

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

QUESTION: Consider the following statements:

- (1) Inventories are treated as Capital.
- (2) Change in the inventory of a firm is treated as an investment.
- (3) Change in inventories is always planned according to the business cycles.

Which of the above statements is/are correct?

- (A) 1 only
- (B) 2 only
- (C) 1 and 2
- (D) All of the above

Correct Answer: C

Explanation:

In economics, the stock of unsold finished goods, or semi-finished goods, or raw materials which a firm carries from one year to the next is called inventory. Inventories are treated as capital. Addition to the stock of capital of a firm is known as investment. Therefore the change in the inventory of a firm is treated as an investment. There can be three major categories of investment. First is the rise in the value of inventories of a firm over a year which is treated as investment expenditure undertaken by the firm. The second category of investment is the fixed business

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investment, which is defined as the addition to the machinery, factory buildings, and equipment employed by the firms. The last category of investment is a residential investment, which refers to the addition of housing facilities. Change in inventories may be planned or unplanned. In the case of an unexpected fall in sales, the firm will have unsold stock of goods which it had not anticipated. Hence there will be an unplanned accumulation of inventories. In the opposite case where there is an unexpected rise in sales, there will be unplanned decumulation of inventories.

QUESTION: Consider the following statements:

- (1) Currency deposit ratio (Cdr) DR the ratio of the money which public hold in bank to the currency held by the public.
- (2) CDR reflects the public's preference to liquid money .
- (3) CDR is a behavioral concept ad changes with seasonal change in expenditure.

Which of the above statements are correct?

- (A) 1 only
- (B) 1 and 2
- (C) 1 and 3
- (D) 2 and 3

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Correct Answer: D

Explanation: The Currency Deposit Ratio: The currency deposit ratio (cdr) is the ratio of money held by the public in currency to that they hold in bank deposits. $cdr = CU/DD$. If a person gets Re 1 she will put Rs $1/(1 + cdr)$ in her bank account and keep Rs $cdr/(1 + cdr)$ in cash. It reflects people's preference for liquidity. It is a purely behavioural parameter which depends, among other things, on the seasonal pattern of expenditure. For example, cdr increases during the festive season as people convert deposits to cash balance for meeting extra expenditure during such periods.

QUESTION: Assertion (a): The Indian economy is expected to become world's largest economy within the next two decades.

Reason(r): India enjoys at this juncture the unique advantage of having multiple drivers of growth—demographic, investment (backed by domestic savings), domestic consumption, as well as exports and ample scope for FDI – all within a pluralistic and democratic system .

- (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 a correct explanation of a.
- (C) a is true but r is false.

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(D) a is false but r is true.

Correct Answer: A

QUESTION: Which of the following comes under the distribution function of the government:

(A) Delivery of public goods like defence , roads, administration etc. by the government.

(B) Through its tax and expenditure policy, the government attempts to bring about a distribution of income that is considered 'fair' by society.

(C) To make a balance between aggregate demand and inflation. (D) Both A & B

Correct Answer: B

Solution (B) There are three distinct functions that operate through the revenue and expenditure measures of the government budget. · Public goods (such as national defence, roads, government administration) , cannot be provided through the market mechanism and must be provided by the government. This is the allocation function. · Through its tax and expenditure policy, the government attempts to bring about a distribution of income that is considered 'fair' by society. The government affects the personal disposable income of households by making transfer payments and collecting taxes and, therefore, can alter the income distribution. This is the distribution function. · Third, the economy tends to be subject to substantial fluctuations and may suffer from prolonged periods of unemployment or inflation. The overall level of employment and prices in the economy depends upon the level

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of aggregate demand which is a function of the spending decisions of millions of private economic agents apart from the government. These decisions, in turn, depend on many factors such as income and credit availability. These constitute the stabilization requirements of the domestic economy.

QUESTION: Which of the following statements show that GDP cannot be used as a correct measure of the welfare of people:

- (1) It shows growth of the economy
- (2) Distribution of income is not uniform.
- (3) Non monetary exchanges in economy are not included in GDP
- (4) Externalities for which the activity is not paid are not included.

Select the option from the following

- (A) 1,2 and 3
- (B) 1,2 and 4
- (C) 1,3 and 4
- (D) 2,3 and 4

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Correct Answer: D

GDP is the sum total of value of goods and services created within the geographical boundary of a country in a particular year. It gets distributed among the people as incomes (except for retained earnings). So we may be tempted to treat higher level of GDP of a country as an index of greater well-being of the people of that country (to account for price changes, we may take the value of real GDP instead of nominal GDP). But there are at least three reasons why this may not be correct: · If the GDP of the country is rising, the welfare may not rise as a consequence. This is because the rise in GDP may be concentrated in the hands of very few individuals or firms. For the rest, the income may in fact have fallen. In such a case the welfare of the entire country cannot be said to have increased. · Many activities in an economy are not evaluated in monetary terms. For example, the domestic services women perform at home are not paid for. · Externalities refer to the benefits (or harms) a firm or an individual causes to another for which they are not paid (or penalised). Externalities do not have any market in which they can be bought and sold. For example, let us suppose there is an oil refinery which refines crude petroleum and sells it in the market. The output of the refinery is the amount of oil it refines. We can estimate the value added of the refinery by deducting the value of intermediate goods used by the refinery (crude oil in this case) from the value of its output. The value added of the refinery will be counted as part of the GDP of the economy. But in carrying out the production the refinery may also be polluting the nearby river. This may cause harm to the people who use the water of the river. Hence their well being will fall. Pollution may also kill fish or other organisms of the river on which fish survive. As a result the fishermen of the river may be losing their livelihood. Such harmful effects that the refinery is inflicting on others, for which it will not bear any cost, are called externalities.

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QUESTION: Consider the following statements:

- (1) According to constitution of India, Finance minister is responsible for presenting an estimate of receipts and expenditure of the government of India.
- (2) Budget is referred as “annual budget statement” in the constitution.
- (3) Article 112 deals with annual budget.

Which of the above statements are incorrect?

- (A) 1 and 2
- (B) 2 and 3
- (C) 1 and 3
- (D) All of the above

Correct Answer: A

Explanation: solution (A) The Union Budget of India , also referred to as the Annual financial statement in the Article 112 of the Constitution of India . According to the article president is responsible for the budget to be laid in both the houses of parliament.

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QUESTION: The total liability of the monetary authority of the country, RBI, is called the monetary base or high powered money. It consists of which of the following entities:

- (A) Note and coins in circulation with public.
- (B) Vault cash in commercial banks
- (C) Deposits of Government of India and other commercial banks held by RBI.
- (D) All of the above

Correct Answer: D

Explanation: Solution (D) The total liability of the monetary authority of the country, RBI, is called the monetary base or high powered money. It consists of currency (notes and coins in circulation with the public and vault cash of commercial banks) and deposits held by the Government of India and commercial banks with RBI. If a member of the public produces a currency note to RBI the latter must pay her value equal to the figure printed on the note. Similarly, the deposits are also refundable by RBI on demand from deposit-holders. These items are claims which the general public, government or banks have on RBI and hence are considered to be the liability of RBI.

QUESTION: Which of the following is correct about open market operations?

- (A) Central bank buys and sells government securities in the financial market to influence money supply in the economy.

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- (B) Central bank buys shares of sick Industries to revive them by providing monetary assistance.
- (C) It refers to direct selling of goods to consumers in the market.
- (D) It refers to buying and selling of shares in share market.

Correct Answer: A

Explanation: Solution (A) Under Open Market Operations the central bank buys and sells government securities in the financial market to influence money supply in the economy. RBI when buys govt. securities, money supply increases and vice versa.

QUESTION: Consider the following statements:

- (1) Money supply is a flow variable and is measured for a certain period.
- (2) Interbank deposits, which one commercial bank deposits in other bank, are included in money supply.
- (3) M1 and M2 are called broad money and re least liquid of all.

Which of the above statements are incorrect?

- (A) 1 and 2
- (B) 2 and 3



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(C) 1 and 3

(D) All of the above

Correct Answer: D

Solution (D) Money supply, like money demand, is a stock variable. The total stock of money in circulation among the public at a particular point of time is called money supply. RBI publishes figures for four alternative measures of money supply, viz. M1, M2, M3 and M4. The interbank deposits, which a commercial bank holds in other commercial banks, are not to be regarded as part of money supply. M1 and M2 are known as narrow money. M3 and M4 are known as broad money. These gradations are in decreasing order of liquidity. M1 is most liquid and easiest for transactions whereas M4 is least liquid of all. M3 is the most commonly used measure of money supply.

QUESTION: Consider the following statements about Laffer curve:

(1) It shows a relationship between tax rate and government revenue.

(2) It is a straight curve showing proportional increase in revenue generation with increase in tax rate. Which of the above statements are correct:

(A) 1 only

(B) 2 only

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(C) Both 1 and 2

(D) Neither 1 nor 2

Correct Answer: A

Explanation: Solution (A) The Laffer curve is a graphic representation of the relationship between an increasing tax rate and a government's total revenues .

The shape of the Laffer curve suggests that government revenues diminish with tax rate increases beyond an optimal level. This is based on the theory that beyond a certain tax rate, a country's taxpayers will have a decreasing incentive to work knowing that more and more of their money is being taken by the government. In other words, according to this model, at tax rates approaching 100%, taxpayers will work little, if at all.

QUESTION: The term 'Tax Terrorism' refers to:

(A) The imposition of tax by the government to fight terrorism.

(B) The imposition of very high rate of tax by the government and use of strict legal measures to collect it.

(C) Imposition of tax by terrorist organizations to fund terrorist activities.

(D) Use of tax havens to evade tax.

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Correct Answer: B

A government imposes taxes on individuals and firms to generate revenue. And this revenue is used by the government to fund its own running expenses and to carry out development work in the country. While the government's intent is to maximize revenue, taxpayers look for lower rate of taxation and rules that are easy to comply. Therefore, it is important for the government that it avoids changing rates and rules frequently which causes inconvenience for taxpayers. For example, if the government arbitrarily changes tax laws and rate of taxation, it can discourage businesses as they will not be able to plan properly before making real investments in plant and machinery. The enthusiasm of the government to collect higher taxes was dubbed by critics as tax terrorism.

QUESTION: Engel's law in economy says:

- (A) People generally spend smaller part of their budget on food as their income rises.
- (B) Market economy allocates the resources in the most efficient way.
- (C) Bad money drives out the good money from circulation.
- (D) With increase in inflation the unemployment will increase.

Correct Answer: A

Engel's law is an observation in economics stating that as income rises, the proportion of income spent on food falls, even if actual expenditure on food rises. The law was named after the Russian statistician Ernst Engel (1821–1896).

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QUESTION: Many companies while selling their goods or services uses a phrase ‘Caveat Emptor’. It means:

- (A) The company is legally obliged to inform buyers about any defects in the goods and services.
- (B) The company is not legally obliged to inform buyer about any defects in the goods and services.
- (C) Latin phrase which says – ‘other things being equal’.
- (D) If a customer is dissatisfied, the company will repay the amount.

Correct Answer: B

Explanation: Solution (B) Caveat Emptor is a Latin phrase which means, ‘let the buyer beware’. It means that the supplier has no legal obligation to inform buyers about any defects in his goods or services. The onus lies on the buyer to himself determine the level of satisfaction out of the products.

QUESTION: Consider the following statements regarding subsidies:

- (1) They are always beneficial for the economy.
- (2) They are provided to a certain group/individuals in the form of tax rebates, discounted pricing and cash payments.
- (3) They put a large pressure on the government’s exchequer.

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(4) They help in rational use of the resources and decreases wastage.

Which of the above statements are incorrect:

(A) None of the above

(B) 1 and 4

(C) 2 and 3

(D) 1 , 3 and 4

Solution (B) A subsidy is a benefit given by the government to groups or individuals usually in the form of a cash payment or tax reduction. The subsidy is usually given to remove some type of burden and is often considered to be in the interest of the public. But this is sometimes detrimental for the economy of the country if not properly rationalized. It puts a huge pressure on the government's exchequer. It also lead to wastage and over use of resources.

QUESTION: Match the following:

(1) Token Cut - Cut of Rs 100 by the house from the total demand made by the govt.

(2) Policy cut - Cut of a specific amount from the total demands made by the govt.

(3) Economy Cut - Cutting 1 rupee from the total government demand.



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Select the correct code from the following:

- (A) All of the above
- (B) 2 and 3
- (C) 1 only
- (D) 1 and 3

Correct Answer: C

Explanation: Solution (C) Policy cut: symbolic cut of just 1 rupee Economy cut: cut of specific amount from the total demand made by the government.

QUESTION: Financial Inclusion has been the priority of the policy makers for quite some time. Which of the following are the benefits of financial inclusion:

- (1) Inculcates the habit of saving.
- (2) Provides formal credit avenues.
- (3) Helps in plugging leakages in welfare schemes.
- (4) Decreases credit capacity of banks.

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Select the correct code from the following:

- (A) 1 and 2
- (B) 1,2 and 3
- (C) 2, 3 and 4
- (D) All of the above

Correct Answer: B

The policy makers have been focusing on financial inclusion of Indian rural and semi-rural areas primarily for three most important pressing needs: (1) Creating a platform for inculcating the habit to save money – The lower income category has been living under the constant shadow of financial duress mainly because of the absence of savings. The absence of savings makes them a vulnerable lot. Presence of banking services and products aims to provide a critical tool to inculcate the habit to save. Capital formation in the country is also expected to be boosted once financial inclusion measures materialize, as people move away from traditional modes of parking their savings in land, buildings, bullion, etc. (2) Providing formal credit avenues – So far the unbanked population has been vulnerably dependent of informal channels of credit like family, friends and moneylenders. Availability of adequate and transparent credit from formal banking channels shall allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside. A classic example of what easy and affordable availability of credit can do for the poor is the micro-finance sector.

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(3) Plug gaps and leaks in public subsidies and welfare programmes – A considerable sum of money that is meant for the poorest of poor does not actually reach them. While this money meanders through large system of government bureaucracy much of it is widely believed to leak and is unable to reach the intended parties. Government is therefore, pushing for direct cash transfers to beneficiaries through their bank accounts rather than subsidizing products and making cash payments. This laudable effort is expected to reduce government's subsidy bill (as it shall save that part of the subsidy that is leaked and provide relief only to the real beneficiaries. All these efforts require an efficient and affordable banking system that can reach out to all. Therefore, there has been a push for financial inclusion.

QUESTION: Deficit financing is a method of meeting government deficits through the creation of new money. Which of the following are the effects of Deficit financing:

- (1) It is inflationary as money is pumped in to the market.
- (2) The cost of production reduces.
- (3) Balance of payment becomes unfavourable.
- (4) It causes an increase in the savings.

Select the correct code from the following:

- (A) 1 and 3

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(B) 2 and 4

(C) 1,3 and 4

(D) All of the above

Correct Answer: ((A) ·

Deficit financing may lead to inflation. Due to deficit financing money supply increases & the purchasing power of the people also increase which increases the aggregate demand and the prices also increase. · Cost of production increases. · Deficit financing leads to inflation. A high price level as compared to other countries will make the exports more expensive and thus they start declining. On the other hand rise in domestic income and price may encourage people to import more commodities from abroad. This will create a deficit in balance of payment and the balance of payment will become unfavourable. · Since fixed wage earners have to spend more, the savings will decrease.

QUESTION: Consider the following statements regarding Kuznet's curve:

(1) It is a bell shaped graph.

(2) It describes the relationship between unemployment and inflation.

(3) It describes the relationship between income inequality with per capita income.

Select the correct code from the following:



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(A) All of the above

(B) 1 and 2

(C) 1 and 3

(D) 2 and 3

Correct Answer: C

A Kuznets curve graphs the hypothesis that as an economy develops, market forces first increase and then decrease economic inequality.

QUESTION: Consider the following statement about tax surcharge:

(1) It is an additional percentage levied on net tax to increase the tax burden on certain income bracket.

(2) The tax collected through surcharge is used for a specific purpose notified by the government.

(3) In the recent tax slab, a surcharge of 10% is levied on the tax received from taxable income of more than 1 crore rupees.

Which of the above statements are incorrect:

(A) All of the above



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(B) 1 only

(C) 2 and 3

(D) 2 only

Correct Answer: C

QUESTION: What do you understand by a 'deflationary Gap' in the economy?

(A) Underproduction with respect to full employment GDP of the economy.

(B) Consistent decline in inflation at an exponential rate.

(C) Low Inflation that encourages investments.

(D) Excess supply of goods and services with respect to the weak demand in the economy.

Solution: (A)

Deflationary gap is the amount by which actual aggregate demand falls short of aggregate supply at level of full employment. It is a measure of amount of deficiency of aggregate demand. Deflationary gap causes a decline in output, income and employment along with persistent fall in prices. On the other hand, an inflationary gap is a signal that the economy is in the boom part of the trade cycle, resources are being used over their capacity, factories are

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operating with increasing average costs; wage rates increase because labour is used beyond normal hours at overtime pay rates.

QUESTION: Which of the following are some of the main functions of the Office of Economic Adviser, Ministry of Commerce and Industry, Government of India?

- (1) Analysis of trends of industrial production and growth
- (2) Planning and Gender Budgeting on behalf of the Department of Industrial Policy and Promotion
- (3) Compiling and releasing monthly Wholesale Price Indices and Index of Core Industries Production.

Select the correct answer using the codes below.

- (A) 1 and 2 only
- (B) 1 only
- (C) 2 and 3 only
- (D) 1, 2 and 3

Solution: (D) Office of the Economic Adviser (OEA) is an attached office of the Ministry of Commerce & Industry. The main functions include (apart from the ones mentioned in the question): Policy Functions: • Economic policy inputs on industrial development. • Rendering advice relating to formulation of Industrial Policy, Foreign Trade Policy with

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respect to industrial sector in general with thrust on manufacturing, issues relating to bilateral and multilateral trade, as well as taxes and duties related to industry, including but not restricted to safeguard and anti-dumping duties. • Examination of multilateral and bilateral issues and processing Policy Notes with economic implications referred to the Office. Statistical Functions • Developing other Indices on experimental basis, e.g. select business service price indices • Supervising as a 'source agency', compilation of monthly production statistics for identified industrial items, their validation, and onward transmission for computation of the monthly Index of Industrial Production (IIP) by Central Statistics Office.

QUESTION: Consider the following with reference to the Federation of Indian Chambers of Commerce and Industry (FICCI).

- (1) It was established before India's independence.
- (2) It is a not-for-profit organisation.
- (3) Gandhi boycotted the organization due to its capitalist foundations.
- (4) It is presently headquartered in Mumbai.

Select the correct answer using the codes below.

- (A) 1 only
- (B) 1 and 2 only

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(C) 2, 3 and 4 only

(D) 1, 2, 3 and 4 only

Solution: (B) Statement 1 and 3: Established in 1927, on the advice of Mahatma Gandhi by GD Birla and Purushottam Das Thakurdas, it is the largest, oldest and the apex business organisation in India. Statement 2: It is a non-government, not-for-profit organisation. FICCI draws its membership from the corporate sector, both private and public, including SMEs and MNCs. Statement 4: It is headquartered in the national capital New Delhi and has presence in 12 states in India and 8 countries across the world.

It is involved in sector specific business policy consensus building, and business promotion and networking.

QUESTION: Consider the following statements about MPLADS.

(1) Under the scheme, MPs can both recommend and execute the proposed projects.

(2) The concerned MP is responsible for maintaining figures of expenditures for concerned projects.

(3) Nominated MPs can be assigned funds under the scheme.

Select the correct answer using the codes below.

(A) 1 and 2 only

(B) 3 only

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(C) 2 and 3 only

(D) None of the above

Solution: (B) Under the scheme, each MP has the choice to suggest to the District Collector for, works to the tune of Rs.5 Crores per annum to be taken up in his/her constituency. Statement 1 and 2: Under MPLADS, the role of the Members of Parliament is limited only upto recommendation of works. Thereafter, it is the responsibility of the District Authority to sanction, execute and complete the works recommended by Members of Parliament within the stipulated time period. The exact figure (s) of expenditure is available only with the District Authorities. Statement 3: The Rajya Sabha Member of Parliament can recommend works in one or more districts in the State from where he/she has been elected. The Nominated Members of the Lok Sabha and Rajya Sabha may select any Districts from any State in the Country for implementation of their choice of work under the scheme.

QUESTION: The S&D box, with reference to WTO agreements, is related to:

(A) Special exemptions for developing countries

(B) Cross border customs clearances

(C) Preferential rules of origin for LDCs

(D) Phasing out of toxic substances in exports of developed countries

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Solution: (A) It comes under some of the crucial development-related issues in WTO which also include establishment of a Development Box, special and differential treatment (S&D) for developing countries, single commodity producers treatment, and the status of small island developing states (SIDS).

S&D box gives the developing countries required flexibility in several WTO agreements to adapt to changed rules so as to create a level playing field with developed countries.

QUESTION: Consider the following with reference to the Independent Evaluation Office (IEO).

- (1) The IEO has the authority to make all its findings public without any interference from the Government.
- (2) The evaluation reports of the IEO can be submitted to the Prime Minister's office but not the Parliament since it is an autonomous registered society.

Which of the above is/are correct?

- (A) 1 only
- (B) 2 only
- (C) Both 1 and 2
- (D) None

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Solution: (A) The IEO has been mandated to conduct evaluations of plan programmes, especially the large flagship programmes to assess their effectiveness, relevance and impact. It also has the freedom to conduct independent evaluations on any programme which has access to public funding or Implicit or explicit guarantees from the Government.

The work programme of the IEO will be prepared through an open process of consultations, including feedback from civil society and made public for all to see. Statement 1: The evaluation reports of the IEO will be submitted to Parliament and the Prime Minister's office. Statement 2: It has such authority. These are made available through its website. IEO will also set guidelines and methodology for all evaluations done by various departments and agencies and encourage a culture of openness and learning in government systems.

QUESTION: Which of these is/are among the listed objectives of the National Mission for Sustainable Agriculture (NMSA)?

- (1) To adopt comprehensive soil health management practices based on soil fertility maps**
- (2) To optimize utilization of water resources through efficient water management to expand coverage for achieving 'more crop per drop'**
- (3) To develop inter-linkages of Peninsular and Himalayan rivers for efficient and equitable allocation of river water across India .**

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Select the correct answer using the codes below.

(A) 1 and 2 only

(B) 2 and 3 only

(C) 3 only

(D) 1, 2 and 3

Solution: (A)

• To make agriculture more productive, sustainable, remunerative and climate resilient by promoting location specific Integrated/Composite Farming Systems; • To conserve natural resources through appropriate soil and moisture conservation measures; • To adopt comprehensive soil health management practices based on soil fertility maps, soil test based application of macro & micro nutrients, judicious use of fertilizers etc.; • To optimize utilization of water resources through efficient water management to expand coverage for achieving ‘more crop per drop’; • To develop capacity of farmers & stakeholders, in conjunction with other on-going Missions • To pilot models in select blocks for improving productivity of rainfed farming by mainstreaming rainfed technologies • To establish an effective inter and intra Departmental/Ministerial co-ordination.

QUESTION: Consider the following about Goods and Services Network (GSTN).

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(1) It is a Government owned company as Central and State governments jointly own the majority stake in the company.

(2) It will provide IT infrastructure for implementation of the Goods and Services Tax (GST).

Which of the above is/are correct?

(A) 1 only

(B) 2 only

(C) Both 1 and 2

(D) None

Solution: (B)

QUESTION: Fiscal capacity and fiscal discipline of a state respectively refer to

(A) Tax-to-GDP ratio and proportion of revenue receipts to its total revenue expenditure

(B) Budgetary deficit and total revenue collection of a state compared to its natural resource base

(C) Number of tax payers and performance of tax department in recovering black money

(D) None of the above

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Solution: (A)

QUESTION: Consider the following with reference to the Organisation for Economic Co-operation and Development (OECD).

- (1) Its main mission is to enhance the economic interests of developed countries exclusively.
- (2) It is a non-profit organization working as an attached agency under the European Union.
- (3) India is an accession candidate to OECD.

Select the correct answer using the codes below.

- (A) 1 and 2 only
- (B) 3 only
- (C) 1, 2 and 3 only
- (D) None of the above

Solution: (D) Statement 1: The mission of the Organisation for Economic Cooperation and Development (OECD) is to promote policies that will improve the economic and social well-being of people around the world. The OECD provides a forum in which governments can work together to share experiences and seek solutions to common problems.

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Statement 2: It is separate from EU. It is an inter-governmental organization headquartered in Paris. Statement 3: India is an enhanced engagement partner of OCED. It is neither a member non-accession candidate to the OECD.

QUESTION: Securities and Exchange Board of India (SEBI) has jurisdiction over

- (1) Registering and regulating the working of venture capital funds and collective investment schemes including mutual funds
- (2) Promoting investors' education and training of intermediaries of securities markets
- (3) Promoting insider trading in securities
- (4) Regulating substantial acquisition of shares and take-over of companies

Select the correct answer using the codes below.

- (A) 2 and 3 only
- (B) 1, 2 and 4 only
- (C) 1 only
- (D) 1, 2, 3 and 4

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Solution: (B) It is a statutory body. The basic functions of the Securities and Exchange Board of India are to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto. In this light, the functions, powers and responsibilities of the board are: • regulating the business in stock exchanges and any other securities markets; • Registering and regulating the working of stock brokers, sub-brokers etc. • registering and regulating the working of the depositories, participants, custodians of securities, foreign institutional investors, credit rating agencies and such other intermediaries as the Board may, by notification, specify in this behalf; • promoting and regulating self-regulatory organisations; • prohibiting fraudulent and unfair trade practices relating to securities markets; • prohibiting insider trading in securities. So, 3 is incorrect. • regulating substantial acquisition of shares and take-over of companies; • calling for information from, undertaking inspection, conducting inquiries and audits of the stock exchanges, mutual funds, other persons associated with the securities market] intermediaries and selfregulatory organizations in the securities market.

QUESTION: Consider the following about the Financial Stability Board (FSB).

- (1) It is a successor organization to the IMF's International Financial Monitoring Committee (IFM(C)).
- (2) The central banks of member nations participate in FSB to stabilize market functioning.
- (3) India is a member country of FSB.

Select the correct answer using the codes below.

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(A) 1 and 2 only

(B) 3 only

(C) 1 and 3 only

(D) 2 and 3 only

Solution: (D) Statement 1: The FSB was established in April 2009 as the successor to the Financial Stability Forum (FSF). The FSB's predecessor institution the FSF was founded in 1999 by the G7 Finance Ministers and Central Bank Governors. Statement 2: The FSF would bring together: • National authorities responsible for financial stability • sector-specific international groupings of regulators and supervisors • Committees of central bank experts concerned with market infrastructure and functioning.

Statement 3: From India, Reserve Bank of India, Securities and Exchange Board of India and Ministry of Finance are represented on the FSB.

QUESTION: For the State Governments, which of the following form part of non-tax revenue receipts?

- (1) Profits and dividends from Public Sector Undertakings (PSUs)**
- (2) Grants received from the Central government**
- (3) Revenue generate by way of fines and penalties.**

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Select the correct answer using the codes below.

- (A) 1 only
- (B) 2 and 3 only
- (C) 1 and 3 only
- (D) 1, 2 and 3

Solution: (D)

This includes all money earned by the government from sources other than taxes. In India they are: • Profits and dividends which the government gets from its public sector undertakings (PSUs). • Interests received by the government out of all loans forwarded by it, be it inside the country (i.e., internal lending) or outside the country (i.e., external lending). It means this income might be in both domestic and foreign currencies. • Fiscal services also generate incomes for the government, i.e., currency printing, stamp printing, coinage and medals minting, etc. • General Services also earn money for the government as the power distribution, irrigation, banking, insurance, community services, etc. • Fees, Penalties and Fines received by the government. • Grants which the government receives— it is always external in the case of the Central Government and internal in the case of state governments.

QUESTION: Consider the following about Indian Depository Receipts (IDRs).

- (1) They are generally denominated in foreign currency convertible to rupees.

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(2) A foreign company can access Indian securities market for raising funds through issue of IDRs.

(3) There is no size limit for the issue of IDRs.

Select the correct answer using the codes below.

(A) 1 and 2 only

(B) 2 only

(C) 2 and 3 only

(D) 1 and 3 only

Solution: (B)

Statement 1: An IDR is an instrument denominated in Indian Rupees in the form of a depository receipt created by a Domestic Depository (custodian of securities registered with the Securities and Exchange Board of India) against the underlying equity of issuing company to enable foreign companies to raise funds from the Indian securities Markets. **Statement 2:** The foreign company IDRs will deposit shares to an Indian depository. The depository would issue receipts to investors in India against these shares. The benefit of the underlying shares (like bonus, dividends etc.) would accrue to the depository receipt holders in India. **Statement 3:** The size of an IDR issue shall not be less than Rs. 50 crores.

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QUESTION: IMF's Extended Fund Facility (EFF) was established to provide assistance to countries for

- (1) Addressing serious balance of payments (BoP) crisis due to structural impediments
- (2) Reconstruction in war torn and high poverty regions

Which of the above is/are correct?

- (A) 1 only
- (B) 2 only
- (C) Both 1 and 2
- (D) None

Solution: (A)

Statement 1: The EFF provides assistance in support of comprehensive programs that include policies of the scope and character required to correct structural imbalances over an extended period. **Statement 2:** It support countries characterized by slow growth and an inherently weak balance of payments position. It is not inclined to fund reconstruction projects. So, 2 is wrong. When a country borrows from the IMF, it commits to undertake policies to overcome its economic and structural problems. Under an EFF, these commitments, including specific conditionality, are expected to have a strong focus on structural reforms to address institutional or economic weaknesses, in addition to policies that maintain macroeconomic stability.

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QUESTION: Consider the following about Commodities Transaction Tax (CTT).

- (1) It is applicable only to agricultural commodity futures.
- (2) It is collected by commodity exchanges on behalf of the Government of India.
- (3) It aims at encouraging speculation to promote price discovery.

Select the correct answer using the codes below.

- (A) 2 only
- (B) 1 and 3 only
- (C) 3 only
- (D) 1 and 2 only

Solution: (A) Statement 1: It applies largely to non-agricultural commodity futures. Statement 2: Both Securities Transaction tax (STT) and CTT are collected by commodity exchange for ease of operations and efficiency. Statement 3: Like all financial transaction taxes, CTT aims at discouraging excessive speculation, which is detrimental to the market and to bring parity between securities market and commodities market such that there is no tax / regulatory arbitrage. This is because most institutional investors are not permitted to participate in the commodity derivatives market and the increased transaction cost further prohibits speculation.

QUESTION: In India, expenditure on poverty alleviation programmes is considered a part of :

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- (A) Capital expenditure as it augments the human resources of India
- (B) Revenue expenditure as it is largely a consumptive expenditure
- (C) Non-tax expenditure as such programmes must be financed from borrowing
- (D) Any of the above depending on how the programme is designed

Solution: (B) All expenditures incurred by the government are either of revenue kind or current kind or compulsive kind. The basic identity of such expenditures is that they are of consumptive kind and do not involve creation of productive assets. They are either used in running of a productive process or running a government. A broad category of things that fall under such expenditures in India are:

Interest payment by the government on the internal and external loans; • Salaries, Pension and Provident Fund paid by the government to government employees; • Subsidies forwarded to all sectors by the government; • Defence expenditures by the government; • Postal Deficits of the government; • Law and order expenditures (i.e., police & paramilitary); • Expenditures on social services (includes all social sector expenditures as education, health care, social security, poverty alleviation, etc.) and general services (tax collection, etc.); • Grants given by the government to Indian states and foreign countries.

QUESTION: Consider the following about Real Estate Investment Trusts (REITs).

- (1) They allow individual investors to make investments in small amounts like a mutual fund.

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(2) They are not allowed to pay dividends to unit holders.

(3) They are allowed to own or lease out property and acquire rent from it.

Select the correct answer using the codes below.

(A) 1 and 2 only

(B) 2 and 3 only

(C) 1 and 3 only

(D) 1, 2 and 3

Solution: (C)

Statement 1: A real estate investment trust (REIT) is a platform that allows investors to make securitised real estate investments in small amounts. It works much like a mutual fund, pooling funds from various investors into one basket. Real estate is a physical asset. Through REITs this asset is broken into several parts and converted into a paper investment, or securitised. **Statement 2 and 3:** Globally, there are two major kinds of REITs: equity and mortgage. Equity REITs own or develop and hold the properties, either individually or through special purpose vehicles (SPVs). Hence, they are referred to as equity REITs. Their income is in the form of rent received from leasing the property. This rent gets transferred to unit holders as dividend.

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QUESTION: Consider the following statements about the Results Framework Document (RFD).

- (1) Under the Performance Monitoring and Evaluation System (PMES) each department is required to prepare a RFD.
- (2) An RFD provides a summary of the most important results that a department/ministry expects to achieve during the financial year.

Which of the above is/are correct?

- (A) 1 only
- (B) 2 only
- (C) Both 1 and 2
- (D) None

Solution: (C) Statement 1: The Prime Minister approved the outline of a “Performance Monitoring and Evaluation System (PMES) for Government Departments” in 2009.

A Results-Framework Document (RFD) is essentially a record of understanding between a Minister representing the people’s mandate, and the Secretary of a Department responsible for implementing this mandate. Statement 2: This document has two main purposes: • move the focus of the department from process-orientation to result-orientation, and • provide an objective and fair basis to evaluate department’s overall performance at the end of the year. This document contains not only the agreed objectives, policies, programs and projects but also success indicators and targets to measure progress in implementing them.



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QUESTION: Consider the following statements regarding the Marginal Standing Facility (MSF).

- (1) MSF functions as the last resort for banks to borrow short-term funds over and above that available under the Liquidity Adjustment Facility Window (LAF).
- (2) MSF is an extraordinary rate at which banks can borrow money from the central bank by a much cheaper route than repo rate.

Which of the above is/are correct?

- (A) 1 only
- (B) 2 only
- (C) Both 1 and 2
- (D) None

Solution: (A)

QUESTION: “Crowding out effect” of government borrowing in domestic markets is likely to reduce if

- (1) Government reduces domestic borrowing and increases borrowing from abroad.
- (2) Domestic savings base is substantially increased.



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Which of the above is/are correct?

- (A) 1 only
- (B) 2 only
- (C) Both 1 and 2
- (D) None

Solution: (C)

Crowding out effect describes the idea that large volumes of government borrowing push up the real interest rate, making it difficult or close to impossible for individuals and small companies to obtain loans. Governmental borrowing uses a larger and larger proportion of the total supply of savings available for investment. Because demand for savings increases while supply stays the same, the price of money (the interest rate) goes up. Statement 1: If the same money is sourced from abroad, domestic availability may be sufficient for private investors. So, 1 is correct. Statement 2: If savings base is increased, it is possible that despite high government borrowing, enough funds are left for the private sector.

QUESTION: 'Unnat Bharat Abhiyaan' is concerned with which of the following?

- (A) Promoting research in institutions of higher learning and education

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(B) Increasing economic growth by mobilizing funding for rural enterprises

(C) Developing market funding mechanisms for infrastructural growth through Public-Private Partnership

(D) Addressing the development challenges of local communities through appropriate technologies with the help of premier institutions

Solution: (D) Unnat Bharat Abhiyan with an aim to connect institutions of higher education, including Indian Institutes of Technology (IITs), National Institutes of Technology (NITs) and Indian Institutes of Science Education & Research (IISERs) etc. with local communities to address the development challenges through appropriate technologies. The objectives of Unnat Bharat Abhiyan are broadly two-fold: • Building institutional capacity in Institutes of higher education in research & training relevant to the needs of rural India. • Provide rural India with professional resource support from institutes of higher education, especially those which have acquired academic excellence in the field of Science, Engineering & Technology and Management.

QUESTION: Gender Inequality Index (GII) determines the level of women empowerment based on which of these key indicators?

(1) Proportion of parliamentary seats occupied by females

(2) Labour force participation rate of females

(3) Higher education enrolment ratio

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(4) Maternal mortality ratio and adolescent birth rates.

Select the correct answer using the codes below.

(A) 1, 2 and 4 only

(B) 2 and 4 only

(C) 1 and 3 only

(D) 1, 2, 3 and 4

Solution: (A)

The GII is an inequality index. It measures gender inequalities in three important aspects of human development: Reproductive health, measured by maternal mortality ratio and adolescent birth rates.

Empowerment, measured by proportion of parliamentary seats occupied by females and proportion of adult females and males aged 25 years and older with at least some secondary education;

Economic status, expressed as labour market participation and measured by labour force participation rate of female and male populations aged 15 years and older. • The GII is built on the same framework as the IHDI — to better expose differences in the distribution of achievements between women and men. • It measures the human development costs of gender inequality, thus the higher the GII value the more disparities between females and males and the more loss to human development.

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QUESTION: The London Interbank Offered Rate (LIBOR) reflects market conditions for international funds and are widely used by the banks as a basis for determining the interest rates internationally. It is decided by

- (A) Market movements
- (B) Basel Committee on Banking Supervision
- (C) International Committee for Money and Banking
- (D) None of the above

Solution: (D) The LIBOR rate, or London Interbank Offered Rate, is a benchmark rate at which individual contributor panel banks can borrow funds from other banks on the London market. • It is the interest rate on dollar and other foreign currency deposits at which larger banks are prepared to borrow and lend these currencies in the Eurocurrency market. • The LIBOR rate is determined by every contributor bank, which are determined yearly by the IBA (ICE Benchmark Administration) and regulated by the Financial Conduct Authority. • Only banks that have a significant presence in the London market are considered to be placed on the ICE LIBOR panel. • All of the panel banks are asked the following question: "At what rate could you borrow funds, were you to do so, by asking for and then accepting inter-bank offers in a reasonable market size just prior to 11 a.m.?" • The banks are obligated to submit a rate at which they would borrow cash from another bank.

QUESTION: Fisher effect shows the relationship between



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- (1) Inflation
- (2) Unemployment
- (3) Interest rate
- (4) Economic growth

Select the correct answer using the codes below.

- (A) 1 and 3 only
- (B) 2 and 3 only
- (C) 1 and 4 only
- (D) 1, 2, 3 and 4

Solution: (A)

It is a concept developed by Irving Fisher which shows relationship between inflation and the interest rate, expressed by an equation popular as the fisher equation.

$$R = r + F;$$

where R = nominal interest rate, r = real interest rate and F = rate of annual inflation.

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- The concept suggests a direct relationship between inflation and nominal interest rates— changes in inflation rates leads to matching changes in nominal interest rates.
- The Fisher effect can be seen each time one goes to the bank; the interest rate an investor has on a savings account is really the nominal interest rate. • For example, if the nominal interest rate on a savings account is 4 per cent and the expected rate of inflation is 3 per cent, then money in the savings account is really growing at 1 per cent. • The smaller the real interest rate the longer it will take for savings deposits to grow substantially when observed from a purchasing power perspective.

QUESTION: Ricardian equivalence is the idea that Government deficits do not affect the overall level of demand in an economy. This is because

- (1) Overall budgetary deficit always remains zero.
- (2) Money supply in the economy remains constant.
- (3) Government will finance increased debt today from increased taxes tomorrow.

Select the correct answer using the codes below.

- (A) 1 and 2 only
(B) 3 only

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(C) 2 and 3 only

(D) 1, 2 and 3

Solution: (B) Justification: Statement 1: Budgetary deficits mean total receipts minus total expenditure. It always remains zero. However, the fiscal deficit may not remain zero and increased borrowing by the government may caused additional demand in the economy. Statement 2: The same money supply can generate more or less demand depending on its velocity. We have dealt on this concept in earlier tests. Statement 3: This is because tax-payers know that any deficit has to be paid later, and so they increase their savings in anticipation of a higher tax bill in future. Thus government attempts to stimulate an economy by increasing public spending or cutting taxes, will be rendered impotent by private sector reaction.

QUESTION: Which of these correctly describes the “Moore’s law”?

(A) Whatever can go wrong, will go wrong

(B) Work expands according to the time available in which it is done

(C) A fall in price level increases the real value of people’s money

(D) Increase in computing power due to doubling of number of transistors on an integrated circuit at certain periods of time.

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Solution: (D) Moore's law refers to an observation made by Intel cofounder Gordon Moore in 1965. He noticed that the number of transistors per square inch on integrated circuits had doubled every year since their invention. Moore's law predicts that this trend will continue into the foreseeable future. • Option A is Murphy's law which is a popular adage that states that "things will go wrong in any given situation, if you give them a chance," or more commonly, "whatever can go wrong, will go wrong." A number of variants on the rule have been formulated, as have several corollaries. • Option B is Parkinson's law – Work expands according to the time available in which it is done • Option C is Pigou Effect. It shows the wealth effect resulting from deflation/disinflation (i.e., price fall) — a fall in price level increases the real value of people's money, making them wealthier inducing increased spending by them; higher demand creation leads to higher employment.

QUESTION: Why does Monetary policy fail to be effective when an economy undergoes liquidity trap?

- (1) Interest rates do not fall below a certain limit.**
- (2) Increase in money supply is held as speculative balance by people.**

Which of the above is/are correct?

- (A) 1 only**
- (B) 2 only**
- (C) Both 1 and 2**

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(D) Neither 1 nor 2

Answer: C

A liquidity trap occurs when low / zero interest rates fail to stimulate consumer spending and monetary policy becomes ineffective. In such a situation, an increase in the money supply could fail to increase spending because of consumers' preference for liquid assets. New money supply by central bank does not go into investment and asset creation. Instead, people hoard the new money supply to speculate in bond market. Since interest rates are already low, everyone believes they will go and they will suffer a capital loss on bonds. So, all new money ends up as idle speculative balances with people (in anticipation of interest rates rise). Monetary policy fails.

QUESTION: Suppose you are the Governor of RBI. Which of the following steps will you take to cut down inflation in Indian economy?

- (1) Use of WPI instead of CPI as standard to calculate inflation.
- (2) Performing Open Market Operations (OMO).
- (3) Increasing taxes so that people has less money in their hand.
- (4) Increase in Cash reserve Ratio.
- (5) Increase in Repo rate.



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Choose the correct ones:

- (A) 2, 4 and 5 only
- (B) 1, 3 and 5 only
- (C) 1, 2, 3 and 4 only
- (D) 2, 3 and 5 only

Answer: A

WPI has some inbuilt disadvantages like exclusion of service sector. So it is not a good indicator of inflation. Increasing taxes comes under fiscal policy and it is outside the domain of RBI. OMO and increase in CRR as well as Repo rate will suck liquidity of the economy, thus soothing inflation.

QUESTION: Consider the following statement/s:

- (1) Speculative demand for money is inversely related to the interest rate.
- (2) When the interest rate is very high people convert their money into bonds.
- (3) When interest rate comes down people convert their bonds into money leading to a high speculative demand for money.



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Which of the above statements is/are correct?

- (A) 2 and 3 only
- (B) 1 and 3 only
- (C) 1 and 2 only
- (D) All of the above

Answer: D

When the interest rate is very high everyone expects it to fall in future and hence anticipates capital gains from bond-holding. Hence people convert their money into bonds. Thus, speculative demand for money is low. When interest rate comes down, more and more people expect it to rise in the future and anticipate capital loss. Thus they convert their bonds into money giving rise to a high speculative demand for money. Hence speculative demand for money is inversely related to the rate of interest.

QUESTION: Arrange the following events in the correct chronological order:

- (1) The Great Depression of USA
- (2) Bretton Woods Conference
- (3) New Economic Policy of India

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(4) Formation of WTO

Code:

(A) 2 - 1 - 4 - 3

(B) 1 - 3 - 2 - 4

(C) 1 - 2 - 3 - 4

(D) 2 - 1 - 3 - 4

Answer: C

The Great Depression of 1929 and the subsequent years saw the output and employment levels in USA fall by huge amounts. It affected other countries of the world as well. Demand for goods in the market was low, many factories were lying idle, and workers were thrown out of jobs. In USA, from 1929 to 1933, unemployment rate rose from 3 per cent to 25 percent. The Bretton Woods Conference held in 1944 set up the International Monetary Fund (IMF) and the World Bank and re established a system of fixed exchange rates. India announced the New Economic Policy in 1991.

WTO was formed in 1995 as a successor of GATT.

QUESTION: “Open Market Operation” is a popular term of Indian Economy.



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What does it mean?

- (A) Borrowing by Union Government
- (B) Collection of Funds by Banks
- (C) Selling and purchase of Government securities by RBI
- (D) Lending by RBI to common public in distress situation

Answer: C

C RBI purchases (or sells) government securities to the general public in a bid to increase (or decrease) the stock of high powered money in the economy. This is known as “Open Market Operation”

QUESTION: RBI is also known as “Banker’s Bank”. It means:

- (1) Commercial banks retain their deposits with RBI.
- (2) In time of needs, RBI lend fund to Commercial Banks.
- (3) Commercial Banks are advised by RBI on monetary matters.

Choose the correct ones:

- (A) 1 and 2 only

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(B) All of the above

(C) 1 and 3 only

(D) 3 only

Answer: B

RBI is bank of all banks in India. As a banker of banks, RBI enables smooth and swift clearing and settlements of inter-bank transactions, provides efficient means of funds transfer for all banks, enables banks to maintain their accounts with RBI for statutory reserve requirements and maintenance of transaction balances, acts as lender of last resort (LORL) and Commercial banks are advised by RBI on monetary matters. Reserve Bank maintains current account of all other banks and provides them facility to maintain cash reserves and also to carry out interbank transactions. RBI provides the Real Time Gross Settlement System (RTGS) facility to the banks for inter-bank transactions.

QUESTION: Suppose you are Economic Advisor in Ministry of Finance. Which of the following actions will you endorse for reducing the Current Account Deficit?

(1) Devaluation of Domestic currency.

(2) Reduction of Import duty.

(3) Policies to attract more funds from FDI.



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Choose the correct ones:

- (A) 1 and 2 only
- (B) All of the above
- (C) 1 and 3 only
- (D) 3 only

Answer: D

A current account deficit occurs when the value of imports of goods, services and investment incomes is greater than the value of exports. Policies to reduce a current account deficit involves devaluation, protectionism (increase in import duty), attracting more FDI etc.

QUESTION: Consider the following statement/s:

- (1) Cash Reserve Ratio requires the Bank to keep a fraction of their deposits with RBI.
- (2) Cash Deposit Ratio (CDR) decreases during the festive season.

Which of the above is/are correct?

- (A) 1 only



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(B) 2 only

(C) Both 1 and 2

(D) Neither 1 nor 2

Answer: A

Cash Deposit Ratio (cdr) increases during the festive season as people convert deposits to cash balance for meeting extra expenditure during such periods.

QUESTION: Assertion (A): Devaluation of a currency may promote imports.

Reason (R): Price of the country's product in International market may fall due to Devaluation.

Code:

(A) Both A and R is true and R is the correct explanation of A.

(B) Both A and R is true but R is not a correct explanation of A.

(C) A is true but R is false.

(D) A is false but R is true.

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Answer: D Devaluation of a currency may promote exports as it lowers the value of domestic product in international market.

QUESTION: Arrange the following measures of money supply, viz. M1, M2, M3 and M4 as per increasing liquidity. Choose the correct ones:

- (A) $M1 > M2 > M3 > M4$
- (B) $M4 > M3 > M2 > M1$
- (C) $M3 > M2 > M1 > M4$
- (D) $M1 > M3 > M2 > M4$

Answer: A

M1 is most liquid and easiest for transactions whereas M4 is least liquid of all. M2 is more liquid than M3.

QUESTION: High Powered Money consists of.....

- (1) Notes and coins in circulation with the public
- (2) Vault cash of Commercial Banks



EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

(3) Deposits held by the Government of India with RBI

(4) Deposits held by the Commercial Banks with RBI

Choose the correct ones:

(A) All of the above

(B) 1 and 3 only

(C) 2 and 4 only

(D) 1, 3 and 4 only

Answer: A

High Powered Money: The total liability of the monetary authority of the country, RBI, is called the monetary base or high powered money. It consists of currency (notes and coins in circulation with the public and vault cash of commercial banks) and deposits held by the Government of India and commercial banks with RBI. If a member of the public produces a currency note to RBI the latter must pay her value equal to the figure printed on the note. Similarly, the deposits are also refundable by RBI on demand from deposit-holders. These items are claims which the general public, government or banks have on RBI and hence are considered to be the liability of RBI.

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

QUESTION: Which of the following statement/s is/are correct?

- (1) Banks are not permitted to resort to any lending below the Base Rate.
- (2) The rate at which Banks park their short-term excess liquidity with the RBI is called Repo (Repurchase) rate
- (3) In the Marginal Standing Facility, Banks can borrow funds up to certain percentage of their Net demand and Time liabilities.

Choose the correct ones:

- (A) 1 and 2 only
- (B) 2 and 3 only
- (C) 1 and 3 only
- (D) All of the above

Answer: C

Under the repo or repurchase option, banks borrow money from the RBI via the sale of securities with an agreement to purchase the securities back at a fixed rate at a future date. The rate charged by the RBI to aid this process of liquidity injection is termed as the repo rate. Under the reverse repo operation, the RBI borrows money from the banks, draining liquidity out from the system. The rate at which the RBI borrows money is the reverse repo rate.

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

QUESTION: Which among the following is/are the quantitative tools to control Credit creation by RBI?

- (1) Open Market Operations
- (2) Repo Rate
- (3) Margin Requirements
- (4) Credit Rationing Policy

Choose the correct ones:

- (A) 1 and 2 only
- (B) 1, 2 and 4 only
- (C) 1, 2 and 3 only
- (D) 3 and 4 only

Answer: A

Exp: Various methods used by central bank to control creation can be divided into quantitative and qualitative methods: Qualitative methods are: Margin Requirements, Regulation of consumer Credit, Credit Rationing Policy, Direct Action. While quantitative methods include the following: Open Market Operation - Repo Rate, Reverse Repo Rate, Variable Reserve Ratio – Case Reserve Ratio, Statutory Liquidity Ratio, Bank Rate.

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

QUESTION: Consider the following statement/s regarding India's Economic policy before 1991 reforms:

- (1) Although private industries were allowed in every field, license was mandatory.
- (2) Large Business houses required permission from the Government to expand their business operations.
- (3) Rate of taxation was kept minimum to encourage faster growth.

Which of the above is/are not correct?

- (A) 2 only
- (B) 2 and 3 only
- (C) 1 and 3 only
- (D) All of the above

Answer: C

Exp: Private industries were allowed in limited field and license was mandatory. All basic industries were reserved for public sector Under the MRTP Act, 1969, which aimed at preventing economic power concentration, large business houses required permission from the government to expand their business operations. Rate of taxation was kept high as government was doing most of the work. All banks were also kept under control of government. Stock exchange was also kept under strict control.

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

QUESTION: The terms of credit vary substantially from one credit arrangement to another.

Consider the following statements related to various credit arrangements.

- (1) Loans from Money lenders, traders and cooperatives are informal loans.
- (2) Informal sector is largest credit lender outperforming commercial banks.
- (3) The Reserve Bank of India supervises the functioning of formal sources of loans.

Select the correct statements using the codes given below.

- (A) 1 and 2 only
- (B) 1 and 3 only
- (C) 2 and 3 only
- (D) All of the above

Answer: C

The various types of loans can be conveniently roused as formal sector loans and informal sector loans. Among the former are loans from banks and cooperatives. The informal lenders include moneylenders, traders, employers, relatives and friends, etc.

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

QUESTION: Which of the following steps helps in increasing the efficiency of Public Sector Units (PSUs)?

- (1) More autonomy to PSUs in taking Managerial decisions.
- (2) Shedding of ownership by the Government.
- (3) Selling off part of equity of PSUs by the Government.

Choose the correct ones:

- (A) 1 and 2 only
- (B) 1 and 3 only
- (C) 2 and 3 only
- (D) All of the above

Answer: D

Exp: More autonomy to PSUs in taking managerial decision will reduce red-tapism, thereby increasing efficiency. Shedding of ownership by the government may or may not increase efficiency of any PSUs. Selling off part of equity of PSUs by the government will improve financial discipline and facilitate efficiency.

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

QUESTION: Which of the following tools were used by the Government for regulation of Industrial sector in pre-1991 era?

- (1) Licensing
- (2) Quantitative Restriction
- (3) Control on price fixation
- (4) Distribution of industrial products
- (5) Non-inclusion of private firms in certain sectors.

Choose the correct ones:

- (A) 1, 2, and 5 only
- (B) 1, 3 and 4 only
- (C) 2, 3 and 5 only
- (D) All of the above

Answer: D

Exp: In India, regulatory mechanisms were enforced in various ways (i) industrial licensing under which every entrepreneur had to get permission from government officials to start a firm, close a firm or to decide the amount

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

of goods that could be produced (ii) private sector was not allowed in many industries (iii) some goods could be produced only in small scale industries and (iv) controls on price fixation and distribution of selected industrial products.

QUESTION: Assertion (a): Moneylenders and local traders are formal source of credit for villages.

Reason (r): Nationalisation of Banking services was the first step towards Financial inclusion.

Code:

- (A) Both a and r is true and r is the correct explanation of a.
- (B) Both a and r is true but r is not a correct explanation of a.
- (C) a is true but r is false.
- (D) a is false but r is true

Answer: D

Moneylenders and local traders are informal source of credit for villages. Seven banks forming subsidiary of State Bank of India were nationalised on 19th July 1959. In 1969, major process of nationalisation was carried out. It was the effort of the then Prime Minister of India, Mrs. Indira Gandhi 14 major commercial banks in the country was

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

nationalised. Second phase of nationalisation in Indian Banking Sector Reform was carried out in 1980 with six more banks. This step brought 80% of the banking segment in India under Government ownership.

QUESTION: Arrange the following events in the correct chronological order:

- (1) The Great Leap Forward Campaign
- (2) The Great Proletarian Cultural Revolution
- (3) Nationalisation of Banking services in India
- (4) UN conference on Climate Change in Kyoto, Japan

Choose the correct ones:

- (A) 2 - 1 - 4 - 3
- (B) 1 - 3 - 2 - 4
- (C) 1 - 2 - 3 - 4
- (D) 2 - 1 - 3 - 4

Answer: C

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

Exp: The Great Leap Forward (GLF) campaign was initiated in China in 1958. It aimed at industrialising the country on a massive scale. People were encouraged to set up industries in their backyards. In 1965, Mao introduced the Great Proletarian Cultural Revolution (1966-76) under which students and professionals were sent to work and learn from the countryside. Nationalisation of banking services in India first took place in 1969. UN conference on Climate Change in Kyoto, Japan took place in 1997.

QUESTION: Which of the following is/are features of the socialist economic system?

- (1) Market forces determine supply and demand of goods and services.
- (2) There is no concept of private property.
- (3) Economic activity in the economy is guided by the Government.

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

- (A) 1 only
- (B) 2 and 3 only
- (C) 3 only
- (D) All of the above'

Answer: B

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

In a socialist society the government decides what goods are to be produced in accordance with the needs of society. It is assumed that the government knows what is good for the people of the country and so the desires of individual consumers are not given much importance. The government decides how goods are to be produced and how they should be distributed. In principle, distribution under socialism is supposed to be based on what people need and not on what they can afford to purchase. Unlike under capitalism, for example, a socialist nation provides free health care to all its citizens. Strictly, a socialist society has no private property since everything is owned by the state. In Cuba and China, for example, most of the economic activities are governed by the socialistic principles.

QUESTION: Consider the following statement/s:

- (1) For the first time Economic Reforms were introduced by China in 1978 as its own initiative.
- (2) Structural reforms were forced upon India by International agencies.
- (3) China has followed the classical development pattern of gradual shift from Agriculture to Manufacturing and then to Services.
- (4) India's shift has been directly from Agriculture to Service sector.

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

- (A) 1, 2 and 3 only
(B) 1, 3 and 4 only



EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

(C) 1, 2 and 4 only

(D) All of the above

Answer: D

QUESTION: Consider the following statement/s with reference to reforms in Agriculture:

- (1) Land ceiling means fixing the maximum size of land which could be owned by an individual.
- (2) The purpose of land ceiling was abolish intermediaries and make the tillers, the owners of land.
- (3) Purpose of land reforms was to reduce the concentration of land ownership in a few hands.
- (4) Land reforms were successful primarily in Kerala and West Bengal.

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

(A) 3 and 4 only

(B) 2, 3 and 4 only

(C) 1, 2 and 3 only

(D) 1 and 4 only

Answer: D

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

Equity in agriculture called for land reforms which primarily refer to change in the ownership of landholdings. Land ceiling was another policy to promote equity in the agricultural sector. This means fixing the maximum size of land which could be owned by an individual. The purpose of land ceiling was to reduce the concentration of land ownership in a few hands.

QUESTION: Consider the following statements:

- (1) As a result of the 'Unequal Trade Policy', India was increasingly reduced to the status of an agricultural appendage and a subordinate trading partner of Britain towards the end of the 18th century.
- (2) The British government never made any sincere attempt to estimate India's national and per capita income.

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

Answer: C

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

The economic policies pursued by the colonial government in India were concerned more with the protection and promotion of the economic interests of their home country than with the development of the Indian economy. Such policies brought about a fundamental change in the structure of the Indian economy - transforming the country into supplier of raw materials and consumer of finished industrial products from Britain. Obviously, the colonial government never made any sincere attempt to estimate India's national and per capita income.

QUESTION: Which of the following statements are correct about Hoarding:

- (1) It decreases the demand of a commodity in the market.
- (2) It causes artificial inflation.
- (3) It causes a shortage of goods in the market.
- (4) Usually hoarding is done for scarce resources with the intent of selling it at higher price.

Select the correct code from the following:

- (A) All of the above
- (B) 1,2 and 3
- (C) 1,3 and 4
- (D) 2,3 and 4

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

Correct Answer: D

Explanation: Hoarding is the practice of obtaining and holding scarce resources, with the intention to sell to customers on a high profit in future. An artificial shortage is created to increase the demand of the product and then it is sold at higher market price.

QUESTION: Women Transforming India Awards, initiative to highlight the commendable and ground-breaking endeavours of India's women leaders and changemakers. This initiative has been started by:

- (A) NITI Aayog**
- (B) ActionAid India**
- (C) Ministry of Women and Child Development**
- (D) The President of India**

Ans: (A) NITI Aayog

WTI Awards are NITI Aayog's initiative to highlight the commendable and ground-breaking endeavours of India's women leaders and changemakers.

Since 2018, the Awards have been hosted under the aegis of NITI Aayog's Women Entrepreneurship Platform with a special focus on entrepreneurship.

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

NITI Aayog organizes the Fourth Edition of the Women Transforming India Awards.

QUESTION: Consider the following statements regarding OPEC+ :

1. It is an alliance of Opec and non-Opec producers.
2. It aims to undertake production restrictions to help revive flailing market.
3. India is a member of this.

Select the correct codes given below:

- (A) 1 and 2 only
- (B) 2 and 3 only
- (C) 1 and 3 only
- (D) 1, 2 and 3

Ans: (A) 1 and 2 only

Opec+ refers to the alliance of crude producers, who have been undertaking corrections in supply in the oil markets since 2017.

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

OPEC plus countries include Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, South Sudan and Sudan.

What are their goals?

The Opec and non-Opec producers first formed the alliance at a historic meeting in Algiers in 2016.

The aim was to undertake production restrictions to help resuscitate a flailing market.

QUESTION: WISTEMM program was recently seen in the news, Consider the following statements regarding it:

1. This program is implemented by the Department of Science and Technology(DST).
2. It provides opportunities to Indian Women Scientists, Engineers & Technologists to undertake international collaborative research in premier institutions in the U.S.A, to enhance their research capacities and capabilities.

Select the correct codes given below:

- (A) 1 only
- (B) 2 only
- (C) Both 1 and 2
- (D) Neither 1 nor 2

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

Ans: (C) Both 1 and 2

Women in Science, Technology, Engineering, Mathematics and Medicine (WISTEMM)” program is implemented by the Department of Science and Technology(DST).

Aim: To provide opportunities to Indian Women Scientists, Engineers & Technologists to undertake international collaborative research in premier institutions in the U.S.A, to enhance their research capacities and capabilities.

QUESTION: Consider the following statements regarding National Mission on Interdisciplinary Cyber-Physical Systems (NM-ICPS):

- 1. It will be implemented by the Department of Science & Technology .**
- 2. The Mission aims at the establishment of 15 Technology Innovation Hubs across the country.**
- 3. The mission aims to provide free broadband connectivity in the coastal regions.**

Select the correct codes given below:

- (A) 1 and 2 only**
- (B) 2 and 3 only**
- (C) 1 and 3 only**

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

(D) 1, 2 and 3

Ans: (A) 1 and 2 only

The NM-ICPS is a comprehensive Mission which would address technology development, application development, human resource development & skill enhancement, entrepreneurship and start-up development in Cyber Physical System (CPS) and associated technologies.

The Mission aims at the establishment of 15 Technology Innovation Hubs (TIH), 6 Application Innovation Hubs (AIH) and 4 Technology Translation Research Parks (TTRP).

These Hubs & TTRPs will connect to Academics, Industry, Central Ministries and State Government in developing solutions at reputed academic, R&D and other organizations across the country in a hub and spoke model.

It will be implemented by the Department of Science & Technology under Ministry of Science and Technology for a period of five years

The Department of Science and Technology (DST) has sanctioned Rs 7.25 crore to the Indian Institute of Technology (IIT) Mandi to establish a Technology Innovation Hub (TIH) under the National Mission on Interdisciplinary Cyber-Physical Systems (NM-ICPS).

QUESTION: Recently, 'United for Biodiversity' was seen in the news. This initiative has been launched by:

(A) World Wildlife Fund

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

(B) UNEP

(C) US Government

(D) European Commission

Ans: (D) European Commission

The European Commission (EC) has launched the 'United for Biodiversity' coalition.

It was launched on World Wildlife Day 2020- 3rd March.

The coalition is made up of zoos, aquariums, botanical gardens, national parks, and natural history and science museums from around the world.

QUESTION: Consider the following statements regarding Consumer Protection Act, 1986 :

1. It provides 1986 provides for a 3-tier structure of the National and State Commissions and District Forums for the speedy resolution of consumer disputes
2. Each District Forum is headed by a person who is or has been or is eligible to be appointed as a District Judge and each State Commission is headed by a person who is or has been a Judge of High Court.
3. The provisions of this Act cover 'goods' only not services.



EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

Select the correct codes given below:

- (A) 1 and 2 only
- (B) 2 and 3 only
- (C) 1 and 3 only
- (D) 1, 2 and 3

Ans: (A) 1 and 2 only

The Consumer Protection Act, 1986 provides for a 3-tier structure of the National and State Commissions and District Forums for the speedy resolution of consumer disputes. They are quasi-judicial bodies.

Composition: Each District Forum is headed by a person who is or has been or is eligible to be appointed as a District Judge and each State Commission is headed by a person who is or has been a Judge of High Court.

QUESTION: Recently, A vulture restaurant has started in :

- (A) Periyar Tiger reserve
- (B) Tadoba Andhari Tiger Reserve
- (C) Pong Dam Lake WildLife sanctuary

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

(D) Eravikulam Wildlife Sanctuary

Ans: (C) Pong Dam Lake Wildlife sanctuary

It is a feeding station for vultures in the Pong Dam Lake Wild Life sanctuary in Kangra district of Himachal Pradesh.

It has been set up as a part of state wildlife wing's ongoing project to conserve the big scavenging bird in natural habitat, whose numbers showed a critical decline in the past decades in Indian sub-continent.

Measuring 100 meters x 100 meters with seven feet high fencing at an open space in Suknara near Nagrota Surian in Pong wetland, the 'Vulture Restaurant' provides deskinned carcasses to vultures.

There are seven species of vultures in the new world and 16 species in the old world that includes Europe, Africa, Asia, Australia, etc. Out of 16 in the old world, eight species (including Himalayan Griffon, Eurasian Griffon) have been reported in Kangra district also.

QUESTION: Recently, CRIME MULTI AGENCY CENTRE (Cri-MAC) was seen in the news, consider the following statements regarding it:

1. It is an initiative of the Ministry of Home.
2. It aims to share information on heinous crimes and other issues related to inter-state coordination.

Select the correct codes given below:

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

(A) 1 only

(B) 2 only

(C) Both 1 and 2

(D) Neither 1 nor 2

Ans: (C) Both 1 and 2

Cri-MAC aims to share information between various police forces on heinous crimes.

It is meant to share information on heinous crimes and other issues related to inter-state coordination.

It is a recent initiative by the Ministry of the Home.

QUESTION: Recently, 'Floor Test' was seen in the news, consider the following statements regarding it:

1. The floor test is an extra-constitutional mechanism.
2. The voting process can happen orally, with electronic gadgets or a ballot process.
3. If some MLAs remain absent or abstain from voting, the majority is counted on the basis of those present and voting.

Select the correct codes given below:



EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

(A) 1 and 3 only

(B) 2 and 3 only

(C) 2 only

(D) 1, 2 and 3

Ans: (B) 2 and 3 only

A floor test is a constitutional mechanism. It is used to determine if the incumbent government enjoys the support of the legislature.

This voting process happens in the state's Legislative Assembly or the Lok Sabha at the central level.

Technically, the chief minister of a state is appointed by the Governor. The appointed chief minister usually belongs to the single largest party or the coalition which has the 'magic number'. The magic number is the total number of seats required to form a government or stay in power. It is the half-way mark, plus one. In case of a tie, the Speaker casts the deciding vote.

However, at times, a government's majority can be questioned. The leader of the party claiming the majority has to move a vote of confidence.

If some MLAs remain absent or abstain from voting, the majority is counted on the basis of those present and voting. This effectively reduces the strength of the House and in turn, brings down the majority-mark.

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

The voting process can happen orally, with electronic gadgets or a ballot process.

Madhya Pradesh Chief Minister Kamal Nath has requested Governor Lalji Tandon to hold a floor test in the Assembly session starting from March 16, on a date fixed by the Speaker.

QUESTION: Consider the following statements regarding Essential Commodities Act:

1. It is used by the Government to regulate the production, supply and distribution of a whole host of commodities it declares 'essential' in order to make them available to consumers at fair prices.
2. The list of items under the Act includes drugs, fertilisers, pulses and edible oils, and petroleum and petroleum products.
3. Govt brings masks and hand sanitizers under the Essential Commodities Act.

Select the correct codes given below:

- (A) 1 and 2 only
- (B) 2 and 3 only
- (C) 1 and 3 only
- (D) 1, 2 and 3

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

Ans: (D) 1, 2 and 3

The ECA was enacted way back in 1955.

It has since been used by the Government to regulate the production, supply and distribution of a whole host of commodities it declares ‘essential’ in order to make them available to consumers at fair prices.

The list of items under the Act includes drugs, fertilisers, pulses and edible oils, and petroleum and petroleum products.

The Centre can include new commodities as and when the need arises, and take them off the list once the situation improves.

Under the Act, the government can also fix the maximum retail price (MRP) of any packaged product that it declares an “essential commodity”.

Govt brings masks and hand sanitizers under the Essential Commodities Act.(Recently during COVID 19).

Under the EC Act, powers of the Central Government have already been delegated to the States by way of orders from 1972 to 1978. The States/UTs, therefore may take action against the offenders.

QUESTION: Recently, Addis Ababa Action Agenda (AAAA) was seen in the news. It is related to:

(A) Poverty Eradication

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

(B) Climate Change

(C) Sustainable Development

(D) Indian Ocean Security

Ans: (D) Sustainable Development

Addis Ababa Action Agenda provides a global framework for effective mobilisation of resources at the national and international level for sustainable development.

Implementation of this agenda also supports the implementation of the Sustainable Development Goals (SDGs).

Thirty-six major changes to the global indicator framework for the Sustainable Development Goals (SDGs) were approved and adopted by the United Nations Statistical Commission (UNSC).

QUESTION: Recently, which of the following has initiated COVID-19 Solidarity Response Fund ?

1. United Nations Foundation
2. Swiss Philanthropy Foundation
3. WHO
4. European Union



EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

Correct codes:

- (A) 2, 3 and 4 only
- (B) 1, 2 and 3 only
- (C) 2 and 3 only
- (D) 1 and 2 only

Ans: (D) 1 and 2 only

The United Nations Foundation and the Swiss Philanthropy Foundation have created the solidarity fund to support WHO and partners in a massive effort to help countries prevent, detect, and manage the novel coronavirus – particularly those where the needs are the greatest.

QUESTION: Consider the following statements regarding Excise Duty:

1. The Central Board of Indirect Taxes and Customs (CBEC) is responsible for collecting excise duty.
2. All excise duties are subsumed under GST without exemptions.
3. The government has recently raised excise duty on petrol and diesel to boost revenue collections taking advantage of the declining global crude oil price.



EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

Select the correct codes given below:

(A) 1 and 2 only

(B) 2 only

(C) 3 only

(D) 1 and 3 only

Ans: (D) 1 and 3 only

Excise duty refers to the taxes levied on the manufacture of goods within the country, as opposed to custom duty that is levied on goods coming from outside the country.

In July 2017 the Centre introduced GST that subsumed a number of indirect taxes including excise duty. This means excise duty, technically, does not exist in India except on a few items such as liquor and petroleum.

The Central Board of Indirect Taxes and Customs (CBEC) is responsible for collecting excise duty.

The rates of Central Excise Duty are defined by the Central Excise Tariff Act, 1985.

The government has recently raised excise duty on petrol and diesel to boost revenue collections taking advantage of the declining global crude oil price.

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

QUESTION: Consider the following statements regarding Appropriation Bill:

1. It is a money bill that allows the government to withdraw funds from the Consolidated Fund of India to meet its expenses during the course of a financial year.
2. The Appropriation bill shall be passed by a Ballot vote.

Select the correct codes given below:

- (A) 1 only
- (B) 2 only
- (C) Both 1 and 2
- (D) Neither 1 nor 2

Ans: (A) 1 only

Appropriation Bill is a money bill that allows the government to withdraw funds from the Consolidated Fund of India to meet its expenses during the course of a financial year.

As per article 114 of the Constitution, the government can withdraw money from the Consolidated Fund only after receiving approval from Parliament.

To put it simply, the Finance Bill contains provisions on financing the expenditure of the government, and Appropriation Bill specifies the quantum and purpose for withdrawing money.

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

The Appropriation Bill is passed by a voice vote.

The Lok Sabha has passed the Appropriation Bill 2020-21 that empowers the government to draw over ₹110 lakh crore from the Consolidated Fund of India for its working, as well as for the implementation of its programmes and schemes.

QUESTION: Consider the following statements regarding new guidelines for Payment aggregators by RBI:

1. The RBI has prohibited PAs from allowing online transactions to be done with ATM pin as the second factor of authentication, which few payment gateway companies were offering as a service.
2. Only bank entities can offer payment aggregation (PA) services according to new rules.

Select the correct codes given below:

- (A) 1 only
- (B) 2 only
- (C) Both 1 and 2
- (D) Neither 1 nor 2

Ans: (A) 1 only

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

Capital requirements for payment aggregators has been reduced to Rs 15 crore at the time of application for the licence.

This needs to be increased to Rs 25 crore within three years of operations.

Existing non-bank entities offering payment aggregation (PA) services shall apply for authorisation on or before June 30, 2021.

Pure-play payment gateway companies would be separated as an entity and would be identified as technology service providers for banks and non-banks.

PAs have also been asked to adhere to strict security guidelines, adhere to all KYC (Know Your Customer) and AML (Anti Money Laundering) rules.

The guidelines have also mandated that PAs need to check their merchant customers are not involved in selling of prohibited or fake items.

The central bank has also asked PAs to set up designated nodal offices to deal with customer grievance.

The RBI has prohibited PAs from allowing online transactions to be done with ATM pin as the second factor of authentication, which few payment gateway companies were offering as a service.

QUESTION: Consider the following statements regarding ‘Consumers International (CI)’:

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

- 1. It is the membership organisation for consumer groups initiated by the World Economic Forum.**
- 2. It is the only independent and authoritative global voice for consumers and has over 250 member organisations in 120 countries around the world.**

Correct codes:

- (A) 1 only**
- (B) 2 only**
- (C) Both 1 and 2**
- (D) Neither 1 nor 2**

Ans: (B) 2 only

Consumers International is the membership organisation for consumer groups around the world. Founded on 1 April 1960, it has over 250 member organisations in 120 countries. Its head office is based in London, England, with regional offices in Latin America, Asia Pacific, Middle East and Africa.

WCRD was first observed on 15 March 1983, and has since become an important occasion for mobilising citizen action.

Consumers International (CI), which was founded in 1960 organises WCRD. It is the only independent and authoritative global voice for consumers and has over 250 member organisations in 120 countries around the world.

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

This year's World Consumer Rights Day was observed recently.

QUESTION: Consider the following statements regarding to 'Tech For Tribals' initiative:

1. TRIFED Launches transformational "Tech For Tribals" program in partnership with Institutes of National Importance (INIs) to develop Tribal entrepreneurship.
2. It is an initiative to provide access to the Internet in tribal areas.
3. It is supported by Ministry of MSME.

Correct codes:

- (A) 2 and 3 only
- (B) 1 and 3 only
- (C) 1 only
- (D) 1, 2 and 3

Ans: (B) 1 and 3 only

TRIFED Launches transformational "Tech For Tribals" program in partnership with Institutes of National Importance (INIs) to develop Tribal entrepreneurship.

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

It aims to transform 5 crore Tribal Entrepreneurs.

It is supported by Ministry of MSME.

It also aims at capacity building and imparting entrepreneurship skills to tribal forest produce gatherers enrolled under the Pradhan Mantri VanDhan Yojana (PMVDY).

It is a recent initiative.

QUESTION: Consider the following statements regarding Modified Electronics Manufacturing Clusters (EMC 2.0) Scheme:

1. It is a scheme by the Ministry of Science and Technology.
2. It would support setting up of both Electronics Manufacturing Clusters (EMCs) and Common Facility Centers (CFCs).

Correct codes:

- (A) 1 only
- (B) 2 only
- (C) Both 1 and 2

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

(D) Neither 1 nor 2

Ans: (B) 2 only

The scheme provides for the development of world-class infrastructure along with common facilities and amenities through Electronics Manufacturing Clusters (EMCs).

The Scheme would support setting up of both Electronics Manufacturing Clusters (EMCs) and Common Facility Centers (CFCs).

It is a scheme by the Ministry of Electronics and Information Technology

Cabinet recently approves Modified Electronics Manufacturing Clusters (EMC 2.0) Scheme.

QUESTION: Consider the following statements regarding Extradition treaties, which were recently seen in the news:

1. Cabinet approves signing and ratifying of the Extradition Treaty between India and Belgium.
2. An extradition request can only be initiated in the stage of the investigation.
3. Offences relating to taxation, or revenue or is one of a fiscal character do not fall under the scope of the Extradition treaty.

Select the correct codes given below:



EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

(A) 1 only

(B) 2 and 3 only

(C) 1 and 3 only

(D) 1, 2 and 3

Ans: (A) 1 only

An extraditable offence means an offence punishable under the laws of both the Parties with imprisonment for a period of one year or more severe punishment.

Duration of the sentence: Where extradition is sought in respect of a convicted person, the duration of the sentence remaining to be served must be at least six months at the time of making the request.

Offences relating to taxation, or revenue or is one of a fiscal character also fall within the scope of this Treaty.

An Extradition request for an accused can be initiated in the case of under-investigation, under-trial and convicted criminals. In cases under investigation, abundant precautions have to be exercised by the law enforcement agency to ensure that it is in possession of prima facie evidence to sustain the allegation before the Courts of Law in the Foreign State.

Cabinet approves signing and ratifying of the Extradition Treaty between India and Belgium.

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

QUESTION: Consider the following statements regarding World Tuberculosis Day 2020:

1. India aims to eliminate TB by 2025.
2. It is observed on March 24th every year.
3. The theme of World TB Day 2020 is “It’s TIME”.

Correct codes:

- (A) 1 and 2 only
- (B) 2 only
- (C) 3 only
- (D) 1, 2 and 3

Ans: (D) 1 , 2 and 3

World Tuberculosis (TB) Day is observed on March 24 to raise public awareness about the devastating health, social and economic consequences of TB, and to step up efforts to end the global TB epidemic.

The date marks the day in 1882 when Dr Robert Koch announced that he had discovered the bacterium that causes TB, which opened the way towards diagnosing and curing this disease.

The theme of World TB Day 2020 is “It’s TIME”.

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

India aims to eliminate TB by 2025. UN aims to eliminate TB by 2030.

QUESTION: Recently, Kurzarbeit scheme was seen in the news. It is related to:

- (A) River cleaning initiative by the Netherlands
- (B) It is a joint initiative by India and Israel for the development of science education in India
- (C) Covid19 handling initiative in France
- (D) short-time work allowance in Germany.

Ans: (D) short-time work allowance in Germany.

Kurzarbeit is German for “short-work”.

The policy provides for a short-time work allowance, called kurzarbeitgeld, which partially compensates for lost earnings during uncertain economic situations.

The policy was rolled out during the 2008 economic crisis while its origins date back as far as the early 20th century, before and after World War I.

Amid the all-round disruption caused to the economy by the novel coronavirus outbreak, a concern across the world is the possibility of loss of jobs. Germany’s Kurzarbeit is being mentioned time and again in this context. Also, the

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

German cabinet is planning to extend the benefit of short-time work allowance by the first half of April through legislation.

QUESTION: MSP for Minor Forest Produces is revised once in every three years by the Pricing Cell constituted under the :

- (A) Ministry of Commerce and Industries
- (B) Ministry of Agriculture
- (C) TRIFED
- (D) Ministry of Tribal Affairs

Ans: (D) Ministry of Tribal Affairs

The Union Cabinet, in 2013, approved a Centrally Sponsored Scheme for the marketing of non-nationalized / non monopolized Minor Forest Produce (MFP) and development of a value chain for MFP through Minimum Support Price (MSP).

This was a measure towards social safety for MFP gatherers, who are primarily members of the Scheduled Tribes (STs) most of them in Left Wing Extremism (LWE) areas.

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

MSP for Minor Forest Produces is revised once in every three years by the Pricing Cell constituted under the Ministry of Tribal Affairs

The Union government's 'mechanism for marketing of minor forest produce (MFP) through minimum support price (MSP) and development of value chain for MFP' scheme can offer respite to forest-dependent labourers in the wake of novel coronavirus (COVID-19) outbreak, according to experts.

QUESTION: Consider the following statements regarding Prime Minister's National Relief Fund (PMNRF):

- 1. It was first established in 1998 by then Prime minister Atal Bihari Vajpayee.**
- 2. Prime Minister is the Chairman of PMNRF and is assisted by Officers/ Staff on an honorary basis.**
- 3. It is constituted by the Parliament Select the correct codes given below:**

- (A) 2 only**
- (B) 1 and 3 only**
- (C) 2 and 3 only**
- (D) 1, 2 and 3**

Ans: (A) 2 only

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

In pursuance of an appeal by the then Prime Minister, Pt. Jawaharlal Nehru in January 1948, the Prime Minister's National Relief Fund (PMNRF) was established with public contributions to assist displaced persons from Pakistan.

Disbursements are made with the approval of the Prime Minister.

PMNRF has not been constituted by the Parliament.

The fund is recognized as a Trust under the Income Tax Act and the same is managed by Prime Minister or multiple delegates for national causes.

PMNRF is exempt under the Income Tax Act.

Prime Minister is the Chairman of PMNRF and is assisted by Officers/ Staff on an honorary basis.

The Vice President of India and the Chairman Rajya Sabha, Shri M Venkaiah Naidu has contributed a sum equivalent to a month's salary to the Prime Minister's National Relief Fund (PMNRF) to strengthen the government's efforts in combating COVID-19 outbreak in the country.

QUESTION: Consider the following statements regarding Business Immunity Platform:

1. This platform is designed as a comprehensive resource to help businesses and investors get real-time updates on India's active response to COVID-19 (Coronavirus).
2. It is launched by Invest India.

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

Select the correct codes given below:

- (A) 1 only
- (B) 2 only
- (C) Both 1 and 2
- (D) Neither 1 nor 2

Ans: (C) Both 1 and 2

The platform is designed as a comprehensive resource to help businesses and investors get real-time updates on India's active response to COVID-19 (Coronavirus).

This dynamic and constantly updating platform keeps a regular track on developments with respect to the virus, provides the latest information on various central and state government initiatives, gives access to special provisions, and answers and resolves queries through emails and on WhatsApp

Invest India is the National Investment Promotion and Facilitation Agency of India, set up as a non-profit venture under the aegis of Department of Industrial Policy & Promotion, Ministry of Commerce and Industry, Government of India.

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

QUESTION: Recently, Companies Fresh Start Scheme, 2020, was seen in the news. It has been initiated by:

- (A) NITI Aayog**
- (B) The National Stock Exchange of India Limited**
- (C) Ministry of Finance**
- (D) Ministry of Corporate Affairs**

Ans: (D) Ministry of Corporate Affairs

Ministry of Corporate Affairs introduces the “Companies Fresh Start Scheme, 2020” and revised the “LLP Settlement Scheme, 2020” to provide relief to law-abiding companies and Limited Liability Partnerships (LLPs) in the wake of COVID 19.

These schemes incentivise compliance and reduce compliance burden during the unprecedented public health situation caused by COVID-19.

The schemes provide a one-time waiver of additional filing fees for delayed filings by the companies or LLPs with the Registrar of Companies during the currency of the Schemes, i.e. during the period started from 1st April, 2020 and ended on 30th September 2020.

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

QUESTION: Consider the following statements regarding NIDHI program (National Initiative for Developing and Harnessing Innovations):

1. It is launched by the Department of Science and Technology.
2. It aims to accelerate the journey of idea to prototype by providing initial funding assistance.

Select the correct codes given below:

- (A) 1 only
- (B) 2 only
- (C) Both 1 and 2
- (D) Neither 1 nor 2

Ans: (C) Both 1 and 2

Department of Science & Technology has launched a NIDHI program (National Initiative for Developing and Harnessing Innovations) under which programmes for setting up of incubators, seed fund, accelerators and 'Proof of concept' grant for innovators and entrepreneurs have been launched.

Its objectives are:

To take forward student innovations in IEDC / NewGen IEDC programme to commercialization stage.

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

To promote student startups.

To accelerate the journey of idea to prototype by providing initial funding assistance.

A new technology has been adopted by the Maharashtra hospitals in the fight of COVID-19 fight. The technology was developed by a Pune based Start Up.

The product is named “Scitech Airon”. It is a Negative Ion Generator.

The technology has been developed under the NIDHI PRAYAS program initiated by the Department of Science and Technology (DST).

QUESTION: Consider the following statements regarding ‘Ways and Means Advances’ (WMA) by RBI:

1. They are temporary loan facilities provided by RBI to the government to enable it to meet temporary mismatches between revenue and expenditure.
2. It is free of interest rates.
3. The limits for WMA are mutually decided by the RBI and the Government of India.

Select the correct codes given below:

(A) 1 and 3 only

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

(B) 2 and 3 only

(C) 1 only

(D) 1, 2 and 3

Ans: (A) 1 and 3 only

They are temporary loan facilities provided by RBI to the government to enable it to meet temporary mismatches between revenue and expenditure.

The government makes an interest payment to the central bank when it borrows money.

The rate of interest is the same as the repo rate, while the tenure is three months.

The limits for WMA are mutually decided by the RBI and the Government of India.

The Reserve Bank of India has raised the limit for short term credit that the government can borrow from the central bank.

The limits for this credit facility, known as 'Ways and Means Advances', has been raised sharply to Rs 1.2 lakh crore for the first half of 2020-21.

QUESTION: Which one of the following has initiated the GRACE-FO mission:

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

- (A) SpaceX**
- (B) JAXA**
- (C) NASA**
- (D) ROSCOSMOS**

Ans: (C) NASA

It was launched in March of 2002, and was a second mission under the NASA Earth System Science Pathfinder (ESSP) Program.

Aim of the GRACE mission was accurately mapping variations in Earth's gravity field.

GRACE consists of two identical spacecraft that fly about 220 kilometers apart in a polar orbit 500 kilometers above Earth.

GRACE maps Earth's gravity field by making accurate measurements of the distance between the two satellites, using GPS and a microwave ranging system.

New satellite-based, weekly global maps of soil moisture and groundwater wetness conditions were developed by US space agency National Aeronautics and Space Administration (NASA) and the University of Nebraska-Lincoln (UNL) on March 31, 2020.

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

Data available from NASA and German Research Center for Geosciences' Gravity Recovery and Climate Experiment Follow On (GRACE-FO) satellites was used to derive these global maps.

QUESTION: Consider the following statements regarding Asian Infrastructure Investment Bank (AIIB),

1. It is initiated by BRICS countries.
2. It is a multilateral development bank with a mission to improve social and economic outcomes in Asia and beyond
3. It is also called as Asian Development Bank.

Select the correct codes given below:

- (A) 1 and 2 only
- (B) 2 only
- (C) 2 and 3 only
- (D) 3 only

Ans: (B) 2 only

Asian Infrastructure Investment Bank (AIIB) is a multilateral development bank with a mission to improve social and economic outcomes in Asia and beyond.

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

It is headquartered in Beijing.

It commenced operations in January 2016.

By investing in sustainable infrastructure and other productive sectors today, it aims to connect people, services and markets that over time will impact the lives of billions and build a better future.

India recently sought \$6 billion loans from AIIB, ADB to combat COVID-19.

The central government is in talks with Asian Infrastructure Investment Bank (AIIB) and ADB to secure these loans to further the testing and infrastructure facilities in the country.

QUESTION: OBICUS survey on the manufacturing sector is published quarterly by

- (A) National Sample Survey Office
- (B) Central Statistics Office
- (C) NITI Aayog
- (D) Reserve Bank of India

Ans: (D) Reserve Bank of India

OBICUS survey on the manufacturing sector is published quarterly by the RBI since March 2008.

EKLAVYA 360°PRELIMS PROGRAM – TEST 6 Explanation

It provides an insight into the demand conditions faced by the Indian manufacturing sector.

It covers over 2500 public and private limited companies in the manufacturing sector.

The company-level data collected during the survey are treated as confidential and never disclosed.

The Reserve Bank of India has launched latest round of quarterly order books, inventories and capacity utilisation survey (OBICUS) of the manufacturing sector.