (IDA) provides interest - free loans - called credits - and grants to governments of the poorest countries. Together, IBRD and IDA make up the World Bank.

**46. Ans. d**

**Explan** - NBFCs are doing functions similar to banks. What is difference between banks & NBFCs? NBFCs lend and make investments and hence their activities are akin to that of banks; however there are a few differences: NBFC cannot accept demand deposits; NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself; deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.

**47. Ans. d**

**Related Information** - Virtually all decisions in the WTO are taken by consensus among all member countries and they are ratified by members’ parliaments. Trade friction is channelled into the WTO’s dispute settlement process where the focus is on interpreting agreements and commitments, and how to ensure that countries’ trade policies conform with them. Producers and exporters know that foreign markets will remain open to them. By lowering trade barriers, the WTO’s system also breaks down other barriers between peoples and nations.

**48. Ans. d**

**49. Ans. c**

**Explan** - RBI is the regulator of all banks, NBFC’s MFI and effectively anything to do with money. (This includes technology used by banks; ATM’s and also stuff like forex). IRDA is the regulator who deals with anything related to insurance. SEBI is the regulator related to all things related to the stock markets. Stuff like mutual funds, share trading is all under them.

**50. Ans. c**

**Extra Information** - The RKVY funds are provided to the states as 100% grant by the Central Government. RKVY is a State Plan Scheme. How much assistance would be provided to a state from centre would depend upon the amount provided in State Plan Budgets for Agriculture and allied sectors, above a baseline expenditure on these sectors.



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