

Test Series – Prelims 2020

General Studies Test – 14

Subject: ECONOMIC AND SOCIAL DEVELOPMENT

Explanations

1. Consider the following steps taken by the Government:
 1. Implementation of GST
 2. Implementation of Directly Benefit Transfer
 3. Implementation of 7th Pay commission

Which of the above steps would increase budget deficit of the government?

- (a) 1 and 2 only
- (b) 3 only
- (c) 1 and 3 only
- (d) 2 and 3

Explanation:

When government spends more than it collects, it gives rise to budget deficit.

Would lead to rationalization of tax structure and increase in tax revenue of government thus would decrease the budget deficit.

Would lead to decrease in leakages and wastages of subsidy and hence save money for government hence decreasing the deficit.

7th pay commission would lead to increase the salaries of government employees and thus increase in expenditure giving rise to deficit.

2. Which of the following constitutes investment in the economy:
 1. Production of consumption goods
 2. Production of capital goods
 3. Production of services
 4. Buying and selling of shares

Select the correct answer using the code given below:

- (a) 1 and 2 only
- (b) 2 only
- (c) 2 and 4 only
- (d) All of the above

Explanation:

The value of capital goods produced is defined as investment. Hence, production of consumption goods and services are not investment. Buying and selling of shares from one person to another person is also not investment for the economy as only the ownership changes and nothing happens on ground. So, only (ii) statement is true.

3. Base Erosion and Profit Sharing (BEPS) agreement is of major significance for India. Consider the following statements:
 1. This agreement was signed under the aegis of World Bank.
 2. Heavy reliance on corporation tax makes BEPS highly significance for India.
 3. Equalization Levy has been imposed by Indian government under BEPS.

Which of the above statement is/are correct?

- (a) 1 and 2 only
- (b) 1 and 3 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

Explanation:

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

The Organisation for Economic Co-operation and Development (OECD) define BEPS strategies as also "exploiting gaps and mismatches in tax rules"; however, academics proved corporate tax havens (such as Ireland, the Caribbean, Luxembourg, the Netherlands, Singapore, Switzerland, and Hong Kong), who are the largest global BEPS hubs, use OECD-whitelisted tax structures and OECD-compliant BEPS tools.

Corporate tax havens offer BEPS tools to "shift" profits to the haven, and additional BEPS tools to avoid paying taxes within the haven. BEPS tools are associated mostly with U.S. technology and life science multinationals. Tax academics showed use of the BEPS tools by U.S. multinationals, via tax havens, maximised long-term U.S. exchequer receipts and shareholder return, at the expense of others.

4. Consider the following statements in an economy:
1. Higher tax collection may lead to higher investment.
 2. Higher tax collection may lead to higher consumption.

Which of the above statement is/are correct?

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

Explanation:

Government collects tax in the economy and through this tax money it purchases both capital goods (factory, equipment, road) and consumption goods (food grains for PDS).

5. Consider the following statements about a country in Liquidity Trap:
1. The interest rate in the market will be very low.
 2. People and businesses both will hold on to their cash and don't spend.
 3. It shows effectiveness of monetary policy to tackle recession.
 4. Cash holdings of banks will rise.

Which of the above statement is/are correct?

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

Explanation:

Liquidity Trap is a situation where the Central Bank wants to increase the money supply in the economy in case of recession but fails to lower the interest rate as the interest rates almost reaches zero. This makes the monetary policy ineffective.

In such a situation people would like to hold on to their liquid cash like in savings deposits but not in fixed deposit and may not spend money as there is almost zero or negative inflation and banks deposit rates are almost zero.

6. If fiscal deficit of India increases, it may
1. Increase inflation
 2. Decrease inflation
 3. Increase aggregate demand

Select the correct answer using the code given below:

- (a) 1 only
- (b) 2 only
- (c) 1 and 3 only
- (d) All of the above

Explanation:

If the money that the borrowed by government is used to increase the amount of wheat production, then the inflation could have been decreased for example borrowing money to create new canal or irrigation project.

7. Consider the following statements:
1. Financing of large infrastructure projects.
 2. Decrease inn risk appetite.
 3. Increase in competition among the banks.

Which of the above is/are advantages of banks consolidation?

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

Explanation:

SBI is largest but other banks consolidation will lead to competition with SBI due to mere size. Most of the infrastructure projects are heavy investment intensive which makes banks more susceptible to NPAs. Increased size would make them more capable to invest in infra projects.

8. The Indian exchange rate system is termed as "managed float" because:
- (a) RBI fixes the exchange rate
 - (b) RBI fixes the exchange rate & keeps adjusting depending on the economic situation
 - (c) RBI intervenes in the exchange market to prevent volatility
 - (d) None of the above

Explanation:

The value of Rupee with respect to other currencies for example \$ is decided by the market forces of demand and supply and not regulated by RBI. But when Rupee becomes volatile with respect to \$ then RBI intervenes in the market and buys and sells dollars to contain the volatility of rupee. So the Rupee is called managed/dirt float.

Floating Exchange Rate can be of two types 1. Free Float and 2. Managed Float

In those countries where Central Bank doesn't interfere in the exchange rate market are called free float for example US. Before 1993, India's exchange rate was "Fixed and adjustable" or Pegged exchange rate.

9. Evergreening of loans means:
- (a) Loans which would remain non performing till written off from the books.
 - (b) Loans that must be waived off by government.
 - (c) Loans taken afresh by companies to pay up an old loan
 - (d) Loans that are given by bank as priority sector lending.

Explanation:

Evergreening is a practice whereby banks extend even more loans to debt-laden companies to help them repay previous loans and hopefully earn enough revenue along the way to get out of trouble.

10. Consider the following statements:
1. High output leads to high unemployment
 2. High unemployment leads to high inflation

Which of the above statement/sis/are correct?

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

Explanation:

When the output in the economy is high, that means factories are working at full potential and employing more labour. So, (1) is not true.

When the unemployment in the economy is high, people have less money to purchase goods and services (the demand in the economy decreases) which leads to decrease in prices. So, (2) is also not true.

11. Consider the following statements regarding Cash Reserve Ratio (CRR) kept with RBI by commercial banks:
1. It ensures safety to the people's deposits in banks.
 2. It ensures solvency of banks
 3. It increases the cost of funds for the banks.
 4. Banks earn interest on CRR

Which of the above statement/s is/are correct?

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

Explanation:

CRR provide safety to the public deposits. It also insures solvency i.e. staying in business and liquidity problems.

It is idle money for the banks which increases its costs since banks do not earn interest on the CRR.

12. Consider the following statement about Fiscal Responsibility and Budget Management (FRBM) Act 2003:
1. Escape clause refers to the situation under which the central government can flexibly follow fiscal deficit target during special circumstances.
 2. Section 4 (2) of the FRBM Act provides for a trigger mechanism for a deviation from the estimated fiscal deficit on account of structural reforms in the economy with unanticipated fiscal implications.
 3. The government raised fiscal deficit target to 3.8 percent of the GDP from 3.3 percent pegged earlier for 2019-20 due to revenue shortage.

Which of the above statement are correct?

- (a) 1 and 2 only
- (b) 1 and 3 only
- (c) 2 and 3 only

(d) 1, 2 and 3

Explanation:

Escape clause refers to the situation under which the central government can flexibly follow fiscal deficit target during special circumstances.

This terminology was innovated by the NK Singh Committee on FRBM.

The government has utilised 'escape clause' under the Fiscal Responsibility and Budget Management (FRBM) Act which provides it leeway for relaxation of fiscal deficit roadmap during time of stress.

"Section 4 (2) of the FRBM Act provides for a trigger mechanism for a deviation from the estimated fiscal deficit on account of structural reforms in the economy with unanticipated fiscal implications.

Therefore taken a deviation of 0.5 percent, consistent with Section 4(3) of FRBM Act, both for RE 2019-20 and BE 2020-21,"

The government raised fiscal deficit target to 3.8 percent of the GDP from 3.3 percent pegged earlier for 2019-20 due to revenue shortage.

13. Consider the following statement about

Primary deficits:

1. Primary deficit is fiscal deficit minus subsidies.
2. It is a parameter to determine fiscal sustainability.

Which of the above statement/s is/are correct?

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

Explanation:

Primary deficit can be arrived by deducting interest payment from fiscal deficit. Since fiscal deficit is involved in its calculation it, obviously becomes a parameter to determine fiscal sustainability.

14. Consider the following statements about Participatory Notes (P-Notes)

1. It is an offshore investment instrument.
2. In India, P-notes are regulated by RBI.
3. P-notes can be used by Indian investors also.

Which of the above statement/s is/are correct?

- (a) 1 only
- (b) 1 and 2 only
- (c) 1 and 3 only
- (d) 2 and 3 only

Explanation:

Participatory notes also referred to as P-Notes, or PNs, are financial instruments required by investors or hedge funds to invest in Indian securities without having to register with the Securities and Exchange Board of India (SEBI). P-Notes are among the group of investments considered to be Offshore Derivative Investments (ODIs). Citigroup (C) and Deutsche Bank (DB) are among the biggest issuers of these instruments.

Any dividends or capital gains collected from the securities goes back to the investors. Indian regulators are generally not in support of participatory notes because they fear that hedge funds acting through participatory notes will cause economic volatility in India's exchanges.

15. Consider the following statements about Hybrid Annuity Model (HAM) of PPP:
1. Private sector must bring all the investment required.
 2. Government would be using this model for highways projects.
 3. The toll right is with the private sector but transparency must be maintained in its collection.

Which of the above statement/s is/are **not** correct?

- (a) 1 only
- (b) 1 and 2 only
- (c) 1 and 3 only
- (d) 2 and 3 only

Explanation:

Hybrid annuity means that the government makes payment in a fixed amount for a considerable period and then in a variable amount in the remaining period.

Hybrid Annuity Model (HAM) has been introduced by the Government to revive PPP (Public Private Partnership) in highway construction in India.

In India, the new HAM is a mix of BOT Annuity and EPC models. As per the design, the government will contribute to 40% of the project cost in the first five years through annual payments (annuity). The remaining payment will be made on the basis of the assets created and the performance of the developer.

Here, hybrid annuity means the first 40% payment is made as fixed amount in five equal installments whereas the remaining 60% is paid as variable annuity amount after the completion of the project depending upon the value of assets created.

As the government pays only 40%, during the construction stage, the developer should find money for the remaining amount.

Here, he has to raise the remaining 60% in the form of equity or loans.

There is no toll right for the developer. Under HAM, Revenue collection would be the responsibility of the National Highways Authority of India (NHAI).

16. Consider the following factors:
1. Decrease in oil prices.
 2. Slowdown in major economies of world.
 3. Depreciation of Indian rupee.
 4. India is losing its traditional markets to competitors.

Which of the above are factors for fall in Indian exports?

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

Explanation:

Indian competitors are taking markets from India like Vietnam & Bangladesh in textiles, Philippines and Indonesia in services etc.

Depreciation of rupee would make exports more competitive and hence increase in exports.

India is the sixth largest exporter of petroleum products in the world and earns \$60 billion annually. Any fall in oil prices negatively impacts exports. Also middle east is major market for India and fall in oil prices have deteriorated the purchasing power of these nation to some extent thereby affecting exports from India(though to lower extent)...

17. Which of the following statement about "Tax Buoyancy" in the economy is correct?
- (a) Ratio of percentage change in tax revenue to percentage change in GDP
 - (b) Ratio of change in tax revenue to change in GDP

- (c) Percentage increase in tax revenues as measured from previous year
- (d) Incremental change in tax revenues required to increase the GDP by one percent.

Explanation:

Tax buoyancy explains this relationship between the changes in government's tax revenue growth and the changes in GDP. It refers to the responsiveness of tax revenue growth to changes in GDP. When a tax is buoyant, its revenue increases without increasing the tax rate.

18. When there is increase in an economy's capital stock then:
1. Production capacity of the economy increases.
 2. National income of the nation increases.

Which of the above is /are correct?

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

Explanation:

Capital stock means formation of capital in the economy and as this increases it leads to (1) which in turn leads to (2).

19. With reference to Tax Havens, consider the following statement:
1. Lack of adequate capital controls.
 2. Liberal regulatory environment.
 3. Very high interest rates on deposits.
 4. Always involved in Double Taxation Avoidance Agreement (DTAAs).

Which of the above are characteristics of Tax havens?

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

Explanation:

They don't provide very high interest rate but it is tax free and sometimes higher than normal saving account interest rates.

They need not be always involved in DTAA. Eg. India don't have DTAA with Luxumberg, Caymen Island etc tax havens.

20. GDP deflator is used to:
- (a) Measure the relative reduction in GDP growth rate of a country.
 - (b) Measure the inflation in a country.
 - (c) Compare the GDP of a country vis a vis other countries of the world.
 - (d) Estimate the purchasing power of the citizen of a country.

Explanation:

GDP deflator is an economic metric that accounts for inflation.

GDP deflator shows how much a change in the base year's GDP relies upon changes in the price level.

21. A dual economy means:
1. The existence of black money and white money.
 2. The existence of agriculture and industry.
 3. The existence of commercial agriculture with subsistence farming

4. Modern industry and commercial agriculture coexisting with subsistence farming and traditional handicrafts.

Select the correct answer using the code given below:

- a) 1 and 2 only
- b) 1, 2 and 4 only
- c) 2, 3 and 4 only
- d) All of these

Explanation:

A dual economy is the existence of two separate economic sectors within one country, divided by different levels of development, technology, and different patterns of demand.

22. Which of the following is/are characteristics of open economy:
 1. Buying and selling of shares, debentures and bonds to foreign country.
 2. Free movement of people.
 3. Borrowing and lending with foreign nations
 4. High fiscal deficit and current account deficit.

Choose the correct answer from the given codes below:

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

Explanation:

An open economy is a type of economy where the domestic community and out have trade in goods and services with other people and institutions across the border. Trade can take the form of managerial exchange, technology transfers, and all kinds of goods and services.

23. Consider the following about open unemployment:
 1. In this people are willing to work at given wage but fail to get any work.
 2. This unemployment can be corrected by government measures.
 3. It exists during depressions only.

Select the correct answer from the given codes:

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3 only

Explanation:

Open unemployment is a condition in which people have no work to do. They are able to work and are also willing to work but there is no work for them.

They are found partly in villages, but very largely in cities. Most of them come from villages in search of jobs, many originate in cities themselves.

Such employment can be seen and counted in terms of the number of such persons. Hence it is called open unemployment. Naked unemployment is another term used for it.

Government measures to provide skill development can be used to solve this problem.

This type of unemployment can actually exist in all the situation and not only during the depression.

24. Which among the following is an example of Greenfield Investment?
 - (a) Investment in real estate company in agriculture land to develop it later when the land prices will increase.

- (b) Investment made by company in a new factory complex in a remote land where there are no facilities.
- (c) Investment made by company to clean up a cement factory located in populated area & using it for a commercial office purpose.
- (d) Investment made by company to clean up a cement factory located in populated area because & using it for a residential purpose.

Self-explanatory....

25. Which of the following is responsible for the decrease of per capita holding of cultivated land in India?
1. Low per capita income
 2. Rapid rate of increase in population
 3. Practice of dividing land equally among the heirs.
 4. Use of tradition technique of ploughing.

Select the correct answer using the codes given below:

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

Explanation:

Income has to do nothing with decreasing per capita holding of land. Majority of population in India are dependent on agriculture and with rapid increase in population there is multiple division of land among the son's of the next generation thereby leading to land fragmentation.

Option 4 is irrelevant to question asked. Use of plough is actually more about yield and agricultural production.

26. Indian State has low capacity. This is manifested in:
1. High level of corruption
 2. Poor delivery of essential services to people.
 3. Bureaucratic precautions in decision making.

Select the correct answer from the codes given below:

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

Explanation:

Weak state capacity has created problems like abundant precaution in bureaucratic decision making because of fear of 4 Cs – CBI, CVC, CAG and courts.

27. If money supply in the economy is decreased and nominal GDP have to keep same, which of the following step have to be taken?
- (a) Remaining money stock of money will need to be used more intensively.
- (b) Black money must be brought in flow.
- (c) More jobs have to create in formal sector
- (d) It is not possible to keep GDP same.

The money supply in the economy is used to create assets and investments. If the money supply is decreased, then the total amount available for these purpose would be less and hence that remaining amount have to be used more intensively and properly to bring the same amount of GDP growth.

28. Anchor Banks refer to:

- (a) Public Sector banks under which drive of consolidation process among the state-owned banks would happen.
- (b) Public Sector banks that are providing most of the infrastructural financing.
- (c) Public Sector Banks that will coordinate banking activities in a district.
- (d) Public Sector Banks that have been classified as Domestic Systemically Important Banks (D-SIBs).

Explanation:

Anchor banks are public sector banks that will drive the consolidation process among the state owned banks.

29. Consider the following statements about Gross Value Added at factor cost:

- 1. It gives the picture of economic activity from the consumer perspective.
- 2. It does not present distorted value since it excludes both indirect taxes and subsidies.

Which of the above statement/s is/are correct?

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

Explanation:

From producer (supply side).

It excludes indirect taxes but includes subsidies.

30. Consider following statements regarding components of "double financial repression":

- 1. Statutory liquidity ratio (SLR) and Priority sector lending (PSL) requirements are a repression on the asset side.
- 2. Rising Non Performing Assets (NPAs) and reduction in households financial savings are a repression on the liability side.

Which of the above statement/s is/are correct?

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

Explanation:

SLR & PSL requirements and Rising NPAs are considered repressionon asset side as the SLR is the government securities held by banks and PSL is the loans which ideally means interest payment to banks and hence is an asset.

Reduction in households' financial savings is a repression on the liability side.

31. As financial inclusion increases in India, it would also lead to:

- 1. Higher domestic savings
- 2. Enhanced investment
- 3. Better targeting of welfare programs
- 4. Greater penetration of financial services.

Choose the correct answer from the given options below:

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

Explanation:

Financial inclusion can have the following Benefits for the economy:

- More domestic savings, More domestic consumption, hence boosts up aggregate demand.
- Greater risk taking ability of household (high savings)
- More penetration of corporate bond markets, small saving instruments and insurance products.
- Greater resilience of financial markets and banking system.
- Boost to microfinance, hence a boost to Self-employment through greater edit off take for MSMEs & Agriculture.
- More self-employment opportunities can Help reduce income inequality and poverty.
- Better targeting and improving
- Accessibility can be achieved through DBT of subsidies, scholarship payments and pensions.

32. A redistribution of income in a country can be best brought about through

- (a) progressive taxation combined with progressive expenditure
- (b) progressive taxation combined with regressive expenditure
- (c) regressive taxation combined with regressive expenditure
- (d) regressive taxation combined with progressive expenditure

Explanation:

Progressive tax - tax that takes a larger % from high-income earners than it does from low-income individuals. If the government tends to spend more on poor in comparison to rich people then it is called regressive expenditure and if government tends to spend more on rich than on poor then it is called progressive expenditure.

33. Consider the following statements with reference to taxation:

1. Higher direct taxes help in controlling Inflation in the economy.
2. Higher indirect taxes help in controlling the Inflation in the economy.

Which of the above statement/s is/are correct?

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

Explanation:

Higher direct taxes will mean that the people will be left with smaller disposable incomes, lower disposable incomes do not generate higher demand. This causes the inflation to be controlled. Whereas higher indirect taxes will increase the prices of the commodities because the cost of production will increase. This will lead to Cost-push inflation.

34. Maintaining fiscal sustainability is the fundamental task of Government's budget policy. Fiscal sustainability is signified by:

1. Fiscal Deficit
2. Revenue Deficit
3. Primary Deficit
4. Debt-to-GDP ratio

Select the correct answer using the code given below:

- (a) 1 and 2 only
- (b) 1, 2 and 3 only
- (c) 1 and 4 only
- (d) All of the above

Self-explanatory...

35. GST is said to be based "Revenue Neutral Tax Rate", which means that:

- (a) The rates of tax revenues for States and Centre will remain the same as before GST
- (b) The tax rate will be same for the Centre and State
- (c) Net increase in the total tax amount would be zero
- (d) Both (a) and (b)

Explanation:

The term revenue neutral rate (RNR) will refer to that single rate, which preserves revenue at desired (current) levels. In practice, there will be a structure of rates, but for the sake of analytical clarity and precision it is appropriate to think of the RNR as a single rate. It is a given single rate that gets converted into a whole rate structure, depending on policy choices about exemptions, what commodities to charge at a lower rate (if at all), and what to charge at a very high rate. The RNR should be distinguished from the "standard" rate defined as that rate in a GST regime which is applied to all goods and services whose taxation is not explicitly specified. Typically, the majority of the base (i.e., majority of goods and services) will be taxed at the standard rate, although this is not always true, and indeed it is not true for the states under the current regime.

36. Consider the following statements about Crowd funding:

1. It involves raising small amounts of money from large number of investors.
2. It mostly involves raising money through the internet or social media.
3. It has the potential to increase entrepreneurship.

Select the correct answer using the code given below:

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

Explanation:

Crowd funding or marketplace financing refers to a method of funding a project or new venture through small amounts of money raised from a large number of people, typically through a portal (internet/social media) acting as an intermediary. Crowd funding makes use of the easy accessibility of vast networks of people through social media and crowd funding websites to bring investors and entrepreneurs together. Crowd funding has the potential to increase entrepreneurship by expanding the pool of investors from whom funds can be raised beyond the traditional circle of owners.

37. Sunrise Industries are those industries which

- (a) are well-developed and have ample scope for further development
- (b) improve export performance of the country
- (c) are small-scale industries
- (d) have high growth potential and meet further requirements of the economy

Self-explanatory ...

38. The term 'hybrid annuity model' seen often in the news is related to:

- (a) black money issue
- (b) Public Private Partnership
- (c) Awarding Government contracts
- (d) Distribution of Banking licenses

Self-explanatory (refer Q15).

39. Bail in provision refers to the
- (a) Government using public money to help banks
 - (b) Government using depositors money to help banks
 - (c) Government allowing foreign money to help banks
 - (d) Government taking over the bad loans of the bank.

Explanation:

A bail-in provides relief to a financial institution on the brink of failure by requiring the cancellation of debts owed to creditors and depositors. A bail-in is the opposite of a bailout, which involves the rescue of a financial institution by external parties, typically governments, using taxpayers' money for funding. Bailouts help to keep creditors from losses while bail-ins mandate creditors to take losses.

40. Consider the following statements about Advance Pricing Agreement (APA):
1. An APA provides certainty with respect to the tax outcome of the tax payer's international transactions.
 2. Till date, Indian Central Board of Direct Taxes (CBDT) has entered into has entered into only 10 APAs.

Which of the above statement/s is/are correct?

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

Explanation:

In 2019 itself, CBDT have entered in more than 25 APAs.

An advance pricing agreement (APA) is an ahead-of-time agreement between a taxpayer and a tax authority on an appropriate transfer pricing methodology. An APA provides certainty with respect to the tax outcome of the tax payer's international transactions.

An APA can be one of the three types – unilateral, bilateral and multilateral.

A Unilateral APA is an APA that involves only the taxpayer and the tax authority of the country where the taxpayer is located.

Bilateral APA (BAPA) is an APA that involves the tax payer, associated enterprise (AE) of the taxpayer in the foreign country, tax authority of the country where the taxpayer is located and the foreign tax authority.

Multilateral APA (MAPA) is an APA that involves the taxpayer, two or more AEs of the tax payer in different foreign countries, tax authority of the country where the taxpayer is located and the tax authorities of AEs.

41. Which one of the following is likely to be the most inflationary in its effect?
- (a) Repayment of public debt
 - (b) Borrowing from the public to finance a budget deficit
 - (c) Borrowing from banks to finance a budget deficit
 - (d) Creating new money to finance a budget deficit

Self-explanatory ...

42. There may be times when expenditures exceed the available output under conditions of high employment and thus may cause inflation. In such situations, restrictive conditions are needed to reduce demand. It is called:
- (a) Stabilization
 - (b) Sterilization
 - (c) Stimulation
 - (d) Depression

Self-explanatory ...

43. With reference to Balance of Payments, which of the following constitutes/constitute the Current Account?
- 1. Balance of trade
 - 2. Foreign assets
 - 3. Balance of invisibles
 - 4. Special Drawing Right

Select the correct answer using the code given below.

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

Self-explanatory ...

44. Serious Fraud Investigation Office (SFIO) works under the jurisdiction of:
- (a) Ministry of Finance
 - (b) Ministry of Home Affairs
 - (c) Ministry of Corporate Affairs
 - (d) Ministry of External Affairs

Explanation:

SFIO is a multi-disciplinary organization under the Ministry of Corporate Affairs, consisting of experts in the field of accountancy, forensic auditing, law, information technology, investigation, company law, capital market and taxation for detecting and prosecuting or recommending for prosecution white-collar crimes/frauds.

45. Which of the following are the features of perfect competition?
- 1. Small number of buyers and sellers
 - 2. Each firm sells a homogeneous product.
 - 3. Entry and exit from the market is free.

Select the correct answer using the code given below:

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

In this chapter, we study a market environment called **perfect competition**. A perfectly competitive market has the following defining features:

1. The market consists of a large number of buyers and sellers
2. Each firm produces and sells a homogenous product. I.e., the product of one firm cannot be differentiated from the product of any other firm.
3. Entry into the market as well as exit from the market are free for firms.
4. Information is perfect.

46. Consider the following statements about Dividend Distribution Tax (DDT):

1. It is the tax levied when a privately-held company raises funds at a rate higher than its "fair valuation."
2. It is levied only on non-inventory assets.

Which of the above is/are correct?

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

Explanation:

Dividend Distribution Tax: It is a tax levied on dividends that accompany payments to its shareholders out of its profits.

Securities transaction tax (STT) is a tax levied at the time of purchase and sale of securities listed on stock exchanges in India.

Capital gains tax is a tax on the profit realized on the sale of a non-inventory asset.

Angel tax is levied when a privately-held company raises funds at a rate higher than its "fair valuation."

47. Consider the following statements about Goldilocks Economy:

1. An economy wherein the growth is not so high that it causes inflation and not so low that it causes a recession.
2. It is characterized by a high unemployment rate.
3. The asset prices of stocks and real estates increase.

Which of the above is/are correct?

- (a) 1 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

Explanation:

Goldilocks Economy refers to an economy wherein the growth is not so high that it causes inflation, and not so low that it causes a recession. There are no exact markers of a Goldilocks economy, but it is characterized by a low unemployment rate, increasing asset prices (stocks, real estate, etc.), low interest rates, brisk but steady GDP growth and low inflation.

The phrase 'Goldilocks economy' originated with Mr David Shulman of Salomon Brothers. It refers to an economy that, like the porridge from the children's story, is neither too hot nor too cold, but 'just right'. It is the goal of many policymakers to have economic growth that is neither too high nor too low.

48. Which of the following statements is **not** correct about deflation?

- (a) The value of money increases.
- (b) Real value of debt increases.
- (c) Increase purchase of luxury goods by consumers.
- (d) Slow down in economic growth.

Explanation:

Deflation is defined as a fall in the general price level. It means the value of money increases rather than decreases.

Deflation increases the real value of money and the real value of debt. Deflation makes it more difficult for debtors to pay off their debts. Therefore, consumers and firms have to spend a bigger percentage of disposable income on meeting debt repayments.

When there are falling prices, this often encourages people to delay purchases because they will be cheaper in the future. In particular, it can discourage consumers from buying luxury goods /non-essential items, e.g. flat screen TV) because you could save money by waiting for it to be cheaper. Therefore, periods of deflation often lead to lower consumer spending and lower economic growth.

Deflation benefits the lender because the real value of the loan increases due to price deflation.

49. With reference to the functions of Public Sector in India, which of the following statements are correct?

1. To provide public utility resources.
2. To build social and economic overhead capital.
3. To ensure balanced regional and sectoral growth.
4. To pursue egalitarian goals.

Select the correct answer from the codes given below

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

Self explanatory...

50. Arrange the following Committees formed for small scale sector in chronological order

1. Nayak committee
2. AbidHussain committee
3. S.S Kohli committee
4. Karve committee

Select the correct answer from the codes given below

- (a) 1-2-4-3
- (b) 3-2-1-4
- (c) 4-2-1-3
- (d) 1-2-3-4

Self explanatory...

51. Which of the following is the nodal institution for implementation of Sustainable Development Goals in India?

- (a) Niti aayog
- (b) MoEFCC
- (c) NABARD
- (d) None of the above

Explanation:

SDG India Index by NITI Aayog has been released and over all India's score is 60.

52. Given below are the two statements , one is labeled as Assertion and the other as reasons.

(Assertion) (A): The labour force participation rate falling sharply in the recent years for females in India.

(Reason): The decline in the labour force participation rate is due to the improved family income and increase in female education

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A)
- (b) Both (A) and (R) are true but (R) IS not the correct explanation of (A)
- (c) (A) Is true but , (R) is false
- (d) (A) Is false , but (R) is true

Explanation:

As the family income improves, family doesn't want females to work in Indian society. One of the major reasons for Indian women working is to supplement the family income and as the family incomes improves first thing done in Indian society is to ask females to leave their jobs.

53. The number of persons who remained unemployed or major part of the year is called

- (a) Usual status unemployment
- (b) Daily status unemployment
- (c) Weekly status unemployment
- (d) None of these

Explanation:

The Usual Status approach to measuring unemployment uses a reference period of 365 days i.e. one year preceding the date of the survey of NSSO for measuring unemployment. The Usual Status approach of measuring unemployment also looks at the principal activity and subsidiary activity status of the worker.

The current daily status approach to measuring unemployment seeks to ascertain the activity status of an individual for each day of the reference week. It reports time disposition of an individual on each day of the reference week. This means that in addition to recording the activity being pursued, time intensity is also recorded in quantitative terms for each day of the reference week.

The Current Weekly Status (CWS) approach to measuring unemployment uses seven days preceding the date of survey as the reference period.

A person is considered to be employed if he or she pursues any one or more of the gainful activities for at least one-hour on any day of the reference week. On the other hand, if a person does not pursue any gainful activity, but has been seeking or available for work, the person is considered as unemployed.

54. Gradual reduction in tax rates to optimum level will:

- (a) Decrease the tax revenue collection
- (b) Maximize tax revenue collection
- (c) Decrease the investment in the economy
- (d) None of these

Explanation:

Laffer curve shows the relationship between tax rate and tax revenues. It explains how gradual reduction in tax rates from high levels an optimum rate can maximize tax revenue collection for the government.

55. Consider the following statements about Fiscal Drag:

1. It occurs when due to rise in national income and income of people, more people under progressive taxation net.
2. Such higher taxation leads to reduction in aggregate demand which inturn slow down the economy.

Which of the above statement/s is/are correct?

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

Explanation:

Fiscal Drag means an adverse effect of progressive taxation on demand and economic expansion. It occurs when due to the rise in national income, it brings in more and more people under the taxation net due to progressive taxation and due to rise in their incomes.

However, while the nominal income has gone up, but real income may not have correspondingly increased. It is basically, automatic restraint applied to a fast expanding economy under a progressive tax system. As incomes rise, individuals are pushed into higher income tax brackets, and average tax obligations increase that dampen spending.

56. There is increasing Non-performing Assets (NPAs) of the banks in India. How high NPAs effect the economy?

- 1. Low interest rates on deposits of the customers
- 2. Decreased interest income
- 3. Increased risk weighted assets

Select the correct answer from the codes given below

- (a) 1 and 2 only
- (b) 1 and 3 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

Explanation:

In the light of high NPAs, Banks tend to lower the interest rates on deposits on one hand and likely to levy higher interest rates on advances.

The increased NPAs put pressure on recycling of funds and reduces the ability of banks for lending more and thus results in lesser interest income.

As per Basel norms, banks are required to maintain adequate capital on risk-weighted assets on an ongoing basis. Every increase in NPA level adds to risk weighted assets which warrant the banks to shore up their capital base further.

57. Consider the following statements about Seed Capital:

- 1. It is the initial funding required to get a new business started.
- 2. It is a capital required to make initial investments in stock market.

Which of the above statement/s is/are correct?

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

Explanation:

Seed capital is the funding required to get a new business started. This initial funding, which usually comes from the business owner(s) and perhaps friends and family, supports preliminary activities such as market research, product research and development (R&D) and business plan development.

58. Which of the following statement/s is/are correct about currency swap agreement?

- 1. The prospects of Indian companies would improve in tapping foreign capita.

2. It would help to tide over difficulties arising out of Balance of Payment (BOP).
3. It would deter speculative attacks on the domestic currency and greatly enhance the RBI's ability to manage exchange rate volatility.

Select the correct answer from the codes given below

- (a) 1 and 2 only
- (b) 1 and 3 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

Explanation:

The BSA is a very good example of mutual cooperation between India and Japan for strategic objective of assisting each other in times of difficulty and for restoring international confidence. This facility will enable the agreed amount of Capital being available to India on tap for use. Also, with this arrangement in place, prospects of Indian companies would improve in tapping foreign capital as there would be greater confidence in stability of country's exchange rate. Availability of such swap line to tide over difficulties arising out of Balance of Payment (BOP) would deter speculative attacks on the domestic currency and greatly enhance the RBI's ability to manage exchange rate volatility.

59. Which of the following are sources from which NBFCs raise their resources?
1. Loans from Banks
 2. By issuance of bonds in the financial markets
 3. Through External Commercial Borrowing (ECB)
 4. Mutual Funds

Select the correct answer using the code given below:

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

Self-Explanatory...

60. Consider the following statements regarding "National Gene Fund":
1. It has been established under Protection of Plant Varieties and Farmers Rights Act 2001.
 2. It has been established under Indian Patent Act 1970.
 3. It will receive benefit sharing from the breeder.

Select the correct answer using the code given below:

- (a) 1 only
- (b) 2 only
- (c) 1 and 2 only
- (d) 1 and 3 only

Explanation:

As per the Protection of Plant Variety and Farmers Rights Act, 2001 Section 45, "National Gene Fund" has been constituted to receive contributions from:

1. Benefit sharing received from the breeder of a variety or an essentially derived variety registered under the Act, or the propagating material of such variety or essentially derived variety, as the case may be;
2. Annual fee payable to the Authority by way of royalty;
3. Compensation deposited by breeders and
4. Contributions from any National and International organizations and other sources.

61. If India decides to devalue the Indian rupee, which of the following can be seen?
1. Increased exports
 2. Increased inflation
 3. Increased current account deficit

Select the correct answer from the codes give below

- (a) 1 and 2 only
 (b) 1 and 3 only
 (c) 2 and 3 only
 (d) 1, 2 and 3

Explanation:

Devaluating a currency is decided by the government issuing the currency, and unlike depreciation, is not the result of non-governmental activities.

- Increased Aggregate Demand (AD) - Exports become cheaper and more competitive to foreign buyers. Higher exports relative to imports can increase aggregate demand as increased consumer spending on domestic goods and services.
- Inflation is more likely to occur because imports are more expensive causing cost push inflation, and is increasing causing demand pull inflation and with exports becoming cheaper manufacturers may have less incentive to cut costs and become more efficient. Therefore over time, costs may increase.
- Improvement in the current account balance. With exports more competitive and imports more expensive, we may see higher exports and lower imports, which will reduce the current account deficit.

62. Consider the following statements about financial repression:
1. These are measures by which governments indirectly borrowing from industry to pay off public debts.
 2. The savers earn very high returns on his savings.
 3. Banks increase the rate of lending loans.

Select the correct answer using the code given below:

- (a) 1 only
 (b) 2 only
 (c) 1 and 2 only
 (d) 1 and 3 only

Explanation:

Financial repression is a term that describes measures by which governments channel funds from the private sector to themselves as a form of debt reduction. The overall policy actions result in the government being able to borrow at extremely low interest rates, obtaining low-cost funding for government expenditures.

This action also results in savers earning rates less than the rate of inflation and is therefore repressive.

63. The decrease in dependency ratio(ratio of dependent population to working age population) of a country may lead to which of the following situation:
1. Increase in savings rate
 2. Decrease in savings rate
 3. Increase in Capital Formation
 4. Decrease in Capital Formation

Select the correct answer using the codes given below:

- (a) 1 and 3 only
 (b) 2 and 4 only

- (c) 1 and 4 only
(d) 2 and 3 only

Explanation:

Whenever in any country, the working population increases and dependent population decreases, the savings in the economy increases. (This also happens at the family level. If a family has more working members and fewer dependents then savings of the family increases). The increased savings leads to increase in investments.

64. India has 'Pegged' (fixed but adjustable) exchange rate and in this reference consider the following statements:

1. Inflation in the country may make its exports less competitive
2. If the country devalues its currency in proportion to the inflation then its exports may remain competitive

Select the correct answer using the code given below:

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

Explanation:

Pegged exchange rate means a country fixes its exchange rate with another country currency or a basket of currencies and when required changes it accordingly.

65. RBI acts as a 'lender of last resort' to ensure which of the following in the economy?

1. To prevent possible failure of the banks
2. To protect the interest of the depositors of the banks
3. To ensure financial stability in the economy

Select the correct answer using the code given below:

- (a) 1 only
(b) 1 and 2 only
(c) 1 and 3 only
(d) All of the above

Explanation:

RBI is known as the lender of the last resort for banks. When a bank is found to lose, RBI will try to help the bank by becoming the lender of the last resort. This is mainly to protect the interest of the customers and shareholders.

LENDER OF LAST
RESORT (LOLR)

LOLR of a country is the Central/Prime Bank of that country which acts as a "Bank for the banks" of that country. It provides credit or it extends liquidity to financial institutions that are facing financial distress.

<p style="text-align: center; font-weight: bold;">INDIAN SITUATION</p> <p>In India, the Central Bank is the Reserve Bank of India (RBI). It was established on April 01, 1935, under the RBI Act. Its headed by the Governor & has a BODs, which ensures its smooth running.</p>	<p style="text-align: center; font-weight: bold;">OTHER CENTRAL BANKS</p> <ul style="list-style-type: none"> <input type="checkbox"/> USA- Federal Reserve. <input type="checkbox"/> UK- Bank of England. <input type="checkbox"/> Germany- Bundesbank <input type="checkbox"/> Japan- Bank of Japan.
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<p style="text-align: center; font-weight: bold;">BENEFITS</p> <ul style="list-style-type: none"> ✓ Individuals & banks get financial protection. ✓ Not only they are protected, but also they don't withdraw money in panicky. 	<p style="text-align: center; font-weight: bold;">DRAWBACKS</p> <ul style="list-style-type: none"> ▪ Sometimes the role of Central Bank is taken for granted. ▪ Interest rates of LOLRs for credit extension are relatively very high.
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e F i n a n c e M a n a g e m e n t . c o m

66. Which of the following are characteristic situation for 'Bank Run'?
1. Customers withdraw their deposits fearing that banks will run out of reserves
 2. Banks are in risk of default
 3. Central Bank acts as lender of last resort

Select the correct answer using the code given below:

- (a) 1 and 2 only
- (b) 1 and 3 only
- (c) 3 only
- (d) All of the above

Explanation:

A bank run is a situation that occurs when a large number of bank's customers withdraw their deposits simultaneously due to concerns about the bank's solvency (Solvency is the ability of a company to meet its long-term financial obligations which is essential to staying in business). As more and more people withdraw their funds, the probability of default increases, thereby prompting more people to withdraw their deposits. In extreme cases, the bank's reserves may not be sufficient to cover the withdrawals. A bank run is typically the result of panic which can ultimately lead to default. In such a situation, the RBI stands by the commercial banks as a guarantor and extends loans to ensure the solvency of the banks. This function of RBI is also called 'lender of last resort'.

67. in reference to the Goods and Services Tax, what does "Revenue Neutral Tax Rate" means:

- (a) That GST rate at which tax revenues (or revenue growth) of States and Centre will remain the same as before GST
- (b) The tax rate will be same for the Centre and State
- (c) The tax rate at which Central and States revenues will be same
- (d) All of the above

Explanation:

Refer Q 35.

68. Which of the following are correct in reference to the term 'Crowd-in' in the economy?
1. Targeted government spending acts as an engine of growth in the short run
 2. Government spending complements the private investment
 3. Government spending substitutes the private investment
 4. Government spending boosts demand for goods which in turn increases private demand

Select the correct answer using the code given below:

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

Explanation:

Government spending always acts as supplement to the private investment. It can't be substitute to the private investment.

69. Consider the following statements regarding "Inverted Duty Structure":

1. It makes domestic manufactured goods less competitive against finished product imports in the domestic market.
2. Finished goods are taxed at higher rate than the raw materials
3. Raw materials are taxed at higher rate than the finished products
4. The duty in the "Inverted Duty Structure" is Customs Duty

Select the correct answer using the code given below:

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

Explanation:

When the import duty on raw materials is quite higher than the import duty on finished goods then it makes the domestic manufacturers less competitive because then traders start importing manufactured goods in the country rather than manufacturing the goods domestically.

India levies the highest duties on import of raw rubber and one of the lowest duties on import of finished rubber goods. This has created inverted duty structure.

70. Consider the following statements regarding the 'Nutrient Based Subsidy' Scheme.

1. It is given for phosphate and potash fertilizers
2. The prices of fertilizers under nutrient based scheme are regulated by the government.
3. Subsidy is based on per kg of nutrients present in the fertilizer

Select the correct answer using the code given below:

- (a) 1 and 2 only
- (b) 1 and 3 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

Explanation:

Nutrient Based Subsidy" is applicable for Phosphatic and Potassic (P&K) fertilizers only and not for Urea which is a Nitrogenous fertilizer. Government fixes the subsidy annually based on the per kg of nutrient present in the fertilizer. As the subsidy given by the Government is fixed, so the market price of the fertilizers vary with the change in international prices. So market prices are not regulated by the government rather it is decontrolled.

71. Consider the following statements regarding "Sovereign Wealth Funds (SWFs):

1. SWFs are State owned investment funds
2. SWFs are established through fiscal and trade surpluses
3. They are used to stabilize budget and economy of the country from excess volatility in revenues
4. SWFs typically invests in government owned projects/assets

Select the correct answer using the code given below:

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

Explanation:

Sovereign Wealth Fund (SWF) is a State (Government) owned investment fund or entity that is commonly established from export surpluses, fiscal surpluses, proceeds from privatization etc.

Countries generally create SWFs to diversify their revenue streams to protect and stabilize the budget and economy from excess volatility. For ex., UAE relies on oil exports for its wealth. Hence, it devotes a portion of its reserves to an SWF that invests in diversified assets that can act as a shield against oil-related risks. SWFs typically invest in multiple asset classes including publicly listed shares, fixed income, private equity, private debt, real estate, infrastructure, natural resources and hedge funds.

72. The term "roll-on roll-off" recently in the news is related to which of the following:

- (a) Transportation of vehicles through ships
- (b) Connecting two ports through dedicated shipping channel

- (c) Railway engines and wagons
- (d) Dedicated freight corridors

Explanation:

Roll-on/roll-off (RORO or ro-ro) ships are ferries designed to carry wheeled cargo, such as cars, trucks, semi-trailer trucks, trailers, and railroad cars, that are driven on and off the ship on their own wheels or using a platform vehicle, such as a self-propelled modular transporter.

73. The term "Money-go-round" has recently been in the news, is related to which of the following:
- (a) Money laundering
 - (b) Recapitalization of public sector banks
 - (c) Circular Flow of Income in an economy
 - (d) Foreign Direct Investment

Explanation:

In case of Money-go-round, the government borrows from the banks by issuing them bonds (i.e. recapitalization bonds), and then uses the same proceeds to recapitalize (through equity) the banks.

74. The "Totalization Agreement" recently in the news is related to which of the following:
- (a) Avoiding double taxation of income with respect to social security taxes
 - (b) Free market access for trade in services
 - (c) Bilateral agreement between countries to enable unrestricted movement of labour
 - (d) Agreement among all the WTO members to promote e-commerce

Explanation:

These are bilateral agreements entered between countries to avoid double taxation of income with respect to social security taxes. United States has entered into Totalization Agreements with several countries. These agreements must be taken into account when determining whether any alien is subject to the U.S. Social Security/Medicare tax, or whether any U.S. citizen or resident alien is subject to the social security taxes of a foreign country.

75. Consider the following statements:
1. Anti-dumping duties are imposed if a country dumps goods in another country at a much cheaper price than it normally charges in its own home market.
 2. Countervailing duties are levied on imported goods to offset export subsidies offered to producers in the exporting country.

Which of the above statement/s is/are **incorrect**?

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

Explanation:

Anti-dumping duties are imposed if a country dumps goods in another country at a much cheaper price than it normally charges in its own home market.

Countervailing duties are levied on imported goods to offset export subsidies offered to producers in the exporting country.

Anti-dumping and countervailing measures in India are administered by the Directorate General of Anti-Dumping and Allied Duties (DGAD), which functions under the commerce ministry. DGAD conducts anti-dumping and CVD investigations and makes recommendations to the government on imposition of anti-dumping measures. While the department of commerce recommends anti-dumping duties, it is the ministry of finance which levies such duty.

Countervailing duties (CVD) are the tariffs levied on imported goods to offset subsidies made to producers of goods in the exporting country.

CVD are meant to level the playing field between domestic producers of a product and foreign producers of the same product who can afford to sell it at a lower price because of the subsidy they receive from their government.

76. Which of the following is correct about NOSTRO accounts?

- (a) An account that an Indian bank holds in foreign currency.
- (b) An accounts that other banks have on its books in its home currency.
- (c) An account which is opened by NRIs and OCIs to keep foreign currency.
- (d) None of these

Explanation:

A nostro account refers to an account that a bank holds in a foreign currency in another bank.

The opposite term "vostro accounts," derived from the Latin word for "yours," is how a bank refers to the accounts that other banks have on its books in its home currency.

A nostro account and a vostro account actually refer to the same entity but from a different perspective. For example, Bank X has an account with Bank Y in Bank Y's home currency. To Bank X, that is a nostro, meaning "our account on your books," while to Bank Y, it is a vostro, meaning "your account on our books." These accounts are used to facilitate international transactions and to settle transactions that hedge exchange rate risk.

77. Consider the following statements about Helicopter Drop:

1. It refers to a type of monetary stimulus strategy to spur economic output.
2. It is an expansionary fiscal policy.
3. It unconventional measures to jump start the economy during deflationary periods.

Which of the above statement/s is/are correct?

- (a) 1 and 2 only
- (b) 1 and 3 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

Explanation:

Helicopter drop, a term coined by Milton Friedman, refers to a last resort type of monetary stimulus strategy to spur inflation and economic output.

Helicopter drop is an expansionary fiscal policy that is financed by an increase in an economy's money supply.

Mostly, the term 'helicopter drop' is largely a metaphor for unconventional measures to jump start the economy during deflationary periods.

78. Consider the following statements about Terms of Trade:

1. It is ratio of export price index to import price index.
2. It is a measure of how much imports a country can get for a unit of exported goods.

Which of the above statement/s is/are correct?

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

Explanation:

"Terms of Trade (ToT)": It is ratio of export price index to import price index. It is a measure of how much imports a country can get for a unit of exported goods. If a country is exporting only apples (price Rs. 120/kg) and importing only oranges (price Rs. 40/kg), then the terms of trade (TOT) is simply the ratio of price of apples to the price of oranges i.e. $\text{Rs. } 120 / \text{Rs. } 40 = 3$. So, TOT is a measure of how much imports an economy can get for a unit of exported goods which in this example is 3 times.

79. Consider the following statements about "Gafa Tax":
1. It is a type of tax on digital giants.
 2. France became the first major economy to impose it.
 3. It is levied on non-tax paying online giants.

Which of the above statement/s is/are correct?

- (a) 1 and 2 only
- (b) 1 and 3 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

Explanation:

Gafa Tax-France became the first major economy to impose a tax on digital giants. The French parliament approved a law. Dubbed as Gafa Tax (an acronym for Google, Apple, Facebook and Amazon), the legislation will impose a 3% levy on sales generated in the country by non-tax paying online giants.

80. Consider the following statements about Operation Swift:
1. The central bank uses the proceeds from sale of short-term securities to buy long-term government debt papers.
 2. It will be easing of interest rates on the long term papers.

Which of the above statement/s is/are correct?

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

Explanation:

The Reserve Bank of India has announced that it will carry out US-style 'Operation Twist' to bring down interest rates.

'Operation Twist' is when the central bank uses the proceeds from sale of short-term securities to buy long-term government debt papers, leading to easing of interest rates on the long term papers.

Reserve Bank of India (RBI) announced a simultaneous sale and purchase of government bonds under the Open Market Operations mechanism, on lines of the "Operation Twist".

81. Consider the following statements about Indian economic census
1. It undertakes the counting all entrepreneurial units in the country of either agricultural or non-agricultural sector which engaged in production and/or distribution of goods and/or services not for the sole purpose of own consumption.
 2. The 2019 was the first economic census to be undertaken.
 3. It is conducted by CSO.

Which of the above statement/s is/are correct?

- (a) 1 and 3 only
- (b) 1 and 2 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

Explanation:

The 7th Economic Census -2019 is being conducted by Ministry of Statistics and Programme Implementation (MoSPI) to provide disaggregated information on various operational and structural aspects of all establishments in the country.

MoSPI has partnered with Common Service Centres, CSC e-Governance Services India Limited, a Special Purpose Vehicle under the MEITY as the implementing agency.

Indian economic census is the census of the Indian economy through counting all entrepreneurial units in the country which involved in any economic activities of either agricultural or non-agricultural sector which engaged in production and/or distribution of goods and/or services not for the sole purpose of own consumption.

The economic census provides detailed information on operational and other characteristics such as number of establishments, number of persons employed, source of finance, type of ownership etc.

This information used for micro level/ decentralized planning and to assess contribution of various sectors of the economy in the gross domestic product (GDP).

In 1976, Government of India launched a plan scheme called Economic Census and Surveys.

In 1977 Central Statistical Organisation conducted First economic census in collaboration with the Directorate of Economics & Statistics (DES) in the States/Union Territories.

All other economic censuses were conducted by the Directorates of Economics and Statistics of the states under the overall guidance of the Central Statistical Office.

82. Consider the following statements about Accommodative Monetary Policy:

1. When a central bank attempts to squeeze the overall money supply to control the inflation.
2. Accommodative money policy is triggered to decrease the spending consumers and businesses.

Which of the above statement/s is/are correct?

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

Explanation:

Accommodative monetary policy occurs when a central bank (such as the Federal Reserve) attempts to expand the overall money supply to boost the economy when growth is slowing (as measured by GDP). The policy is implemented to allow the money supply to rise in line with national income and the demand for money.

Accommodative monetary policy is also known as "easy monetary policy" or "loose credit policy."

When the economy slows down, the Federal Reserve can implement an accommodative monetary policy to stimulate the economy. It does this by running a succession of decreases in the Federal funds rate, making the cost of borrowing cheaper. Accommodative money policy is triggered to encourage more spending from consumers and businesses by making money less expensive to borrow through the lowering of short-term interest rates.

When money is easily accessible through banks, the money supply in the economy increases. This leads to increased spending. When businesses can easily borrow money, they have more funds to expand operations and hire more workers, which means that the unemployment rate will decrease. On the other hand, people and businesses tend to save less when the economy is stimulated due to the low savings interest rates offered by banks. Instead, any additional funds are invested in the stock market, pushing up stock prices.

While accommodative monetary policy expands economic growth mid-term, there may be negative repercussions in the long-term. If the money supply is loosened for too long, there will be too much money chasing too few goods and services, leading to inflation. To avoid inflation, most central banks alternate between the accommodative monetary policy and the tight monetary policy in varying degrees to encourage growth while keeping inflation under control. A tight monetary policy is implemented to contract economic growth. Converse to accommodative monetary policy, a tight monetary policy involves increasing interest rates to constrain borrowing and to stimulate savings.

The Federal Reserve adopted an accommodative monetary policy during the late stages of the bear market that began in late 2000. When the economy finally showed signs of a rebound, the Fed eased up on the accommodative measures, eventually moving to a tight monetary policy in 2003. Also, to overcome the recession following the 2008 credit crisis, an accommodative monetary policy was implemented and interest rates were cut to 0.5%.

To increase the supply of money in the economy, the Federal Reserve can also purchase Treasuries on the open market to infuse capital into a weakening economy.

83. Recently the term “Economic Threshold Limit” was there in the news. It is related to which of the following?
- Potential GDP growth
 - Capacity utilization of the economy
 - Pest management for crops
 - Underground water level

Explanation:

In integrated pest management, the economic threshold is the density of a pest at which a control treatment will provide an economic return. An economic threshold is the insect's population level or extent of crop damage at which the value of the crop destroyed exceeds the cost of controlling the pest.

84. With reference to the Purchasing Power Parity, consider the following statements:
- It is an economic theory that compares different countries' currencies through a basket of goods and services approach.
 - PPP compares economic productivity and standards of living between countries.
 - World Bank releases a report that compares various countries, in terms of PPP and U.S. dollars.

Which of the above statement/s is/are correct?

- 1 and 3 only
- 2 only
- 2 and 3 only
- 1, 2 and 3

Explanation:

PPP is an economic theory that compares different countries' currencies through a “basket of goods” approach. According to this concept, two currencies are in equilibrium—known as the currencies being at par—when a basket of goods is priced the same in both countries, taking into account the exchange rates.

It is a popular macroeconomic analysis metric to compare economic productivity and standards of living between countries. Every three years, the World Bank releases a report that compares various countries, in terms of PPP and U.S. dollars. Both the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD) use weights based on PPP metrics to make predictions and recommend economic policy...

85. The policy of Import Substitution refers to
- importing goods from a nation which has a comparative advantage in world economy.
 - importing of manufactured products to substitute the import of primary products.
 - substituting imports with domestic production.
 - increasing exports to have a favorable balance of trade.

Explanation:

The industrial policy that we adopted was closely related to the trade policy. In the first seven five year plans, trade was characterised by what is commonly called an inward looking trade strategy. Technically, this strategy is called import substitution. This policy aimed at replacing or substituting imports with domestic production. For example, instead of importing vehicles made in a foreign country, industries would be encouraged to produce them in India itself.

86. Which of the following best describes tariff and non-tariff barriers?
- Tariff is a tax on imports and exports whereas non-tariff is free entry of goods.

- b) Tariff is a general restriction on imports and exports whereas non-tariff is a tax on listed goods and services.
- c) Tariff is a tax on imports and exports whereas non-tariff is a form of non-tax restrictions on trade.
- d) Tariff is for country's internal trade whereas non-tariff is for international trade.

Explanation:

A non-tariff barrier is a form of non-tax restrictions trade where barriers to trade are set up and take a form other than a tariff. It includes quotas, embargoes, sanctions, levies and other restrictions and are frequently used by large and developed economies. Tariff is a tax on imports and exports. Both the tools are used by countries in International market for trade and services.

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. A developing country like India still does not have the access to developed countries' markets because of high non-tariff barriers.

87. With reference to Industrial Policy Resolution 1956, consider the following statements:

1. The policy formed the basis of the First Five Year Plan.
2. The policy was used for promoting industry in backward regions.
3. The policy barred the entry of private sector in any industry.

Which of the above statement/s is/are correct?

- (a) 1 and 3 only
- (b) 2 only
- (c) 2 and 3 only
- (d) 1 and 2 only

Explanation:

Industrial Policy Resolution 1956 (IPR 1956): 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. Hence, statement 1 is not correct.

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. Hence, statement 3 is not correct.

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. Hence, statement 2 is correct.

88. Which of the following banking institutions are involved in providing direct credit torural population?

1. MUDRA bank
2. Regional rural bank
3. Land development bank
4. NABARD

Select the correct answer using the code given below:

- a) 1, 2, 3 and 4
- b) 1, 2 and 4 only
- c) 2 and 3 only

d) 3 and 4 only

Explanation:

Among all commercial banks is the biggest lender to the rural population.

MUDRA is refinancing agency to gives loans to financier or intermediary.

Whereas NABARD do not involves in direct credit system. It mainly provide loan to RRB, cooperatives and State government in the area of Rural Development and Agricultural Development.

89. If the country A has higher inflation than country B, the exchange rate of country A with respect to country B's exchange rate will most likely:
- appreciate
 - depreciate
 - have no change
 - depreciate in short-term and appreciate in the longer run

Explanation:

According to the Purchasing Power Parity (PPP) theory, differences in the domestic inflation and foreign inflation are a major cause of adjustment in exchange rates.

A low rate of inflation in one country than another does not necessarily an appreciating/favorable exchange rate. However, an extremely high inflation rate in one country than another is very likely to have a depreciating effect on the exchange rate. Hence, option b is correct.

90. With reference to economy, the term 'Base Effect' refers to:
- a normalized average of price relatives for a given class of goods or services in a given region.
 - impact of the rise in price level in the previous year over the corresponding rise in price levels in the current year.
 - a monetary policy strategy used by Central Banks for maintaining price level at a certain level.
 - the bonus brought by inflation to the borrowers.

Explanation:

The base effect refers to the impact of the rise in price level (i.e. last year's inflation) in the previous year over the corresponding rise in price levels in the current year (i.e., current inflation): if the price index had risen at a high rate in the corresponding period of the previous year leading to a high inflation rate, some of the potential rise is already factored in, therefore a similar absolute increase in the Price index in the current year will lead to a relatively lower inflation rates. On the other hand, if the inflation rate was too low in the corresponding period of the previous year, even a relatively smaller rise in the Price Index will arithmetically give a high rate of current inflation.

91. With reference to Indian economy, the term *jobless growth* refers to
- increasing GDP coupled with high unemployment.
 - high inflation rate pushing up the rate of unemployment.
 - declining GDP coupled with high unemployment.
 - high inflation pushing down the rate of unemployment.

Explanation:

In a jobless growth economy, unemployment remains stubbornly high even as the economy grows.

This tends to happen when a relatively large number of people have lost their jobs and the ensuing recovery is insufficient to absorb the unemployed, under-employed and new members entering the work force.

There was a disheartening development in the late 1990s: employment growth started declining and reached the level of growth that India had in the early stages of planning. During these years, we also find a widening gap between the growth of GDP and employment. This means that in the Indian economy, without generating employment, we have been able to produce more goods and services. Scholars refer to this phenomenon as jobless growth.

92. Consider the following statements about Outcome Budget in India:
1. It is practiced by each of the Ministries while preparing their budget details.
 2. Outcome Budget of all Ministries is combined into one single document and brought out by the Ministry of Finance in collaboration with the NITI Aayog.

Which of the statements given above is/are correct?

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

Explanation:

It is practiced by most of the Ministries while preparing their budget details and submitting it to the Ministry of Finance for the preparation of the annual budget towards the end of February.

The Outcome Budget of all Ministries is combined into one single document and brought out by the Ministry of Finance in collaboration with the NITI Aayog.

An interesting feature of outcome-based budgeting is that the outcomes of programmes are measured not just in terms of Rupees but also in terms of physical units like Kilowatt of energy produced or tonnes of steel produced. Also, outcomes are expressed in terms of qualitative targets and achievements to make the technique more comprehensive.

93. Consider the following statements regarding Real Effective Exchange Rate (REER):
1. It is the weighted average of a country's currency in relation to an index or basket of other major currencies, adjusted for the effects of inflation.
 2. An increase in index of REER as compared to its base year is an indicator of undervalued currency.
 3. The Indices of Real Effective Exchange in India are released by Ministry of Finance.

Which of the statements given above is/are correct?

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

Explanation:

The real effective exchange rate (REER) is the weighted average of a country's currency in relation to an index or basket of other major currencies, adjusted for the effects of inflation. The weights are determined by comparing the relative trade balance of a country's currency against each country within the index. This exchange rate is used to determine an individual country's currency value relative to the other major currencies in the index, such as the U.S. dollar, Japanese yen and the euro.

The value of REER is an important indicator for deciding the movement of exchange rate. When the index of REER goes above 100 mark (with index of REER in base year =100), then the domestic currency is overvalued. Hence, domestic prices are too high and domestic producers are not competitive. On the other hand, if the REER is less than 100, then the domestic currency is undervalued. Domestic prices are low by international standards and domestic producers are competitive.

The Indices of Real Effective Exchange rate in India are released by Reserve Bank of India. The bank provides REER using the Consumer Price Index.

94. With reference to the Index of Industrial Production (IIP), consider the following statements:
1. It is an indicator of growth in both manufacturing and services sectors.
 2. It is compiled and published by Central Statistics Office (CSO).

Which of the statements given above is/are correct?

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

Explanation:

Index of Industrial Production (IIP) is a composite indicator which measures the quantum of changes in the industrial production in an economy and captures the general level of industrial activity in the country. It is expressed in terms of an index number which measures the short term changes in the volume of production of a basket of industrial products during a given period with respect to the base period. Industrial production for the purpose of IIP is divided into three sectors, i.e, Mining, Manufacturing, and Electricity. In 'Sectoral' classification, relative weights of Manufacturing, Mining, and Electricity are 75.5%, 14.2%, and 10.3% respectively.

Index of Industrial Production is compiled and published every month by Central Statistics Office (CSO) of the Ministry of Statistics and Programme Implementation with a time lag of six weeks from the reference month.

95. Engel Coefficient, a term often seen in news, refers to:

- a) a measurement of food expenditures as a proportion of total household spending.
- b) an indicator of the proportion of an individual's expenditure on personal health and well-being.
- c) a multi-dimensional indicator of poverty and standard of living.
- d) a tool to measure the proportion of household consumption of IT and related services.

Explanation:

Engel's Law states that the percentage of income allocated for food purchases decreases as income rises. As a household's income increases, the percentage of income spent on food decreases while the proportion spent on other goods (such as luxury goods) increases. As the "Engel coefficient" increases, the country is by nature poorer; conversely a low Engel coefficient indicates a higher standard of living. For example, recently it was reported that Engel's coefficient of China's urban areas fell from 39.4 percent to 35 percent from 2000 to 2013 pointing to the rise in living standards.

96. Which of the following correctly describes 'Compulsory Licencing', often seen in the news?

- a) Mandatory licensing requirements before performing clinical trials.
- b) Set of mandatory permissions for a pharmaceutical company to extract drugs from the endangered species of plants.
- c) Special approval by the government to allow someone else to produce a patented product without the consent of the patent owner.
- d) Set of approvals required by a country for the use of defence establishments of a foreign country.

Explanation:

Compulsory licensing is when a government allows someone else to produce a patented product or process without the consent of the patent owner or plans to use the patent-protected invention itself.

It is one of the flexibilities in the field of patent protection included in the WTO's agreement on intellectual property — the TRIPS (Trade-Related Aspects of Intellectual Property Rights) Agreement.

The patent owner still has rights over the patent, including a right to be paid for copies of the products made under the compulsory license.

TRIPS Agreement does not specifically list the reasons that might be used to justify compulsory licensing. However, the Doha Declaration on TRIPS and Public Health confirms that countries are free to determine the grounds for granting compulsory licences, and to determine what constitutes a national emergency.

97. Consider the following statements about Disinvestment:

1. It refers to the government selling or liquidating its assets or stakes in public sector enterprise.

2. The nodal agency for disinvestment is Department for investment and public asset management (DIPAM) under Ministry of finance.
3. The proceeds from disinvestment of Central Public Sector Enterprises are channelized into National Investment and Infrastructure Fund (NIIF).

Which of the statements given above are correct?

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

Explanation:

Disinvestment or divestiture refers to the government selling or liquidating its assets or stakes in PSE (public sector enterprise), while strategic Disinvestment is the sale of a substantial portion of the Government shareholding of a central public sector enterprise (CPSE) of up to 50%, or such higher percentage along with transfer of management control. Disinvestment proceeds can help the government fund its fiscal deficit.

The Department for investment and public asset management (DIPAM) under Ministry of finance is the nodal agency for disinvestment.

The proceeds from disinvestment of Central Public Sector Enterprises are channelized into National Investment Fund (NIF), not into National Investment and Infrastructure Fund (NIIF). NIF was constituted in November 2005.

98. Consider the following statements:

1. Gross Domestic Product (GDP) is always higher than the Gross National Product (GNP).
2. Net National Product (NNP) at factor cost is referred to as National Income.
3. GDP represents the sum total of Gross Value added in all sectors without adjusting for taxes and subsidies by the government.

Which of the statements given above is/are correct?

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

Explanation:

GDP is the single number of the total monetary value of all the finished goods and services produced within a country's borders (domestically) during a particular time period (quarterly/annually).

GNP is the aggregate market value of all goods and services produced by all of its citizens and businesses irrespective of their location (local or global) during a particular period. Essentially, GNP acts as a superset of GDP, as it factors in the net income from abroad in addition to the GDP.

$GNP = GDP + (\text{Net income earned by domestic residents/businesses from overseas investments}) - (\text{Net income earned by foreign residents/businesses from domestic investments})$.

So, GDP is based on location, while GNP is based on citizenship.

Whether GDP is higher than GNP depends on the relative performance of citizens of different countries living outside their native countries. Higher GNP than GDP indicates that citizens of a country are doing better abroad and vice versa.

Net National Product (NNP) at factor cost is also called national income. NNP is derived by subtracting depreciation allowance from GNP.

Gross value added (GVA) is defined as the value of output less the value of intermediate consumption. Value added represents the contribution of labor and capital to the production process.

When the value of taxes on products (less subsidies on products) is added, the sum of value added for all resident units gives the value of the gross domestic product (GDP). Thus, Gross Domestic Product (GDP) of any nation represents the sum total of the gross value added (GVA) (i.e, without discounting for capital consumption or depreciation) in all the sectors of that economy during the said year after adjusting for taxes and subsidies.

99. Which of the following functions can be performed by Non-Banking Financial Companies?
1. Acquisition of shares, bonds and securities issued by the Government.
 2. Accepting demand deposits from customers.
 3. Issuance of cheque book to customers.

Select the correct answer using the code given below.

- a) 1, 2 and 3
- b) 1 only
- c) 2 and 3 only
- d) None of these

Explanation:

As per the RBI guidelines “A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority.”

Section 45-IB of RBI Act requires NBFCs to compulsorily maintain liquid assets to the tune of 15% of accepted deposits, wherein 10% thereof should be in the nature of approved securities. NBFCs lend and make investments and hence their activities are akin to that of banks; however, there are a few differences as given below:

- 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.

100. Which of the following can lead to the narrowing of the Current Account Deficit of India?
1. Depreciation of Rupee
 2. Hike in remittances from NRIs
 3. Fall in crude oil prices

Select the correct answer using the code given below.

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

Explanation:

BoP is the summary/account sheet that shows the cash flow between India and the rest of the world. BoP is made up of two parts: Current account and Capital account.

(As per IMF definition, three parts: Current Account + Capital account+ Financial Account)

Current Account Components:

Import and Export of goods and services (invisible)

Depreciation is the lowering of the value of a country's currency within a market exchange rate system with respect to a foreign reference currency or currency basket.

By depreciation, the prices of Indian exports in terms of foreign currency (say dollar) will likely fall. This will likely cause an increase in quantity demanded of Indian exports. As a result, Indian exports will likely increase, narrowing down the current account deficit. **Hence, option 1 is correct.**

Since India is dependent on import of crude oil, it forms a significant portion of the country's current account. Any decline in crude oil prices will reduce our import bill, which in turn help to narrow down the current account deficit and vice versa. **Hence, option 3 is correct.**

Income from abroad (interest, dividends paid on Indian investor's FDI, FII in USA etc.)

Transfer: Gift, **remittances from NRI** to their families etc. A higher amount of remittances helps in lowering the current account deficit. **Hence option 2 is correct.**

Capital Account Components:

- Foreign investment in India (FDI, FII, ADR, direct purchase of land, assets).
- External commercial borrowing, external assistance etc.