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Economy PYQs
With Explanation
2020-2025
UPSC Prelims

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Solved Economy Prelims PYQ
(2020-2025)
With Complete Explanation

Explanation from Standard Reference Text Books Referred by UPSC

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6 Year Solved Economy PYQs With Explanation 2020- 2025 UPSC Prelims

Contents

Solved UPSC Prelims Economy PYQs With Explanation 2025

1. With reference to investments, consider the following:
I. Bonds
II. Hedge Funds
III. Stocks
IV. Venture Capital
How many of the above are treated as Alternative Investment Funds?
(a) Only one
(b) Only two
(c) Only three
(d) All

1.Ans-b
Explanation
Alternate Investment Fund ("AIF")
Alternative Investment Fund or AIF means any fund established or incorporated in India **which is a privately pooled investment vehicle** which collects funds from sophisticated investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors.

Alternative Investment Funds can be of different types based on their investment strategy and types of assets under management

Venture Capital Fund (VCF)
VCF means "an AIF which invests primarily in unlisted securities of start-ups, emerging or early-stage venture capital undertakings mainly involved in new products, new services, technology or intellectual property right based activities or a new business model and shall include an angel fund.
Angel Fund
Angel Fund means "a sub-category of Venture Capital Fund under Category I AIF that raises funds from angel investors and invests in accordance with the SEBI (AIF) Regulations
Private Equity Fund
Private Equity Fund PE Fund means "an AIF which invests primarily in equity or equity linked instruments or partnership interests of investee companies according to the stated objective of the fund.
Special Situation Fund

Special Situation Fund means a Category I AIF that invests in special situation assets in accordance with its investment objectives and may act as a resolution applicant under the Insolvency and Bankruptcy Code, 2016

Debt Fund Debt

Debt Fund Debt Fund means "an AIF which invests primarily in debt securities of listed or unlisted investee companies or in securitised debt instruments according to the stated objectives of the Fund

Infrastructure Fund

Infrastructure Fund means "an AIF which invests primarily in unlisted securities or partnership interest or listed debt or securitised debt instruments of investee companies or special purpose vehicles engaged in or formed for the purpose of operating, developing or holding infrastructure projects

SME Fund

SME Fund means "an AIF which invests primarily in unlisted securities of investee companies which are SMEs or securities of those SMEs which are listed or proposed to be listed on a SME exchange or SME segment of an exchange

Hedge Fund

Hedge Fund means "an AIF which employs diverse or complex trading strategies and invests and trades in securities having diverse risks or complex products including listed and unlisted derivatives".

Social Venture Fund

Social Venture Fund means "an AIF which invests primarily in securities or units of social ventures and which satisfies social performance norms laid down by the fund and whose investors may agree to receive restricted or muted returns".

Social venture is a trust or society or company or venture capital undertaking or limited liability partnership formed with the purpose of promoting social welfare or solving social problems or providing social benefits.

Hence 2 and 4 are correct

Bond

A bond is a contract between the borrower (the issuer) and the lender (the investor). In other words, a bond allows a company to raise money from a large number of investors by breaking up the total amount borrowed into small, equal components. Investors can subscribe to these bonds as per their investible surplus.

Stocks

Stocks/Shares represent part-ownership in a business. Each shareholder holds ownership commensurate with the number of shares held in a company out of the total issued shares.

Stocks are financial securities representing ownership in companies , Stocks of company gets divided into shares i.e . a unit of stock is share .

2. Which of the following are the sources of income for the Reserve Bank of India?

I. Buying and selling Government bonds

II. Buying and selling foreign currency

III. Pension fund management

IV. Lending to private companies

V. Printing and distributing currency notes

Select the correct answer using the code given below:

(a) I and II only

(b) II, III and IV

(c) I, III, IV and V

(d) I, II and V

2.Ans-a

Explanation

The size of the Reserve Bank's balance sheet increased by 11.08 per cent for the year ended March 31, 2024. While income for the year increased by 17.04 per cent, expenditure decreased by 56.30 per cent. The year ended with an overall surplus of ₹2,10,873.99 crore as against ₹87,416.22 crore in the previous year, resulting in an increase of 141.23 per cent.

Trends in Income, Expenditure, Net Income and Surplus Transferred to the Central Government

(Amount in ₹ crore)

Item	2019-20	2020-21	2021-22	2022-23	2023-24
1	2	3	4	5	6
a) Income	1,49,672.46	1,33,272.75	1,60,112.13	2,35,457.26	2,75,572.32
b) Total Expenditure[1]	92,540.93[2]	34,146.75[3]	1,29,800.68[4]	1,48,037.04[5]	64,694.33[6]
c) Net Income (a-b)	57,131.53	99,126.00	30,311.45	87,420.22	2,10,877.99
d) Transfer to funds[7]	4.00	4.00	4.00	4.00	4.00
e) Surplus transferred to the Central Government (c-d)	57,127.53	99,122.00	30,307.45	87,416.22	2,10,873.99

RBI Expenditure

The Reserve Bank incurs expenditure in the course of performing its statutory functions by way of agency charges/commission, **printing of notes,** expenditure on remittance of currency, besides employee related and other expenses .

Hence 5 is incorrect

RBI Income

The components of Reserve Bank's income are **'Interest'** and

'Other Income' including

(i) Discount

(ii) Exchange

(iii) Commission

(iv) Amortisation of premium/ discount on Foreign and Rupee Securities

(v) Profit/ Loss on sale and redemption of Foreign and Rupee Securities
(vi) Depreciation on Rupee Securities inter portfolio transfer
(vii) Rent Realised
(viii) Profit/ Loss on sale of Bank's property, and
(ix) Provision no longer required and Miscellaneous Income.

Certain items of income interest on LAF repo, Repo in foreign security and exchange gain/ loss from foreign exchange transactions
Hence 1 and 2 are correct

Pension fund management and Lending to private companies are not functions of RBI
Hence 3 and 4 are incorrect

3) With reference to the Government of India, consider the following information:

	Organization	Some of its functions	It works under
I.	Directorate of Enforcement	Enforcement of the Fugitive Economic Offenders Act, 2018	Internal Security Division- I, Ministry of Home Affairs
II.	Directorate of Revenue Intelligence	Enforces the Provisions of the Customs Act, 1962	Department of Revenue, Ministry of Finance
III.	Directorate General of Systems and Data Management	Carrying out big data analytics to assist tax better policy and nabbing tax evaders	Department of Revenue, Ministry of Finance

In how many of the above rows is the information correctly matched?

(a) Only one
(b) Only two
(c) All the three
(d) None

3.Ans-a
Explanation

The Directorate of Enforcement or the ED under **Department of Revenue , Ministry of Finance** is a multi-disciplinary organization mandated with investigation of economic crimes and violations of foreign exchange laws.

With the onset of the process of economic liberalization, FERA, 1973, which was a regulatory law, was repealed and in its place, a new law viz. the Foreign Exchange Management Act, 1999 (FEMA) came into operation w.e.f. 1st June 2000. Further, in tune with the International Anti Money Laundering regime, the Prevention of Money Laundering Act, 2002 (PMLA) was enacted and ED was entrusted with its enforcement w.e.f. 1st July 2005. Recently, with the increase in number of cases relating to economic offenders taking shelter in foreign countries, the Government has passed the **Fugitive Economic Offenders Act, 2018 (FEOA) and ED is entrusted with its enforcement** with effect from 21st April, 2018

Hence 1st row is incorrectly matched

The Directorate of Revenue Intelligence is the apex anti-smuggling agency of India, working under the **Central Board of Indirect Taxes & Customs, Department of Revenue, Ministry of Finance,** Government of India. It is tasked with detecting and curbing smuggling of contraband, including drug trafficking and illicit international trade in wildlife and environmentally sensitive items, as well as combating commercial frauds related to international trade and evasion of Customs duty. Its mandate includes detecting and preventing the smuggling of contraband such as drugs, illicit wildlife products, and environmentally sensitive items, as well as tackling commercial frauds and **Customs duty evasion under the Customs Act, 1962.**
Hence 2nd row is correctly matched

The **Central Board of Indirect Taxes & Customs, Department of Revenue, Ministry of Finance,** has initiated a number of projects aimed at harnessing Information & Communication Technology (ICT) The DG (Systems& Data Management) has been entrusted with the implementation of the projects related to Information & Communication Technology.

The Directorate General of Systems & Data Management

- is responsible for the design, development, programming, testing, implementation and maintenance of Customs and Central Excise automated systems, and for overseeing and managing the projects sanctioned by CBIC related to IT.
- is responsible for the management of all Centrally deployed Customs and Central Excise computer facilities, hardware, software, data communications
- in the automated environment, acts as a point of reference and validation concerning procedural changes in Customs and Central Excise, in addition to being a resource centre on business process issues.
- is responsible for identifying and evaluating new technologies for application to automated systems within the department.
- is responsible for developing and maintaining all policy and subsequently, on the implementation of centralized systems, the operational aspects of the Department's Computer Security.

- Establishes requirements for computer-to-computer interfaces between the department and various trading partners and government agencies
- Represents Customs and Central Excise on matters related to automated processing and systems development
- Implements information resource and data management

Directorate General of Systems & Data Management is not associatedwith big data analytics
Hence 3rd row is incorrectly matched

4. Consider the following statements:
I. The Reserve Bank of India mandates all the listed companies in India to submit a Business Responsibility and Sustainability Report (BRSR).
II. In India, a company submitting a BRSR makes disclosures in the report that are largely non-financial in nature.
Which of the statements given above is/are correct?
(a) I only
(b) II only
(c) Both I and II
(d) Neither I nor II

4.Ans-b
Explanation
Securities and Exchange Board of India (SEBI) has introduced the Business Responsibility and Sustainability Reporting (BRSR) guidelines for listed companies.
Hence, statement 1 is incorrect.
Business Responsibility and Sustainability Reporting (BRSR) is an integrated reporting framework. Its purpose is to increase the level of reporting on environmental, social, and governance (ESG) performance. BRSR requires enterprises to report ESG performance indicators to ensure that they practise responsible business and achieve sustainable development.
Hence, statement 2 is correct.

5. Consider the following statements:
Statement I: In India, income from allied agricultural activities like poultry farming and wool rearing in rural areas is exempted from any tax.
Statement II: In India, rural agricultural land is not considered a capital asset under the provisions of the Income-tax Act, 1961.
Which one of the following is correct in respect of the above statements?
(a) Both Statement I and Statement II are correct and Statement II explains Statement I
(b) Both Statement I and Statement II are correct but Statement II doesnot explain Statement I
(c) Statement I is correct but Statement II is not correct
(d) Statement I is not correct but Statement II is correct

5.Ans-d

Explanation

Agricultural income is exempted from tax under the Income-tax Act, 1961. It is important to note that income from allied agricultural activities like poultry farming, wool rearing, etc. are not considered as agricultural income. Hence, tax may be levied on incomes from such activities. However, many states levy a tax on agricultural income as per their respective State's policy

Hence, statement 1 is incorrect.

Agricultural land in rural areas in India is not considered a capital asset under section 45 of the Income-tax Act,1961. Therefore any gains from its sale are not taxable under the head 'Capital Gains'.

Hence, statement 2 is correct.

6.Consider the following statements:

I. India has joined the Minerals Security Partnership as a member.
II. India is a resource-rich country in all the 30 critical minerals that it has identified.
III. The Parliament in 2023 has amended the Mines and Minerals (Development and Regulation) Act, 1957 empowering the Central Government to exclusively auction mining lease and composite license for certain critical minerals.

Which of the statements given above are correct?

(a) I and II only
(b) II and III only
(c) I and III only
(d) I, II and III

6.Ans-c

Explanation

Mineral Security Partnership (MSP)- It is a US-led collaboration of 23 countries that aims to catalyse public and private investment in critical mineral supply chains globally.

India's inclusion assumes significance given that one of the key elements is the ambitious shift in the mobility space through the conversion of a large part of public and private transport to electric vehicles.

Hence, statement 1 is correct.

A total of 30 minerals were found to be most critical for India , India is 100% import-dependent for certain elements.

Hence, statement 2 is incorrect.

Amended Mines and Minerals (Development and Regulation) Act, 1957 empowers the Central Government to exclusively auction mining lease and composite licence for certain critical minerals .

Hence, statement 3 is correct.

7.Consider the following statements:

Statement I: As regards returns from an investment in a company, generally, bondholders are considered to be relatively at lower risk than stockholders.
Statement II: Bondholders are lenders to a company whereas stockholders are its owners.
Statement III: For repayment purpose, bondholders are prioritized over stockholders by a company.
Which one of the following is correct in respect of the above statements?
(a) Both Statement II and Statement III are correct and both of them explain Statement I
(b) Both Statement I and Statement II are correct and Statement I explains Statement II
(c) Only one of the Statements II and III is correct and that explains Statement I
(d) Neither Statement II nor Statement III is correct

7.Ans-a
Explanation
Bond
A bond is a contract between the borrower (the issuer) and the lender (the investor). In other words, a bond allows a company to raise money from a large number of investors by breaking up the total amount borrowed into small, equal components. Investors can subscribe to these bonds as per their investible surplus.
Bondholders are providing capital to a company in return for interest payments. Bonds inherently carry **less risk compared to stocks.**.
Stocks
Stocks and shares represent partial ownership in a business. Each shareholder's ownership stake is proportional to the number of shares they own relative to the total issued shares of the company.
Stocks are financial securities representing ownership in companies , Stocks of company gets divided into shares i.e . a unit of stock is share .
Investing in stocks offers shareholders the potential for profit through capital appreciation and income through dividends, although it does **carry a higher level of risk.**
Hence Both Statement II and Statement III are correct and both of them explain Statement I

8.Consider the following statements:
I. India accounts for a very large portion of all equity option contracts traded globally thus exhibiting a great boom.
II. India's stock market has grown rapidly in the recent past even overtaking Hong Kong's at some point of time.
III. There is no regulatory body either to warn the small investors about the risks of options trading or to act on unregistered financial advisors in this regard.
Which of the statements given above are correct?
(a) I and II only
(b) II and III only
(c) I and III only
(d) I, II and III

8.Ans-a

Explanation

Equity options trading in India has cooled this year after exponential growth since the pandemic. Fees from options traded on the NSE grew just 2% this year through April, sharply lower than the 92% growth in the same period last year, according to exchange data.

The slowdown was triggered by Sebi, which imposed several restrictions on trading options including higher minimum investment limits and an increase in lot sizes since November to protect retail traders — 90% of whom lost money trading options.

Hence, statement 1 is correct & statement 3 is incorrect

In mid-September 2024 India had market cap 17 per cent higher than Hong Kong's. Now, Hong Kong's market cap exceeds India's .

Hence statement 2 is correct

9.Consider the following statements:

Statement I: Circular economy reduces the emissions of greenhouse gases.

Statement II: Circular economy reduces the use of raw materials as inputs.

Statement III: Circular economy reduces wastage in the production process.

Which one of the following is correct in respect of the above statements?

(a) Both Statement II and Statement III are correct and both of them explain Statement I

(b) Both Statement II and Statement III are correct but only one of them explains Statement I

(c) Only one of the Statements II and III is correct and that explains Statement I

(d) Neither Statement II nor Statement III is correct

9.Ans-a

Explanation

Our current economic system can be considered a "linear economy", built on a model of extracting raw materials from nature, turning them into products, and then discarding them as waste. Currently, only 7.2 percent of used materials are cycled back into our economies after use. This has a significant burden on the environment and contributes to the climate, biodiversity, and pollution crises.

Circular economy refers to a system that aims to minimize the use of energy, natural resources, and waste generation by closing loops of utilities and materials flows. It involves minimizing inputs of raw materials, reducing waste outputs, and reintegrating products into the system when they reach the end of their life .

For Example - In buildings and construction, circular solutions can include reducing virgin material use, re-using existing materials in circulation, or substituting carbon-intensive materials for regenerative alternatives such as timber.

Besides helping tackle the problem of pollution, circular economy can play a critical role in solving other complex challenges such as climate change and biodiversity loss.

Hence, statement 2 is correct & statement 3 is correct and explain statement 1

10. Consider the following statements:
I. Capital receipts create a liability or cause a reduction in the assets of the Government.
II. Borrowings and disinvestment are capital receipts.
III. Interest received on loans creates a liability of the Government.
Which of the statements given above are correct?
(a) I and II only
(b) II and III only
(c) I and III only
(d) I, II and III

10.Ans-a
Explanation
Capital Receipts- All those receipts of the government which create liability or reduce financial assets are termed as capital receipts.
Capital Receipts include recovery of loans , Borrowings and other liabilities, Other receipts (mainly PSU disinvestment)
Hence, statements 1& 2 are correct
Revenue Receipts: Revenue receipts are those receipts that do not lead to a claim on the government.They are divided into tax and non-tax revenues. Non-tax revenue of the central government mainly consists of interest receipts on account of loans by the central government, dividends and profits on investments made by the government, fees and other receipts for services rendered by the government. Cash grants-in-aid from foreign countries and international organisations are also included
Hence, statement 3 is incorrect

11.Suppose the revenue expenditure is Rs.80,000 crores and the revenue receipts of the Government are Rs.60,000 crores. The Government budget also shows borrowings of Rs.10,000 crores and interest payments of Rs.6,000 crores.
Which of the following statements are correct?
I. Revenue deficit is Rs.20,000 crores.
II. Fiscal deficit is Rs.10,000 crores.
III. Primary deficit is Rs.4,000 crores.
Select the correct answer using the code given below.
(a) I and II only
(b) II and III only
(c) I and III only
(d) I, II and III

11.Ans-d

Explanation

Revenue Deficit: The revenue deficit refers to the excess of government's revenue expenditure over revenue receipts

Revenue deficit = Revenue expenditure – Revenue receipts (60000-80000cr)= 20000 crore

Hence statement 1 is correct

Fiscal Deficit: Fiscal deficit is the difference between the government's total expenditure and its total receipts excluding borrowing

The fiscal deficit will have to be financed through borrowing. Thus, it indicates the total borrowing requirements of the government from all sources = Rs.10,000 crore

Hence statement 2 is correct

Primary Deficit: We must note that the borrowing requirement of the government includes interest obligations on accumulated debt. The goal of measuring primary deficit is to focus on present fiscal imbalances. To obtain an estimate of borrowing on account of current expenditures exceeding revenues, we need to calculate what has been called the primary deficit. It is simply the fiscal deficit minus the interest payments = Rs.10,000 crore - Rs.6000 crore = Rs.4,000 crore

Hence statement 3 is correct

12.A country's fiscal deficit stands at Rs.50,000 crores. It is receiving Rs.10,000 crores through non-debt creating capital receipts. The country's interest liabilities are Rs.1,500 crores. What is the gross primary deficit?

(a) Rs.48,500 crores
(b) Rs.51,500 crores
(c) Rs.58,500 crores
(d) None of the above

12.Ans-a

Explanation

Gross primary deficit = Gross fiscal deficit – Net interest liabilities (50000-1500=48500 crore)

Net interest liabilities consist of interest payments minus interest receipts by the government on net domestic lending

13. Which of the following statements with regard to recommendations of the 15th Finance Commission of India are correct?

I. It has recommended grants of ₹ 4,800 crores from the year 2022-23 to the year 2025-26 for incentivizing States to enhance educational outcomes.

II. 45% of the net proceeds of Union taxes are to be shared with States.
III. ₹ 45,000 crores are to be kept as performance-based incentive for all States for carrying out agricultural reforms.
IV. It reintroduced tax effort criteria to reward fiscal performance.
Select the correct answer using the code given below.
(a) I, II and III
(b) I, II and IV
(c) I, III and IV
(d) II, III and IV

13.Ans-c
Explanation
XVFC has recommended grants of Rs. 4,800 crore (Rs. 1,200 crore each year) from 2022-23 to 2025-26 for incentivising the States to enhance educational outcomes.
Hence statement 1 is correct
45000 crore for implementation of agricultural reforms
Hence statement 3 is correct
XVFC has recommended maintaining the vertical devolution at 41 per cent – the same as in our report for 2020-21. It is at the same level of 42 per cent of the divisible pool as recommended by FC-XIV. However, it has made the required adjustment of about 1 per cent due to the changed status of the erstwhile State of Jammu and Kashmir into the new Union Territories of Ladakh and Jammu and Kashmir.
Hence statement 2 is incorrect

Horizontal devolution:
Based on principles of need, equity and performance, overall devolution formula is as follows.

Criteria	Weight (%)
Population	15.0
Area	15.0
Forest & ecology	10.0
Income distance	45.0

Tax & fiscal efforts	2.5
Demographic performance	12.5
Total	**100**

Hence statement 4 is correct

14. Consider the following statements in respect of the International Bank for Reconstruction and Development (IBRD) :
I. It provides loans and guarantees to middle income countries.
II. It works single-handedly to help developing countries to reduce poverty.
III. It was established to help Europe rebuild after the World War II.
Which of the statements given above are correct?
(a) I and II only
(b) II and III only
(c) I and III only
(d) I, II and III

14.Ans-c
Explanation
The International Bank for Reconstruction and Development (IBRD) is a global development cooperative owned by 189 member countries.
As the largest development bank in the world, it supports the World Bank Group's mission by providing loans, guarantees, risk management products, and advisory services to **middle-income and creditworthy low-income countries,** as well as by coordinating responses to regional and global challenges.
Hence statement 1 is correct
Created in 1944 to help Europe rebuild after World War II, IBRD joins with IDA, fund for the poorest countries, to form the World Bank.
Hence statement 3 is correct
They work closely with all institutions of the World Bank Group and the public and private sectors in developing countries to reduce poverty and build shared prosperity.
Hence statement 2 is incorrect

15. Consider the following statements in respect of RTGS and NEFT :

I. In RTGS, the settlement time is instantaneous while in case of NEFT, is takes some time to settle payments.
II. In RTGS, the customer is charged for inward transactions while that is not the case for NEFT.
III. Operating hours for RTGS are restricted on certain days while this is not true for NEFT.
Which of the statements given above is/are correct?
(a) I only
(b) I and II
(c) I and III
(d) III only

15.Ans-a
Explanation
The acronym 'RTGS' stands for Real Time Gross Settlement, which can be explained as a system where there is continuous and **real-time settlement of fund-transfers**, individually on a transaction-by-transaction basis (without netting). 'Real Time' means the processing of instructions at the time they are received; 'Gross Settlement' means that the settlement of funds transfer instructions occurs individually.
Funds settlement takes place in the books of the Reserve Bank of India (RBI), the payments are final and irrevocable.
RTGS is available 24x7x365 with effect from December 14, 2020.
The RTGS system is primarily meant for large value transactions. The minimum amount to be remitted through RTGS is ₹ 2,00,000/- with no upper or maximum ceiling.
service charges levied by banks for offering funds transfer through RTGS system, a broad framework of charges has been mandated as under:
a) **Inward transactions – Free, no charge to be levied.** ***Hence statement 2 is incorrect***
b) Outward transactions – ₹ 2,00,000/- to 5,00,000/-: not exceeding ₹ 25/- (exclusive of tax, if any)
Above ₹ 5,00,000/-: not exceeding ₹ 50 (exclusive of tax, if any)
Banks may decide to charge a lower rate but cannot charge more than the rates prescribed by RBI.
.
National Electronic Funds Transfer (NEFT) is an electronic fund transfer system in which the transactions received up to a particular time are processed in batches. Contrary to this, in RTGS, the transactions are processed continuously on a transaction-by-transaction basis throughout the day.
The NEFT system is available round the clock throughout the year on all days, i.e., on 24x7x365 basis. NEFT presently operates in batches on half-hourly intervals throughout the day. **So its not instant like RTGS , it takes some time .**

Hence statement 1 is correct

Besides funds transfer, NEFT system can be used for a variety of transactions including payment of credit card dues to the card issuing banks, payment of loan EMI, inward foreign exchange remittances, etc.

Customer charges levied by bank for NEFT transactions

There are no charges to be levied for inward transactions at destination bank branches for giving credit to beneficiary accounts.

For outward transactions undertaken using the NEFT system, RBI stopped levying processing charges on member banks from July 01, 2019.

Also, in order to give further impetus to digital retail payments, banks have been advised to not levy any charges from their savings bank account holders for NEFT funds transfers initiated online with effect from January 01, 2020.

The maximum charges which originating bank can be levy from its customers for other outward transactions, if they so desire, are given below: –

- For transactions up to ₹10,000 : not exceeding ₹2.50 (+ Applicable GST)
- For transactions above ₹10,000 up to ₹1 lakh: not exceeding ₹5 (+ Applicable GST)
- For transactions above ₹1 lakh and up to ₹2 lakhs: not exceeding ₹15 (+ Applicable GST)
- For transactions above ₹2 lakhs: not exceeding ₹25 (+ Applicable GST)

Hence statement 3 is incorrect

16. Consider the following countries :

I. United Arab Emirates
III. France
III. Germany
IV. Singapore
V. Bangladesh

How many countries amongst the above are there other than India where international merchant payments are accepted under UPI?

(a) Only two
(b) Only three
(c) Only four
(d) All the five

16.Ans-b

Explanation

NPCI has launched UPI Global Acceptance (International Merchant Payments), a feature that enables users to make QR code-based payments at select international merchant locations directly from their Indian bank accounts via UPI-powered applications.

List of countries where international merchant payments are accepted at select merchant outlets - Bhutan , **France** , Mauritius , Nepal , **Singapore** , Srilanka , **UAE**

17. Consider the following statements about 'PM Surya Ghar Muft Bijli Yojana' :

I. It targets installation of one crore solar rooftop panels in the residential sector.

II. The Ministry of New and Renewable Energy aims to impart training on installation, operation, maintenance and repairs of solar rooftop systems at grassroot levels.

III. It aims to create more than three lakhs skilled manpower through fresh skilling, and upskilling, under scheme component of capacity building.

Which of the statements given above are correct?

(a) I and II only

(b) I and III only

(c) II and III only

(d) I, II and III

17.Ans-d

Explanation

The PM Surya Ghar: Muft Bijli Yojana, the world's largest domestic rooftop solar initiative, is transforming India's energy landscape with a bold vision to supply solar power to one crore households by March 2027.

The Ministry of New and Renewable Energy (MNRE) intends to impart training on installation, operation, maintenance and repairing of solar roof top systems at grass root level.

Aims to create more than 3 lakh skilled manpower, through fresh skilling, and up-skilling, under scheme component of capacity building, out of which at least 1,00,000 will be Solar PV Technicians.

Hence statements 1,2& 3 are correct

Previous Year UPSC Economy Questions (PYQs) With Explanation 2024

There were 14 Questions from Economy in 2024, of which

- **5 Questions on Economy Basics (TFR, Financial Instruments, Sectors of economy, Fixed Capital, US Treasury Bonds)**
- **3 Questions on Banking (Digital Rupee, Syndicated lending, Banking Subsidiaries)**
- **2 Questions on Capital Market (Stock exchange, G-secs)**
- **1 Question on Money Market (CBLO)**
- **1 Question on International Institutions (Grain Council)**
- **1 Question on Foreign Trade (USA Imports)**
- **1 Question on Corporate Social Responsibility**

Examiner tested candidates' knowledge of basic concepts and understanding of current issues in Economy.

The level of the questions was easy to moderate.

1. With reference to the Indian economy, "Collateral Borrowing and Lending Obligations" are the instruments of:

(a) Bond market
(b) Forex market
(c) Money market
(d) Stock market

1. Ans: c
Explanation:
Collateralized Borrowing and Lending Obligations (CBLOs):
The Clearing Corporation of India Ltd. (CCIL) has developed and introduced with effect from January 20, 2003 a money market instrument called Collateralised Borrowing and Lending Obligation (CBLO)

CBLO represents an obligation between a borrower and a lender concerning the terms and conditions of a loan. CBLOs allow those restricted from using the interbank call money market in any given specific country to participate in the short-term money markets.
CBLOs in India are operated by the Clearing Corporation of India Ltd. (CCIL) and the Reserve Bank of India (RBI). CBLOs allow short-term loans to be secured by financial institutions, helping to cover their transactions. To access these funds, the institution must provide eligible securities as collateral—such as Treasury Bills that are at least six months from maturity.Since the repayment of loans is guaranteed by the CCIL, all borrowings are fully collateralized.

Bond Market
A bond is a debt instrument in which an investor loans money to an entity (typically corporate or government) which borrows the funds for a defined period of time at a variable or fixed interest rate. Bonds are used by companies, municipalities, states and sovereign governments to raise money to finance a variety of projects and activities. Owners of bonds are debt holders, or creditors, of the issuer.

A bond investor lends money to the issuer and in exchange, the issuer promises to repay the loan amount on a specified maturity date. The various types of Bonds are as follows.

a) Coupon Bond : These are the normal bonds on which the issuer pays the investor interest at predetermined rate (known as coupon) at agreed intervals , normally twice a year.

b) Zero Coupon Bond: Bond issued at a discount and repaid at a face value. No periodic interest is paid. The buyer of these bonds receives only one payment, at the maturity of the bond.

Stock Market: Industrial securities market refers to the market for shares and debentures of old and new companies. The market is further divided into.

i) Primary market: Primary market/New issue market deals with new securities (IPO/Rights issue). It is market for raising fresh shares or debentures.

ii) Secondary market/Stock market: Secondary market or stock market is the market for buying and selling securities of the existing companies.

Money Market: The Money Market is basically concerned with the issue and trading of securities with short term maturities or quasi-money instruments. The Instruments traded in the money-market are Treasury Bills, Certificates of Deposits (CDs), Commercial Paper (CPs), Bills of Exchange and other such instruments of short-term maturities (i.e., not those exceeding 1 year with regard to the original maturity

Forex Exchange Market: The foreign exchange market (also referred to as the forex or currency market) is the marketplace for exchanging currencies between all stakeholders such as governments, central and commercial banks, firms, forex dealers, brokers and individuals. Such players can use the market for trading, hedging and speculating in currencies as well as obtaining credit.

Hence, option c is correct.

2. The total fertility rate in an economy is defined as:

(a) the number of children born per 1000 people in the population in a year.

(b) the number of children born to a couple in their lifetime in a given population.

(c) the birth rate minus the death rate.

(d) the average number of live births a woman would have by the end of her child-bearing age.

2. Ans: d

Explanation:

Total Fertility Rate

The total fertility rate in a specific year is defined as the total number of children that would be born to each woman if she were to live to the end of her child-bearing years and give birth to children in alignment with the prevailing age-specific fertility rates.
It is calculated by totalling the age-specific fertility rates as defined over five-year intervals.
Assuming no net migration and unchanged mortality, a total fertility rate of 2.1 children per woman ensures a broadly stable population.
Together with mortality and migration, fertility is an element of population growth, reflecting both the causes and effects of economic and social developments.
The reasons for the dramatic decline in birth rates during the past few decades include postponed family formation and child-bearing and a decrease in desired family sizes. This indicator is measured in children per woman.
Hence, option d is correct.

3. Consider the following statements:

1. In India, Non-Banking Financial Companies can access the Liquidity Adjustment Facility window of the Reserve Bank of India.

2. In India, Foreign Institutional Investors can hold Government Securities (G-Secs).

3. In India, Stock Exchanges can offer separate trading platforms for debts.

Which of the statements given above is/are correct?

(a) 1 and 2 only

(b) 3 only

(c) 1, 2 and 3

(d) 2 and 3 only

3. Ans: c
Explanation:
SCHEME OF LIQUIDITY ADJUSTMENT FACILITY:
Under the scheme, (i) Repo auctions (for absorption of liquidity) and (ii) Reverse Repo auctions (for injection of liquidity) will be conducted on a daily basis
Eligibility : All Scheduled Commercial Banks (**excluding Regional Rural Banks**) and **Primary Dealers (PDs)** having Current Account and Subsidiary General Ledger account (SGL) with RBI, Mumbai will be eligible to participate in the Repo and Reverse Repo auctions.
However , Under the Targeted Long-Term Repo Operations (TLTRO) , the RBI has mandated that banks availing the TLTRO facility should provide at least half of the amount to small NBFCs and MFIs.
Hence, statement 1 is correct.

G-Secs market - Major players in the G-Secs market include **commercial banks and PDs besides institutional investors like insurance companies.** PDs play an important role as market makers in the

G-Secs market. Other participants include co-operative banks, regional rural banks, mutual funds, provident and pension funds.

Foreign Portfolio Investors (FPIs) are allowed to participate in the G-Secs market within the quantitative limits prescribed from time to time.
Corporates also buy/ sell the G-Secs to manage their overall portfolio.
Hence, statement 2 is correct.

As advised by SEBI, the stock exchanges (like NSE, BSE, and MCX) have been asked to create dedicated debt segments in their trading platforms. In compliance with this, stock exchanges have launched a **debt trading (G-Secs as also corporate bonds)** segment which generally caters to the needs of retail investors.
Hence, statement 3 is correct.

4. In India, which of the following can trade in Corporate Bonds and Government Securities?
1. Insurance Companies
2. Pension Funds
3. Retail Investors
Select the correct answer using the code given below:
(a) 1 and 2 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2 and 3

4. Ans :d
Explanation:
Corporate bonds are debt securities issued by private and public corporations. Companies issue corporate bonds to raise money for a variety of purposes, such as building a new plant, purchasing equipment, or growing the business, the holder of which receives interest from the corporation periodically for a fixed period of time and gets back the principal along with the interest due at the end of the maturity period.

The company which is planning to raise funds through corporate bonds will offer a public issue or a private placement. A **private placement** is usually made to **institutional investors** and not to retail investors. A **public issue** means an offer will be made to the **public** in genera (Retai lInvestors) to subscribe to the bonds.

Who can issue corporate bonds in India?
In India, both public and private companies can issue corporate bonds. A company incorporated in India, but part of a multinational group, can also issue corporate bonds. However, a company incorporated outside India cannot issue corporate bonds in India. A statutory corporation like LIC can also issue corporate bonds.

A **Government Security (G-Sec)** is a tradeable instrument issued by the Central Government or the State Governments. It acknowledges the Government's debt obligation. Such securities are short-term (usually called treasury bills, with original maturities of less than one year) or long-term (usually called Government bonds or dated securities with an original maturity of one year or more). In India, the Central Government issues both, treasury bills and bonds or dated securities while the State Governments issue only bonds or dated securities, which are called the State Development Loans (SDLs). G-Secs carry practically no risk of default and, hence, are called risk-free gilt-edged instruments.

G-Secs market - Major players in the G-Secs market include commercial banks and PDs besides institutional investors like **insurance companies.** PDs play an important role as market makers in the G-Secs market.Other participants include co-operative banks, regional rural banks, mutual funds, provident and **pension funds.**

Foreign Portfolio Investors (FPIs) are allowed to participate in the G-Secs market within the quantitative limits prescribed from time to time.

Corporates also buy/ sell the G-Secs to manage their overall portfolio.

Under **the retail direct scheme,** individuals can invest in the G-Secs market.
Hence, option d is correct.

5. Consider the following:
1. Exchange-Traded Funds (ETF)
2. Motor vehicles
3. Currency swap

Which of the above is/are considered financial instruments?
(a) 1 only
(b) 2 and 3 only
(c) 1, 2 and 3
(d) 1 and 3 only

5. Ans: d
Explanation:
A **financial instrument** is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

A contract or agreement representing a tradable asset, liability, or equity instrument in financial markets is a financial instrument.

Classification of Financial Instruments:-

Financial instruments can be divided into several types, each with a specific function.

Cash Instruments
These assets are easily convertible into cash and have a fixed value. Currency notes, bank deposits, and money market securities like Treasury bills are a few examples.

Debt Instruments
The loan an investor makes to an issuer in exchange for recurring interest payments; debt instruments represent the principal repayment. Examples include loans, mortgages, corporate debentures, and bonds.

Equity Instruments
Equity instruments reflect ownership in a business or enterprise and grant the holder voting rights and a share of the profits. Examples are equity mutual funds, **Exchange-traded Funds**, common stocks, and preferred stocks.

Derivative Instruments
An underlying asset, such as commodities, bonds, stocks, or currencies, gives derivatives their value. Examples include future contracts, **swaps**, options, and forwards.

Money Market Instruments
These financial instruments can borrow and lend money in the money market. They have a short-term maturity. Some examples are treasury bills and repurchase agreements.
Hence, option d is correct.

6. With reference to the sectors of the Indian economy, consider the following pairs:

	Economic activity	*Sector*
1.	Storage of agricultural produce	Secondary
2.	Dairy farm	Primary
3.	Mineral exploration	Tertiary
4.	Weaving cloth	Secondary

How many of the pairs given above are con-exactly matched?
(a) Only one
(b) Only two
(c) Only three
(d) All four

6. Ans:b

Explanation:

	Economic Activity	***Sector***
1.	Storage of agricultural produce	Tertiary
2.	Dairy farm	Primary
3.	Mineral exploration	Primary
4.	Weaving cloth	Secondary

Primary Sector - Activities that are undertaken by directly using natural resources. Take, for example, the cultivation of cotton. It takes place within a crop season. For the ***growth of the cotton plant***, we depend mainly, but not entirely, on natural factors like rainfall, sunshine and climate. The product of this activity, cotton, is a natural product. Similarly, in the case of an activity like ***dairy***, we are dependent on the biological process of the animals and the availability of fodder etc. The product here, milk, also is a natural product. Sim**ilarly, minerals and ores are also natural products.** When we produce a good by **exploiting natural resources, it is an activity of the primary sector.**

Why primary?
This is because it forms the base for all other products that we subsequently make. Since most of the natural products we get are from agriculture, dairy, fishing, and forestry, **this sector is also called agriculture and related sectors.**

Secondary Sector - Activities in which natural products are changed into other forms through ways of manufacturing that we associate with industrial activity. It is the next step after the primary. The product is not produced by nature but has to be made and therefore some process of manufacturing is essential. This could be in a factory, a workshop or at home. For example, using ***cotton fibre from the plant, we spin yarn and weave cloth***. ***Using sugarcane as a raw material, we make sugar or gur***. ***We convert earth into bricks and use bricks to make houses and buildings***. Since this sector gradually became associated with the different kinds of industries that came up, **it is also called as industrial sector.**

Tertiary Sector - These are activities that help in the development of the primary and secondary sectors. These activities, by themselves, do not produce a good but they are an aid or a support for the production process. For example, goods that are produced in the primary or secondary sector would need to be ***transported*** by trucks or trains and then sold in wholesale and retail shops. At times, it may be necessary to ***store these in godowns***. We also may need to talk to others over the telephone or send letters (communication) or borrow money from banks (banking) to help production and trade. ***Transport, storage, communication, banking, and trad***e are some examples of tertiary activities. Since these activities generate services rather than goods, t**he tertiary sector is also called the service sector.**
Only 2nd and 4th pairs are correctly matched.

Hence, option b is correct.

7. With reference to physical capital in the Indian economy, consider the following pairs:

	Items	*Category*
1.	Farmer's plough	Working capital
2.	Computer	Fixed capital
3.	Yarn used by the weaver	Fixed capital
4.	Petrol	Working capital

How many of the above pairs are correctly matched?
(a) Only one
(b) Only two
(c) Only three
(d) All four

7. Ans: b
Explanation:

	Items	**Category**
1.	Farmer's plough	Fixed capital
2.	Computer	Fixed capital
3.	Yarn used by the weaver	Working capital
4.	Petrol	Working capital

Capital - *Meaning*

Land and labor are commonly regarded as the primary or original factors of production. In contrast, capital is not considered a primary or original factor; it is classified as a produced factor of production.

Capital is defined as "produced means of production," a definition that sets it apart from both land and labor, as the latter two are not produced factors.

Capital is created by humans through interaction with nature and can therefore be defined as a man-made instrument of production. It encompasses physical goods that are specifically produced for use in future production. Examples of capital include machines, tools and instruments, factories, canals, dams, transport equipment, and stocks of raw materials—all of which are manufactured by humans to facilitate the production of additional goods.

Fixed Capital and Working Capital
Capital can be broadly categorized into two main types: fixed capital and working capital.
Fixed capital refers to **durable producer goods** that are utilized repeatedly in the production process until they eventually wear out. Examples of fixed capital include machinery, tools, railway tractors, and factories. It's important to note that the term "fixed" does not imply that these assets are immovable or static in location. Instead, it indicates that the funds invested in these long-lasting goods are committed for an extended duration. Unlike raw materials, which are quickly converted into finished goods and can then be liquidated, fixed capital investments remain tied up for a more prolonged period.

In contrast, working capital consists of those **goods that are single-use in nature**, such as raw materials, components in various stages of production, and fuel. These items are consumed entirely in one production cycle, meaning their value is completely utilized in the act of creating products. Additionally, the expenditure on working capital is typically recouped swiftly, as the investment is transformed into finished goods that can be sold in the market almost immediately after production. This fundamental distinction between fixed and working capital is crucial for understanding the dynamics of business financing and production planning.

Hence farmer's plough, computer would be part of fixed capital.

Hence yarn used by weavers, petrol would be part of the working capital.

Only 2nd and 4th pairs are correctly matched.

Hence, option b is correct.

8. With reference to the rule/rules imposed by the Reserve Bank of India while treating foreign banks, consider the following statements:
1. There is no minimum capital requirement for wholly-owned banking subsidiaries in India.
2. For wholly owned banking subsidiaries in India, at least 50% of the board members should be Indian nationals.
Which of the statements given above is/are correct?
(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2

8. Ans: d
Explanation:
Eligibility for setting up a wholly-owned subsidiary (WOS)

a) Setting up of WOS by a foreign bank in India should have the approval of the home country regulator/supervisor.

b) A foreign bank applying for setting up a WOS in India must satisfy RBI that it is subject to adequate prudential supervision as per internationally accepted standards, which includes consolidated supervision in its home country.

Minimum capital requirement

a) **The initial minimum paid-up voting equity capital for a wholly-owned subsidiary (WOS) shall be Rs. 5 billion.**

b) The newly set up wholly-owned subsidiary (WOS) of the foreign bank would be required to bring in the entire amount of initial capital upfront, which should be funded by free foreign exchange remittance from its parent.

c) The WOS shall meet the Basel III requirements on a continuous basis from the time.

Hence, statement 1 is incorrect.

Corporate governance of wholly-owned subsidiary (WOS)

The composition of the board of directors of WOS should meet the following requirements:

a) Not less than 51 per cent of the total number of members of the board of directors shall consist of persons as defined under Section 10A of the Banking Regulation Act, 1949;

b) Not less than two-third of the directors should be non-executive directors;

c) Not less than one-third of the directors should be independent of the management of the subsidiary in India, its parent and any subsidiary or other associate of the foreign bank parent;

d) **Not less than 50 per cent of directors should be Indian nationals/NRIs/PIOs subject to the condition that one-third of the directors are Indian nationals resident in India;**

e) WOS's of foreign banks will have a Part-time Chairman and full-time Chief Executive Officer (CEO)

Hence, statement 2 is incorrect.

9. Consider the following statements:
Statement-I: If the United States of America (USA) were to default in its debt, holders of US Treasury Bonds will not be able to exercise their claims to receive payment.
Statement-II: The USA Government debt is not backed by any hard assets, but only by the faith of the Government.
Which one of the following is correct in respect of the above statements?
(a) Both Statement-I and Statement-II are correct and Statement-II explains Statement-I
(b) Both Statement-I and Statement-II are correct, but Statement-II does not explain Statement-I
(c) Statement I is correct, but Statement II is incorrect
(d) Statement-I is incorrect, but Statement-II is correct

9. Ans: a

Explanation:

What is an Unsecured bond?

Unsecure bonds do not have specific collateral. **These bonds are based solely on the creditworthiness of the issuer.**

Investors in unsecured bonds depend on the financial strength and performance of the issuer to meet payment obligations.

Unsecured bonds are **highly risky** because **there is no specific asset to be seized upon default.**

Investors in unsecured bonds rely solely on the repayment capacity of the issuer.

To compensate for the increased risk, **issuers of unsecured bonds typically offer higher interest rates**.

Unsecured bonds rely more on credit ratings because they lack collateral.

In the event of default, holders of unsecured bonds tend to have weaker positions.

Examples of unsecured bonds include **corporate bonds,** where investors rely on the financial strength and creditworthiness of the company, and **government bonds,** which depend on the creditworthiness of the issuing government.

In the case of **American Treasury Bonds** - The Treasury Bond holders both domestic and foreign ***can sue the American government.***

American debt holders *can sue in the United States District Court and United States Court of Federal Claims.*

Foreign debt holders *can sue in their own Countrys court system, but not in United States court to redress the United States government's failure to make good on debt payments.*

However, recovery of payment may not be possible in either case because **there is no specific asset to be seized upon default, i.e. holders of unsecured bonds tend to have weaker positions.**

Hence, option a is correct.

10. Consider the following statements:

Statement-I: Syndicated lending spreads the risk of borrower default across multiple lenders.

Statement II: The syndicated loan can be a fixed amount/lump sum of funds, but cannot be a credit line.

10. Which one of the following is correct in respect of the above statements?

(a) Both Statement-I and Statement-II are correct and Statement-II explains Statement-I

(b) Both Statement-I and Statement-II are correct, but Statement-II does not explain Statement-I

(c) Statement I is correct, but Statement II is incorrect

(d) Statement I is incorrect, but Statement II is correct

10. Ans: c

Explanation:

Syndicated loans are designed to facilitate large-scale lending to a single borrower by pooling resources from multiple lenders, thereby enabling the provision of sums that would exceed the risk appetite of any one lender. Typically, an investment-grade syndicated loan involves multiple lending institutions, often banks, which collectively agree to extend credit under standardized terms and conditions outlined in a common set of documents.

In a syndicated loan arrangement, a consortium of lenders collaborates to offer financial support to substantial borrowers, which may include corporations, specific projects, or government entities. Each lender contributes a portion of the overall loan amount, allowing them to share both the financial responsibility and the associated lending risks among themselves. This structure not only diversifies risk but also enhances the borrowers' access to significant funding.
Hence, statement 1 is correct.

What is a Credit Line?

Credit Line is an amount of money a person or company is allowed to borrow during a particular period of time from one or more financial organizations.

Syndicated loans can be a fixed amount or a credit line for a particular period.
Hence, statement 2 is incorrect.

[UPSC dropped this Question]

11. Consider the following statements in respect of the digital rupee:
1. It is a sovereign currency issued by the Reserve Bank of India (RBI) in alignment with its monetary policy.
2. It appears as a liability on the RBI's balance sheet.
3. It is insured against inflation by its very design.
4. It is freely convertible against commercial bank money and cash.
Which of the statements given above are correct?
(a) 1 and 2 only
(b) 1 and 3 only
(c) 2 and 4 only
(d) 1, 2 and 4

11. Ans: d
Explanation:
A **Digital Rupee** or Central Bank Digital Currency (CBDC) is a sovereign currency **issued by the central bank, Reserve Bank of India with respect to its monetary policy.**
Hence, statement 1 is correct.

CBDC will be a **sovereign currency** available in digital form. Like normal currency issued by the central bank, CBDC will also **appear as a liability on the central bank's balance sheet.**

Hence, statement 2 is correct.

Features of Digital Rupee

- The Digital Rupee is **issued by the Reserve Bank of India** and is legally recognized as a secure form of payment accepted by individuals, businesses, and governmental bodies.
- The issuance follows the central bank's financial policies
- Holders have the **freedom to convert the digital Rupee into physical cash through commercial banks.**
- **Legal Tender**: CBDCs are considered legal tender, usable for all types of transactions.
- Central Bank Control: CBDCs are controlled and regulated by the central bank, ensuring stability and trustworthiness.
- Programmable Money: CBDCs can have programmable features, such as smart contracts, enabling automated, self-executing financial agreements.
- It is a fungible legal tender for which individuals will not need a bank account to store

Hence, statement 4 is correct.

Reserve Bank of India - Liabilities and Assets

LIABILITIES	***ASSETS***
1. Notes Issued • Notes in Circulation • Notes held in Banking Department **2. Deposits** • Central Government • Market Stabilization Scheme • State Governments • Scheduled Commercial Banks • Scheduled State Co-operative Banks • Other Banks	**1. Foreign Currency Assets** **2. Gold Coin and Bullion** **3. Rupee Securities (including Treasury Bills)** **4. Loans and Advances** • Central Government • State Governments • NABARD • Scheduled Commercial Banks • Scheduled State Co-op. Banks • Industrial Development Bank of India • Export-Import Bank of India **5. Bills Purchased and Discounted** • Commercial • Treasury **6. Investments**

12. Consider the following statements:
1. India is a member of the International Grains Council.
2. A country needs to be a member of the International Grains Council for exporting or importing rice and wheat.

Which of the statements given above is/are correct?
(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2

12. Answer : a

Explanation:

INTERNATIONAL GRAINS COUNCIL

The International Grains Council (IGC) is an ***intergovernmental organisation*** that seeks to further international cooperation in grains trade, promote expansion, openness and fairness in the grains sector; contribute to grain market stability and to enhance world food security. Grains, rice and oilseeds market conditions are monitored on a daily basis and made available through daily reports and web-based information services. Data monitored includes market information (price index) as well as export prices of grains (wheat, maize, barley, soybeans, rice) and oilseeds, global supply and demand, freight rates, and five-year global projections.

Member countries of the International Grain Council

Argentina, Australia, Canada, European Union, **India,** Kazakhstan, Russian Federation, Serbia, Turkey, Ukraine, United States, Algeria, Côte d'Ivoire, Cuba, Egypt, Iran, Iraq, Japan, Kenya, South Korea, Morocco, Norway, Oman, Pakistan, Saudi Arabia, South Africa, Switzerland, Tunisia, Vatican City

Hence, statement 1 is correct.

A country need not be a member of the International Grains Council for exporting or importing rice and wheat.

For example - The major destinations of India's non-basmati white rice exports include Thailand, Italy, Spain, Sri Lanka and the USA. **The importing countries from India like Sri Lanka, Thailand, Spain, and Italy are not members of the International Grain Council.**

Hence, statement 2 is incorrect.

13. Consider the following statements:
Statement-I: India does not import apples from the United States of America.
Statement-II: In India, the law prohibits the import of Genetically Modified food without the approval of the competent authority.
Which one of the following is correct in respect of the above statements?
(a) Both Statement-I and Statement-II are correct and Statement-II explains Statement-I
(b) Both Statement-I and Statement-II are correct, but Statement-II does not explain Statement-I
(c) Statement-I is correct, but Statement-II is incorrect
(d) Statement-I is incorrect, but Statement-II is correct

13. Answer : d
Explanation:

Indo -US trade
India's largest trading partner is the US, and it is also one of the few countries with which India had a trade surplus in 2023-24.
Major exported items from India to the US include Engineering goods (US$ 17.6 billion), Electronic goods (US$ 10.0 billion), Gems and Jewellery (US$ 9.90 billion), drug formulations and biologicals (US$ 8.72 billion, petroleum products (US$ 5.83 billion), and RMG cotton including accessories (US$ 4.71 billion), among others in FY24.
India's imports from the US include mineral fuels and oils (US$ 12.9 billion); followed by pearls, precious, and semi-precious stones (US$ 5.16 billion), nuclear reactors boilers and machinery (US$ 3.75 billion), electrical machinery etc. (US$ 2.38 billion) in FY24

In June 2023 Indian Government removed an additional 20% duty was imposed on US apples in 2019 . An additional 20% duty was imposed on US apples in 2019 in response to USA's measure to increase tariffs on certain steel and aluminum products.

Genetically Modified Food

The import policy of Genetically Modified Food, Feed, Genetically Modified Organism (GMOs) and Living Modified Organisms (LMOs) has been notified by Directorate General of Foreign Trade under General Notes regarding Import Policy in ITC (HS) 2012, Schedule-1 (Import Policy). As per the policy, **import of GM food requires prior approval of the Genetic Engineering Approval Committee (GEAC)** constituted by the Ministry of Environment Forest and Climate Change.

Further, the Customs Act, 1962 is the basic statue which governs /regulates entry/exit of different categories of goods into or outside the country. Various allied laws and regulations also apply. It is the responsibility of the Customs to ensure that all the imported/ exported goods fulfill the prescribed legal and procedural requirements laid down under Customs act, 1962 and allied laws including payment of the duties leviable, if any.

Import of food products is regulated under the Food Safety and Standards Act (FSSAI), 2006. Indian Customs **can clear food products including Genetically Modified(GM)** food products **only after**

necessary approval/No Objection Certificate(NOC) by FSSAI. FSSAI has informed that no genetically modified food has been cleared for import through the FSSAI locations.

Hence, statement-I is incorrect, but statement-II is correct.

14. With reference to Corporate Social Responsibility (CSR) rules in India, consider the following statements:
1. CSR rules specify that expenditures that benefit the company directly or its employees will not be considered as CSR activities.
2. CSR rules do not specify minimum spending on CSR activities.
Which of the statements given above is/are correct?
(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2

14. Ans: a
Explanation:

Corporate Social Responsibility

Rule 2(d) of the Companies (CSR) Rules, 2014 defines the term CSR as follows – "Corporate Social Responsibility (CSR)" means the activities undertaken by a Company in pursuance of its statutory obligation laid down in section 135 of the Act in accordance with the provisions contained in these rules, but **shall not include the following**, namely:-

(i) Activities undertaken in pursuance of the normal course of business of the company:

ii) Any activity undertaken by the company outside India except for training of Indian sports personnel representing any State or Union territory at national level or India at international level;

(iii) Contribution of any amount directly or indirectly to any political party under section 182 of the Act;

(iv) **Activities benefitting employees of the company as defined in clause (k) of section 2 of the Code on Wages, 2019 (29 of 2019);**

(v) Activities supported by the companies on a sponsorship basis for deriving marketing benefits for its products or services;

(vi) Activities carried out for the fulfilment of any other statutory obligations under any law in force in India;

Hence, statement 1 is correct.

As per the Companies Act, 2013, a Company covered under Section 135(1) of the **Companies Act, 2013 is required to spend 2% of the Average net profits of the company made during the three immediately preceding financial years towards Corporate Social Responsibility (CSR)**

Hence, statement 2 is incorrect.

Previous Year UPSC Economy Questions (PYQs) With Explanation 2023

There were 18 Questions from Economy in 2023, of which

- **4 Questions on Capital & Money Market (InviTs, Capital Market Component, Beta, Carbon Market)**
- **4 Questions on Money & Banking (Central Banks, Sterlisation, Central Bank Digitl Currencies, SHG-Bank Linkage)**
- **2 Questions on International Institutions (GCM, G-20)**
- **2 Questions on Industry (MSME, PLI)**
- **2 Questions on Agriculture (Small Farmer Large Field, MSP)**
- **2 Questions on Economy Basics (Intangible Investment, Sustainable Investment)**
- **1 Question on International Trade (Switzerland)**
- **1 Question on Finance Commission**

Examiner tested candidates' knowledge of basic concepts and understanding of current issues in Economy.

The level of the questions was moderate.

1. Consider the following statements:
Statement I: Switzerland is one of the leading exporters of gold in terms of value.
Statement-II: Switzerland has the second largest gold reserves in the world.
Which one of the following is correct in respect of the above statements?
(a) Both Statement I and Statement II are correct and Statement II is the correct explanation for Statement I
(b) Both statement-I and Statement-II are correct and Statement-II is not the correct explanation for Statement-I
(c) Statement I is correct but Statement II is incorrect
(d) Statement I is incorrect but Statement II is correct

1. Ans: c
Explanation:

Switzerland is of particular global importance concerning the trade of gold. About two-thirds of the globally extracted gold is imported, refined, and re-exported by Switzerland. Switzerland is the world's biggest gold refining and transit hub.

In 2023, Switzerland's gold exports amounted to a value of more than 107 billion U.S. dollars. **Switzerland is consistently the world's leading gold exporting country based on value.** The United Kingdom was the second-largest gold exporter in 2023 followed by UAE.
The top three gold exporters do not figure in the world's top gold producers.
As per World Gold council Top 5 gold producing countries are: China, Russia, Australia, Canada, United States.
Gold natural reserves: Australia, Russia and South Africa hold a large share of the world's gold mine reserves, accounting for 12,000, 12,000 and 5,000 metric tons, respectively in 2024.

The top three countries with largest gold reserves held by Central bank in the world are the **USA Germany, Italy.**
Hence, statement 1 is correct & statement 2 is incorrect.

2. Consider the following statements:
Statement-I: Interest income from the deposits in Infrastructure Investment Trusts (InviTs) distributed to their investors is exempted from tax, but the dividend is taxable.
Statement-II: InviTs are recognized as borrowers under the 'Securitization and Reconstruction of Financial Assets and· Enforcement of Security Interest Act, 2002'.
Which one of the following is correct in respect of the above statements?
(a) Both Statement-I and Statement-II are correct and Statement- II is the correct explanation for Statement-I
(b) Both Statement-I and Statement-II are correct and Statement-II is not the correct explanation for Statement-I
(c) Statement I is correct but Statement II is incorrect
(d) Statement I is incorrect but Statement II is correct

2. Ans: d
Explanation:

What are InvITs?
InvITs are a type of investment vehicle that allows investors to invest in infrastructure projects. The main objective of InvITs is to provide retail investors with access to investment opportunities in infrastructure projects that were previously only available to large institutional investors.
InvITs offer investors the opportunity to invest in a diversified portfolio of infrastructure projects, which can provide stable income streams and potential capital appreciation over the long term. At the same time, it helps infrastructure projects tap into household savings
InvITs stand out as models of financial innovation aimed at sustainable development. Designed with a tiered structure where a sponsor sets up the InvIT, which then invests in various eligible projects

directly or through special purpose vehicles (SPVs), these trusts offer a unique blend of stability and profitability.

Features and structure of InvITs

Where do they invest?

InvITs are similar to mutual funds or REITs, but they invest in infrastructure assets like toll roads, power transmission lines, and pipelines.

Structure

InvITs are created by sponsors, who are typically infrastructure companies or private equity firms. The sponsor sets up the InvIT and transfers ownership of the underlying infrastructure assets to the trust. The trust then issues units to investors, which represent an ownership stake in the trust and thus the underlying assets.

Investors in InvITs can earn returns in two ways: through regular distributions and potential capital appreciation. InvITs typically distribute most of their earnings to investors in the form of dividends, which can provide a regular income stream. In addition, if the underlying assets appreciate in value over time, investors can potentially sell their units for a profit.

Who can invest in an InvIT?

Publiclyplaced listed InvIT - Any person – resident/foreign

Privatelyplaced listed InvIT - Institutional investors and body corporates (Indian/foreign)

Tax implications on unit holders

Interest income from the SPV distributed by the InvIT

• Resident investor – at applicable rates (credit for taxes withheld at 10%)
• Non-resident investor (other than foreign portfolio investors (FPIs) – 5%12 (subject to the beneficial provision under the applicable tax treaty)
• FPIs – may be taxed at 20%12 (subject to the beneficial provision under the applicable tax treaty)

Dividend income (if SPV has opted for the concessional tax regime under Section 115BAA)

• Resident investor – at applicable rates (credit for taxes withheld at 10%) – benefit of Section 80M extended to domestic unitholder being a company, provided such dividend is distributed within the prescribed timeline
• Non-resident investor (including FPIs) – 20%12 (subject to the beneficial provision under the applicable tax treaty)

Dividend income (if SPV has opted for the old regime)

• Exempt for unitholders

Distribution of any proceeds other than interest and dividend; not taxable in the hands of InvIT

Distribution in excess of the issue price shall be taxable as income from other sources at applicable rates

• Resident investor – at applicable rate

s • Non-resident investor (other than FPIs) – taxable at applicable rates (subject to the beneficial provision under the applicable tax treaty, credit available for taxes withheld)

• FPIs – 20% (subject to the beneficial provision under the applicable tax treaty)

Sale of listed units (on stock exchanges)

• Long-term capital gains beyond INR 0.1 million taxable at 10%12

• Short-term capital gains taxable at a concessional rate of 15%12

• For non-residents, provisions and rates under applicable tax treaties to be considered

InvITs have been classified as 'borrowers' under Section 2(f) of the SARFAESI Act, pursuant to Section 2(da) of the Securities Contracts (Regulation) Act, 1956, which defines 'pooled investment vehicles' as inclusive of a 'business trust' as defined in Section 2(13A) of the Income-tax Act, 1961 and registered with SEBI, i.e., InvITs.

Hence, statement 1 is incorrect and 2 is correct.

3. Consider the following statements:

Statement-I: In the post-pandemic recent past, many Central Banks worldwide had carried out interest rate hikes.

Statement-II: Central Banks generally assume that they have the ability to counteract the rising consumer prices via monetary policy means.

Which one of the following is correct in respect of the above statements?

(a) Both Statement I and Statement II are correct and Statement II is the correct explanation for Statement I

(b) Both Statement-! and Statement-II are correct and Statement II is not the correct explanation for Statement-I

(c) Statement I is correct but Statement II is incorrect

(d) Statement I is incorrect but Statement II is correct

3. Ans: a

Explanation:

Monetary policy during covid the indian case

The COVID-19 pandemic scarred the global economy, causing unimaginable loss of life and livelihood. At the height of the pandemic during 2020 and 2021, the Monetary Policy Committee **(MPC) prioritised growth over inflation**, given the frail economic conditions and notwithstanding intermittent inflationary pressures from supply shocks. Our monetary policy committee (MPC) reacted swiftly by **reducing the policy repo rate sizeably by 115 bps** in a span of two months (March-May 2020). Along with the rate cuts, significant quantum of liquidity was infused through

both conventional and unconventional measures to stimulate the economy, restore confidence and revive market activity .
The liquidity infusion measures were mostly concentrated in 2020 but **continued in 2021** in view of fresh waves of the pandemic and the fragile nature of economic recovery.

In early 2022, inflation was expected to moderate significantly however the outbreak of hostilities in Ukraine since end February 2022 changed the scenario. Initially, the shocks came from food and fuel prices, which were mainly global in origin, but local factors from adverse weather events also played an important role in increasing food inflation.
Moreover, strengthening domestic recovery and rising demand enabled pass-through of pent-up input costs to retail goods and services. This imparted stickiness to underlying core inflation and kept headline inflation at elevated levels.
Under these circumstances, the MPC quickly changed gears by **prioritising inflation over growth and also changed its stance from being accommodative to withdrawal of accommodation.**

The MPC in May 2022 raised the policy rate by 40 basis points. This was followed by rate hikes, In MPC has raised the policy repo rate by 250 bps cumulatively between May 2022 and February 2023.
A tight monetary policy by hiking the rates is followed by the central bank to counter inflation.
Hence, statement 1 and 2 are correct & statement 2 is the correct explanation of statement 1.

4. Consider the following statements:
Statement I: Carbon markets are likely to be one of the most widespread tools in the fight against climate change.
Statement-II: Carbon markets transfer resources from the private sector to the State.
Which one of the following is correct in respect "of the above statements?
(a) Both Statement I and Statement II are correct and Statement II is the correct explanation for Statement I
(b) Both Statement-I and Statement-II are correct and Statement-II is not the correct explanation for Statement-I
(c) Statement I is correct but Statement II is incorrect
(d) Statement I is incorrect but Statement II is correct

4. Ans: b
Explanation:
Carbon markets have become one of the most widespread tools in the fight against climate change. 21% of the world's emissions were covered by some form of carbon pricing (by end of 2021). Trading on these markets are growing year -on-year.
Hence, statement 1 is correct.

For the right to release "a tonne of carbon dioxide" into the atmosphere businesses have to pay regulators. The revenue from the sale of carbon permits, can be reinvested by governments in renewable energy or other righteous ventures (like subsidy on buying electric vehicles).

Additional Information:

What are Carbon Markets?
Carbon markets are trading systems in which companies or individuals can compensate for their greenhouse gas emissions by purchasing 'carbon credits' from entities that remove or reduce greenhouse gas emissions.

One tradable carbon credit equals one tonne of carbon dioxide or the equivalent amount of a different greenhouse gas **reduced, sequestered or avoided**. The emitters can use these credits as their own to meet their reduction targets.

There are broadly two types of carbon markets: compliance and voluntary.

- **Compliance markets** (like emissions trading systems (ETS) of European Union) are created as a result of any **national or international regulatory requirement.**
  The European Union launched the world's first international ETS in 2005. In 2021, China launched the world's largest ETS.
  Currently ETS Mechanism is in force in 29 countries and under consideration in 11 countries.
  In India ETS mecahnism is under consideration.
  The Clean Development Mechanism (CDM), adopted under the Kyoto Protocol in 1997, is another example of an international compliance market. Under the CDM, emission-reduction projects in developing countries have generated carbon credits used by industrialized countries to meet part of their emission reduction targets.

- **Voluntary carbon markets – national and international** – are outside the regulatory requirements.
  The demand for voluntary comes from private individuals that want to compensate for their carbon footprints, corporations with corporate sustainability targets, and other actors aiming to trade credits at a higher price to make a profit.

Hence, statement 2 is correct, but statement 2 doesn't explain statement 1.

5. Which one of the following activities of the Reserve Bank of India is considered to be part of 'sterilization'?
(a) Conducting 'Open Market Operations'
(b) Oversight of settlement and payment systems
(c) Debt and cash management for the Central and State Governments
(d) Regulating the functions of Nonbanking Financial Institutions

5. Ans: a
Explanation:

Sterilization provides a way out of the problem of clash between the goals of external balance and internal balance. Sterilization refers to the action by the Central Bank of a country to offset or cancel the impacts of its foreign exchange market intervention on the moeny supply through open market operations. The sterilization measures can be used both to offset the reduction in money supply when in case of current account deficit the Central Bank of the country sells foreign exchanges omn the market and also when the Central bank offset the effect of increase in money supply when it buys foreign exchange from the market in case of surplus in balance of payments or when large capital inflows are coming into the economy.

Through sterilization, the central bank tries to off set the changes in foreign exchange reserve either by changing net domestic assets or by changing the reserve deposit. While the purchase intervention is sterilized by issuing bonds, purchasing bonds from the market sterilizes the sale intervention.
Sterilization is the process of neutralizing the changes in the net foreign assets (NFA) (which are caused by the intervention) by adjusting the net domestic assets (NDA) with the objective of maintaining the stability of the monetary base. As a process, sterilization neutralizes the impact of exchange market operations on domestic money supply with the help of money market instruments
RBI uses Open Market Operation (OMO) as the primary sterilization instrument

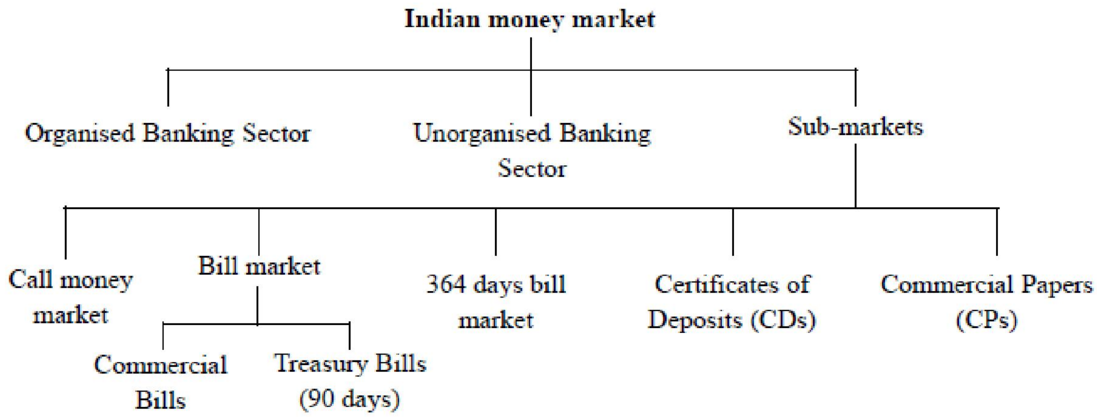
Open Market Operations (OMOs): These include both, outright purchase and sale of government securities, for injection and absorption of durable liquidity, respectively.
Market Stabilisation Scheme (MSS): This instrument for monetary management was introduced in 2004. Surplus liquidity of a more enduring nature arising from large capital inflows is absorbed through sale of short-dated government securities and treasury bills. The cash so mobilised is held in a separate government account with the Reserve Bank.
Hence option a is correct.

6. Consider the following markets:
1. Government Bond Market
2. Call Money Market
3. Treasury Bill Market
4. Stock Market
How many of the above are included in capital markets?
(a) Only one
(b) Only two
(c) Only three
(d) All four

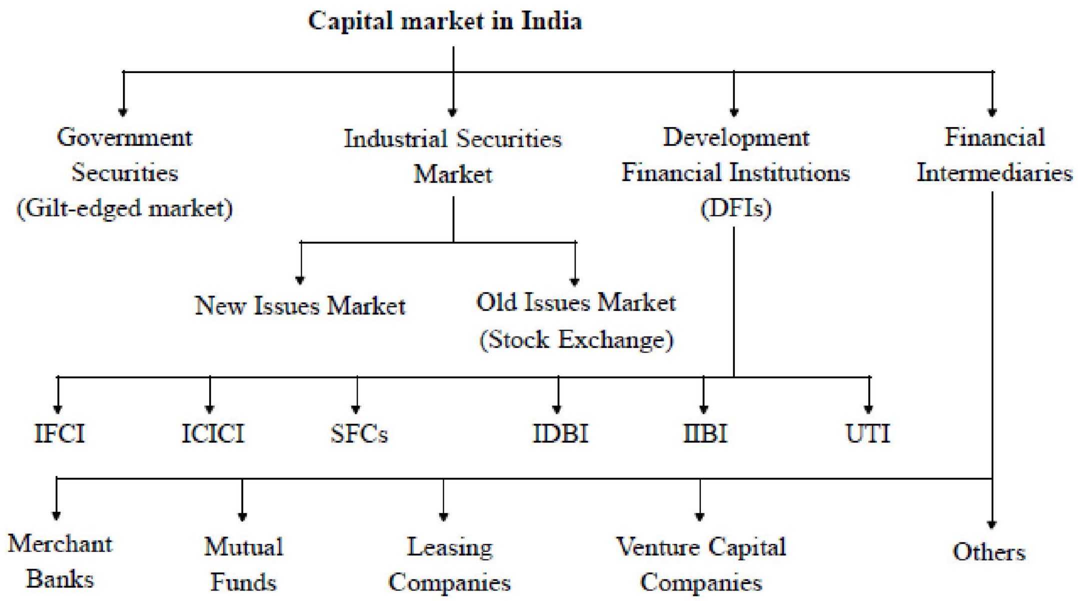
6. Ans: b
Explanation:
The Indian Financial system refers to the borrowing and lending of funds demand for and supply of funds. It consists of two parts
1. Indian Money market and 2. Indian Capital market
The **Indian Money market** is the market in which **short term funds are borrowed and lent.**
The **Capital market is market for medium and long term funds.**

Money Market consists of two parts unorganised and organised sectors. The unorganised sector consists of indigenous bankers and money lenders

Organised money market in India comprises RBI, public sector banks, and private banks (both Indian and Foreign). The organised money market has a number of submarkets such as Call money market, Billmarket, Repos, Certificate of deposits(CDs) and commercial papers(CPs).



Capital Market is the market for long term funds. Capital Market in India comprise of **Government securities Market, Industrial Securities** market, Developmental Financial Institutions, Financial intermediaries like- **Merchant banks, Mutual Funds, Leasing companies, Venture capital companies** etc.



Hence, option b is correct.

7. Which one of the following best describes the concept of 'Small Farmer Large Field'?
(a) Resettlement of a large number of people, uprooted from their countries due to war, by giving them a large cultivable land which they cultivate collectively and share the produce.
(b) Many marginal farmers in an area organize themselves into groups and synchronize and harmonize selected agricultural operations .
(c) Many marginal farmers in an area together make a contract with a corporate body and surrender their land to the corporate body for a fixed term for which the corporate body makes payment of an agreed amount to the farmers .
(d) A company extends loans, technical knowledge, and material inputs to a number of small farmers in an area so that they produce the agricultural commodity required by the company for its manufacturing process and commercial production

7. Ans: b
Explanation:
Small Farmer Large Field
The basics of the model are that **smallholders join and decide to grow a crop of** one or two varieties, **synchronize all the agricultural operations** (seed to seed) as a **group/community** and **gain higher bargaining power** while dealing with service providers, dealers, and traders/millers. As a result there would be reduced cost of production of , increased grain yield, comparatively higher price over prevailed market price, enhanced farmers' gross income and net profit.
Hence, option b is correct.

8. Consider the following statements:
1. The Government of India provides Minimum Support Price for niger (Guizotia aoyssinica) seeds.
2. Niger is cultivated as a Kharif crop.
3. Some tribal people in India use niger seed oil for cooking.
How many of the above statements are correct?
(a) Only one
(b) Only two
(c) All three
(d) None

8. Ans: c
Explanation:
The Government's price policy for major agricultural commodities seeks to ensure remunerative prices to the growers for their produce with a view to encourage higher investment and production and thereby to safeguard the interest of consumers by making available supplies at reasonable prices.

The **Government fixes MSP of 22 mandated agricultural crops** on the basis of the recommendations of **Commission for Agricultural Costs & Prices (CACP)** and after due consideration of the views of State Governments and the concerned Central Ministries/ Departments.
The 22 mandated crops include **14 Kharif crops** viz. paddy, jowar, bajra, maize,

ragi, tur (arhar), moong, urad, groundnut, soybean (yellow), sunflower seed, sesamum, **nigerseed, cotton** and **6 Rabi crops** viz. wheat, barley, gram, masur (lentil), rapeseed and mustard, safflowerand **2 commercial crops viz. jute and copra.**
Hence, statements 1 and 2 are correct.

The **major edible oils c**onsumed in the country are mustard, soyabean, groundnut, sunflower sesame oil, **niger seed**, safflower seed, castor and linseed (primary source) and coconut, palm oil, cottonseed, rice bran, solvent extracted oil, tree & forest origin oil.
Hence, statement 3 is correct.

9. Consider the investments in the following assets:
1. Brand recognition
2. Inventory
3. Intellectual property
4. Mailing list of clients

How many of the above are considered intangible investments?
(a) Only one
(b) Only two
(c) Only three
(d) All four

9. Ans: c
Explanation:
Intangible assets refer to **non-physical assets that companies create or acquire.** Unlike tangible assets, self-created intangible assets are **not recorded on the balance sheet and therefore do not have a book value.**

The primary categories of intangible assets include **goodwill, brand equity, and various forms of intellectual property such as trade secrets, patents, trademarks, and copyrights.** Other examples include **licensing agreements, customer lists, and research and development (R&D) activities.** Typically, the values of intangible assets are not reflected on the balance sheet. However, when companies engage in mergers or acquisitions, the value of the acquired intangible assets is recorded as a list on the acquiring company's balance sheet.
Hence, option c is correct.

10. Consider the following:
1. Demographic performance
2. Forest and ecology
3. Governance reforms
4. Stable government
5. Tax and fiscal efforts

For the horizontal tax devolution, the Fifteenth Finance Commission used how many of the above as criteria other than population area and income distance?

(a) Only two
(b) Only three
(c) Only four
(d) All five

10. Ans: b
Explanation:
Horizontal devolution:
Based on **principles of need, equity and performanc**e, overall devolution formula is based on following 6 criteria

Criteria	Weight (%)
Population	15.0
Area	15.0
Forest & ecology	10.0
Income distance	45.0
Tax & fiscal efforts	2.5
Demographic performance	12.5
Total	**100**

Income distance is the distance of the Gross State Domestic Product (GSDP) of a particular state from the state with the highest GSDP.
To maintain inter state equity, the states with lower per capita income would be given a higher share.
Hence, option b is correct.

11. Consider the following infrastructure sectors:
1. Affordable housing
2. Mass rapid transport
3. Health care
4. Renewable energy
On how many of the above does the UNOPS Sustainable Investments in Infrastructure and Innovation (S3i) initiative focus on its investments?
(a) Only one
(b) Only two ·
(c) Only three
(d) All four

11. Ans: c

Explanation:
Sustainable development, a global imperative, calls for innovative approaches to address the world's most pressing challenges.
The **United Nations Office for Project Services (UNOPS)** has embarked on a **transformative journey through its Sustainable Investments in Infrastructure and Innovation (S3i) initiative.**

In line with the UNOPS Strategic Plan, 2022-2025, the S3i office will seek to enhance and accelerate the effort of engaging public and private sector investors to work collectively to scale up infrastructure investments and consider co-creating innovative financing options. The **UNOPS S3i will continue rolling out the initiative across its three focus-areas: (a) affordable housing; (b) renewable energy; and (c) health infrastructure.**
Hence, option c is correct.

12. Consider the following statements with reference to India:
1. According to the 'Micro, Small and Medium Enterprises Development (MSMED) Act, 2006', the 'medium enterprises' are those with investments in plant and machinery between 15 crore and 25 crore.
2. All bank loans to the Micro, Small, and Medium Enterprises qualify under the priority sector.
Which of the statements given above are correct?
(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2

12. Ans: b
Explanation:

Central Government, notified the following criteria for classification of micro, small and medium enterprises, namely:—
(i) a micro enterprise, where the investment in Plant and Machinery or Equipment does not exceed one crore rupees and turnover does not exceed five crore rupees;
(ii) a small enterprise, where the investment in Plant and Machinery or Equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees;
(iii) a medium enterprise, where the investment in Plant and Machinery or Equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.

Now, there will be no difference between manufacturing and service sectors.
All bank loans to MSMEs, engaged in providing or rendering of services as defined in terms of investment in equipment under MSMED Act, 2006, **shall qualify under priority sector without any credit cap.**
Hence, statement 1 is incorrect & 2 is correct.

13. With reference to Central Bank digital currencies, consider the following statements:
1. It is possible to make payments in a digital currency without using the US dollar or the SWIFT system.
2. A digital currency can be distributed with a condition programmed into it such as a timeframe for spending it.
Which of the statements given above are correct?
(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2

13. Ans: c
Explanation:

A **central bank digital currency (CBDC)** represents a **digital form of public currency issued by a central bank.** This system allows individuals and businesses to access a digital currency facilitated by their country's central bank for various transactions and savings.

In essence, a CBDC is a digital representation of traditional coins and banknotes, manifested as digital tokens. These tokens are essentially electronic files that hold a specific value, linked to an identifiable owner. The transfer of value occurs seamlessly by altering the ownership reference, which facilitates payment.

A distinguishing feature of CBDCs compared to other electronic payment forms is their legal tender status. This means that individuals participating in transactions involving CBDCs have a direct claim to the central bank that issues the currency, reinforcing its legitimacy and acceptance.

Additionally, CBDCs can incorporate programmability, meaning they can come with **predefined rules that govern how the money can be used**. This feature allows a government to implement measures such as **positive or negative interest rates to encourage or discourage spending on particular goods, restrict usage to specific categories of services, or even establish expiration dates for certain transactions.**
Hence, both statements 1 & 2 are correct.

14. In the context of finance, the term 'beta' refers to
(a) the process of simultaneous buying and selling of an asset from different platforms
(b) an investment strategy of a portfolio manager to balance risk versus reward
(c) a type of systemic risk that arises where perfect hedging is not possible
(d) a numeric value that measures the fluctuations of a stock to changes in the overall stock market

14. Ans: d
Explanation:
Beta is an important statistical metric used to **assess the volatility of a specific stock** in relation to the overall market, which is typically represented by a **market index.** In this context, the **market itself serves as a benchmark, with a beta value of 1.**

A stock with a beta greater than 1 indicates that it is likely to experience greater price changes compared to the market; it is expected to rise more during market upswings and fall more during downturns. On the other hand, stocks with a beta of less than 1 are anticipated to have smaller fluctuations, rising less in a bull market and falling less in a bear market. Interestingly, there are rare instances where a stock may exhibit a negative beta, signifying that it moves in the opposite direction of the market trends.
Hence, option d is correct.

15. Consider the following statements:
1. The Self-Help Group (SHG) program was originally initiated by the State Bank of India by providing microcredit to the financially deprived.
2. In an SHG, all members of a group take responsibility for a loan that an individual member takes.
3. The Regional Rural Banks and Scheduled Commercial Banks support SHGs.

How many of the above statements are correct?
(a) Only one
(b) Only two
(c) All three
(d) None

15. Ans: b
Explanation:
The SHG-Bank Linkage programme that synthesizes **'formal financial systems'**(in terms of a formal institution providing credit) **with the 'informal sector**'(comprising of rural poor with no formal credit history - exclusively women in case of DAY-NRLM), has emerged as a preferred vehicle for providing financial services to the hitherto unbanked poor. The Self-Help Group - Bank Linkage Programme (SHG-BLP) was formulated by NABARD in 1989 and was launched as a pilot project in 1992 to integrate unreached rural poor with the formal sector by providing access to institutional credit. The banks were encouraged to lend directly to SHGs with refinance support from NABARD.

The pilot project was conceived of as a partnership between SHGs, Banks and NGOs in which the Reserve Bank of India (RBI) allowed banks to lend directly to SHGs and **NABARD committed to providing re-finance and promotional support. NABARD acted as the catalyst for the SHGBank Linkage programme**
Hence, statement 1 is incorrect.

All members take mutual guarantee for loans taken by the SHG. In such cases, a smaller "Joint Liability Group (JLG)" from members of an SHG may be created. The members of JLG will continue to remain members of the SHGs and continue to participate in the activities of SHGs are earlier. Banks may encourage creation of such enterprise / livelihood based JLGs as a separate entity. There is a Strategic shift away from targeting individuals to **group oriented lending approach** (e.g. Integrated Rural Development Program to Swarnajayanti Gram Swarozgar Yojana).
SHG lending is part of priority sector guidelines for Banks in India comprising of commercial , cooperatives and RRBs
Hence, statement 2 and 3 are correct.

16. Consider the following statements :
Statement-I : India accounts for 3.2% of global export of goods.
Statement-II : Many local companies and some foreign companies operating in India have taken advantage of India's 'Production-linked Incentive' scheme.
Which one of the following is correct in respect of the above statements?
(a) Both Statement-I and Statement-II are correct and Statement-II is the correct explanation for Statement-I
(b) Both Statement-I and Statement-II are correct and Statement-II is not the correct explanation for Statement-I
(c) Statement-I is correct but Statement-II is incorrect
(d) Statemeent-I is incorrect but Statement-II is correct.

16. Ans: d
Explanation:
India's share in global merchandise exports rose from **0.9 per cent in 2005 to 1.8 per cent in 2023,** while its share in **services exports** more than doubled from **2 per cent to 4.3 per cent.**
Hence, statement 1 is incorrect.

Production-linked Incentive
Launched in 2020, the PLI Scheme is more than just a policy; it is a strategic leap toward self-reliance. PLI Schemes focus **on 14 critical sectors**, each strategically chosen to enhance the country's manufacturing prowess, foster technological advancements, and elevate India's position in global markets. These sectors are aligned with the government's goal of strengthening domestic production and expanding exports, contributing to the broader vision of Atmanirbhar Bharat.

By targeting industries like electronics, textiles, pharmaceuticals, and automobiles, the initiative offers financial incentives tied directly to measurable outcomes such as higher production and incremental sales.
This performance-driven approach not only attracts investments from **domestic and global players** but also encourages businesses to embrace cutting-edge technologies and achieve economies of scale.
The Production Linked Incentive (PLI) Schemes have made significant strides in transforming India's manufacturing landscape.
Exports have also seen a substantial uptick, driven by key sectors such as electronics, pharmaceuticals, and food processing.
The Production Linked Incentive Scheme (PLI Scheme) by the government of India **encourages domestic manufacturing and incremental sales to reduce reliance on imports.**
Hence, statement 2is correct.

17. Consider the following statements:
1. Recently, all the countries of the United Nations have adopted the first-ever compact for international migration, the 'Global Compact for Safe, Orderly and Regular Migration (GCM)'.
2. The objectives and commitments stated in the GCM are binding on the UN member countries.

3. The GCM addresses internal migration or internally displaced people also in its objectives and commitmentS.

How many of the above statements is/are correct?

(a) Only one
(b) Only two
(c) All three
(d) None

17. Ans: d

Explanation:

The Global Compact for Safe, Orderly and Regular Migration, negotiated under the auspices of the United Nations, is the first intergovernmental agreement to cover **all dimensions of international migration**. It provides a significant opportunity to improve migration governance.

The UN Global Compact on Safe, Orderly and Regular Migration was adopted by 164 nations in Marrakech in December 2018 and not all the countries of United Nations adopted it.

Hence statement 1 is incorrect.

It is a **non-legally binding, cooperative framework** that upholds the sovereignty of States and their obligations under international law. The Global Compact is designed to:

- Support **international cooperation on the governance of international migration** (including humanitarian, developmental and human rights aspects);
- Provide a comprehensive toolkit for States from which they can select policy options to address some of the most pressing issues around international migration;
- Give States the space and flexibility to pursue implementation based on their own migration realities and capacities.

Hence, statements 2 and 3 are incorrect.

18. Consider the following statements about G-20:

1. The G-20 group was originally established as a platform for the Finance Ministers and Central Bank Governors to discuss the international economic and financial issues.
2. Digital public infrastructure is one of India's G-20 priorities.

Which of the statements given above is/are correct?

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

18. Ans: c

Explanation:

The **G20 was founded in 1999** after the Asian financial crisis as a **forum for the Finance Ministers and Central Bank Governors to discuss global economic and financial issues.**

The G20 **was upgraded to the level of Heads of State/Government** in the wake of the global economic and f**inancial crisis of 2007,** and, in **2009, was designated the premier forum for international economic cooperation.**

The G20 Summit is held annually, under the leadership of a rotating Presidency. The G20 initially focused largely on broad macroeconomic issues, but it has since expanded its agenda to inter-alia include trade, sustainable development, health, agriculture, energy, environment, climate change, and anti-corruption.
Hence statement 1 is correct.

As part of the G20 India Presidency, Global Partnership of Financial Inclusion (GPFI) Working Group arrived at the consensus on the description of DPI. The G20 DEMM Outcome Document defines Digital public infrastructure (DPI) as "a set of shareddigital systems that shouldbe secure and interoperable, and can be built on open standards and specifications to deliver and provide equitable access to public and / or private services at societal scale. So DPI is one of India's G-20 priorities***Hence statement 2 is correct.***

Previous Year UPSC Economy Questions (PYQs) With Explanation 2022

There were 16 Questions from Economy in 2022, of which

- **5 Questions on Money & Banking (RBI and inflation , CRA ,BBB, NFT, Price stablity)**
- **2 Questions on Economy Basics (Real Sector, Capital Expenditure)**
- **2 Questions on Capital & Money Market (IIBs , Convertible Bonds)**
- **2 Questions on International Institutions (RapidFinancing, G-20)**
- **1 Question on BOP (Indirect Transfers)**
- **1 Question on Industry (FDI)**
- **1 Question on Fiscal Policy (Debt)**
- **1 Question on Exchange Rate (REER & NEER)**
- **1 Question on Employment & Unemployment (Labour Bureau)**

Examiner tested candidates' knowledge of basic concepts and understanding of current issues in Economy.

The level of the questions was moderate to tough.

1. “Rapid Financing Instrument” and “Rapid Credit Facility” are related to the provisions of lending by which of the following:
(a) Asian Development Bank
(b) International Monetary Fund
(c) United Nations Environment Programme Finance Initiative
(d) World Bank

1. Ans: b
Explanation:
Financial assistance of IMF
Unlike development banks, the IMF does not lend for specific projects. Instead, the **IMF provides financial support to countries hit by crises** to create breathing room as they implement policies that restore economic stability and growth. It also provides precautionary financing to help prevent crises. IMF lending is continuously refined to meet countries’ changing needs.
Crises can take many different forms
- Balance of payment problems occur when a nation is unable to pay for essential imports or service its external debt.
- Financial crises stem from illiquid or insolvent financial institutions.

- Fiscal crises are caused by excessive deficits and debt.

Often, countries that come to the IMF face more than one type of crisis as challenges in one sector spread throughout the economy. Crises can slow growth, increase unemployment, lower incomes, and create uncertainty, leading to a deep recession. In an acute crisis, defaults or restructuring of sovereign debt may be unavoidable.

IMF lending instruments

The Extended Fund Facility (EFF) was established in 1974 as a vehicle for longer-term external financing for members undertaking needed structural economic reforms.

The Supplemental Reserve Facility (SRF) was established at the end of 1997, at the height of the Asian financial crisis. Its purpose is to provide financial assistance to members experiencing exceptional balance of payments difficulties due to a large, short-term financing need following a sudden and disruptive loss of confidence reflected in pressure on the capital account and the member's foreign reserves.

The Stand-by Arrangement (SBA) provides short-term financial assistance to countries facing balance of payments problems.

The Stand-by Credit Facility (SCF) provides financial assistance to low-income countries (LICs) with short-term balance of payments needs. The SCF is one of the facilities under the Poverty Reduction and Growth Trust (PRGT).

The Extended Fund Facility (EFF) provides financial assistance to countries facing serious medium-term balance of payments problems because of structural weaknesses that require time to address. To help countries implement medium-term structural reforms, the EFF offers longer program engagement and a longer repayment period.

The Extended Credit Facility (ECF) provides medium-term financial assistance to low-income countries (LICs) with protracted balance of payments problems. The ECF is one of the facilities under the Poverty Reduction and Growth Trust (PRGT).

The Rapid Financing Instrument (RFI) provides prompt financial assistance to any IMF member country facing an urgent balance of payments need. The RFI is one of the facilities under the General Resources Account (GRA) that provide financial support to countries, including in times of crisis.

The Rapid Credit Facility (RCF) provides fast concessional financial assistance to low-income countries (LICs) facing an urgent balance of payments need. The RCF is one of the facilities under the Poverty Reduction and Growth Trust (PRGT) that provide flexible financial support tailored to the diverse needs of LICs, including in times of crisis.

The Flexible Credit Line (FCL) is designed to meet the demand for crisis-prevention and crisis-mitigation lending for countries with very strong policy frameworks and track records in economic performance.

The Short-term Liquidity Line (SLL) is a liquidity backstop for members with very strong policy frameworks and fundamentals, who face potential, moderate, short-term liquidity needs because of external shocks that generate balance of payment difficulties. It aims to minimize the risk of shocks evolving into deeper crises and spilling over to other countries.

The Precautionary and Liquidity Line (PLL) is designed to meet the liquidity needs of member countries with sound economic fundamentals but with some remaining vulnerabilities that preclude them from using the Flexible Credit Line (FCL).

The Resilience and Sustainability Facility (RSF) provides affordable long-term financing to countries undertaking reforms to reduce risks to prospective balance of payments stability, including those related to climate change and pandemic preparedness.

The Policy Coordination Instrument (PCI) is a non-financing instrument open to all IMF member countries. It enables a closer dialogue with countries and the endorsement of policies by the IMF, which allows them to signal commitment to reforms and to catalyze financing from other sources.
Hence option b is correct.

2. With reference to the Indian economy, consider the following statements:

1. An increase in the Nominal Effective Exchange Rate (NEER) indicates the appreciation of the rupee.

2. An increase in the Real Effective Exchange Rate (REER) indicates an improvement in trade competitiveness.

3. An increasing trend in domestic inflation relative to inflation in other countries is likely to cause an increasing divergence between NEER and REER.

Which of the above statements is correct?

(a) 1 and 2 only

(b) 2 and 3 only

(c) 1 and 3 only

(d) 1, 2 and 3

2. Ans: c

Explanation:

Nominal exchange rate:

The exchange rate is the price of one currency expressed in terms of another currency. Two conventions are used:

E: Price of home currency in terms of foreign currency

R: Price of foreign currency in terms of home currency

E = 1 / R

Symbol	Units	Appreciation of domestic currency	Depreciation of domestic currency
E	US $/Indian Rs. (IMF)	↑	↓
R	Indian Rs. /$US (Textbook)	↓	↑

Domestic currency = Indian Rupee
Foreign currency = $USD
Let us consider price of home currency in terms of foreign currency (E):
80 Rs. = 1$
1 Rs. = 1/80 $
1 Rs. = 0.0125$ is the nominal exchange rate
In case of appreciation of Rupee say for example,
72 Rs. = 1$
1 Rs. = 1/72 $
1 Rs. = 0.0138 $, so the nominal exchange rate increased.
Therefore the increase in nominal exchange rate leads to appreciation of rupee (IMF concept).

Nominal effective exchange rate:
NEER is the weighted average of nominal exchange rates where weights used are shares of trading partners in the foreign trade of a country.
For example, In foreign trade of India US share is 40%, UK share is 35%, and UAE share is 25%
Then
NEER = (0.0125*40 + 0.01*35 + 0.025*25) / 100
= (0.5 + 0.35 + 0.625)/ 100
= 0.01475
Like NER, increase in NEER also indicates an appreciation of the local currency against the weighted basket of currencies of its trading partners.

NER considers exchange rate between two countries, whereas NEER considers exchange rate between a country and its trading partners.
Hence statement 1 is correct

What is the real exchange rate?

The real exchange rate (RER) between two currencies is the product of the nominal exchange rate (the dollar cost of a Rupee, for example) and the ratio of prices between the two countries.

The core equation is RER = EP*/P,

where, in our example, E is the nominal dollar/Rupee exchange rate, P* is the average price of a good in India , and P is the average price of the good in the United States.

Example, E = 0.0125 and for an article,

If the Indian price is 160 rupees and the U.S. price is $ 1

Then RER = (0.0125) X (160) ÷ 1

which yields an Real Exchange Rate of 2.

But if the Indian price were 200 rupees and the U.S. price $1,

then RER = (0.0125) X 200 ÷ 1,

which yields an Real Exchange Rate of 2.5.

Increase of RER indicates higher prices for the producers and less competitive.

Concept of Competitveness

Tradable goods can be produced domestically and then be sold either domestically or abroad in exchange for other goods. Competitiveness is the incentive for domestic/foreign economies to produce and/or purchase these goods in/from the domestic economy, rather than in/from foreign economies. At the level of individual producers, competitiveness is generally defined on the basis of (quality adjusted) prices: **lower-price producers are more competitive.**

Real Effective Exchange Rate:

REER is the real effective exchange rate (a measure of the value of a currency against a weighted average of several foreign currencies) divided by a price deflator or index of costs.

An increase in REER implies that exports become more expensive and imports become cheaper; therefore, an increase indicates a loss in trade competitiveness.

Hence statement 2 is incorrect.

If inflation in domestic country is high, more rupees have to be spent to purchase basket of goods when compared to the international level, this will lead to increase in REER. Since NEER remains nearly stable, increase in REER leads to increasing divergence between NEER and REER.

Hence statement 3 is correct.

3. With reference to the Indian economy, consider the following statements:
1. If the inflation is too high, the Reserve Bank of India (RBI) is likely to buy government securities.
2. If the rupee is rapidly depreciating, RBI is likely to sell dollars in the market.
3. If interest rates in the USA or European Union were to fall, that is likely to induce RBI to buy dollars.

Which of the statements given above are correct?
(a) 1 and 2 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2 and 3

3. Ans: b
Explanation:
Inflation is generally considered as rise in the prices. To be more correct, inflation is a persistent rise in the general price level rather than a once-for-all rise in it. On the other han, deflation represents persistently falling prices. Depending upon the specific causes, three types of inflation have been distinguished:

1. Demand-pull inflation
2. Cost-push inflation
3. Structuralist inflation

An important cause for demand-pull inflation is the excessive growth of money supply in the economy.
According to Quantity theorists excess money supply results in the increase in aggregate demand for goods and services which leads to inflation.
If RBI buys government securities, money will be infused which leads to increase in money supply which is again inflationary.
Tight /Dear monetary policy means RBI increases the interest rates to decrease the money supply.
Hence, statement 1 is incorrect.

One of the function of central Bank/ RBI is to maintain stability of exchange rates. The Rupee exchange rate is determined by the market demand and supply.
With the objective of curbing volatility in exchange rate, **RBI makes sales or purchases of foreign currency in the forex market** .
Whenever there is **fall in interest rate in US** , there will be **flight of capital from US or capital inflows into India** as a result American firms , Banks , Corporations will invest in high yielding Indian securities. Inorder to buy Indian securities they will have to convert Dollars to Indian Rupees , that will increase the demand for rupee. **Such flows lead to appreciation of Rupee** because of increase in supply of dollars in the forex market. So a **relatively higher interest rate in India** as compared to US will lead to **depreciation of dollar and appreciation of Rupee.**

When rupee appreciates RBI buys dollar creating demand for dollar and when rupee depreciates RBI sells dollar creating demand for rupee to keep the Indian Rupee from depreciating sharply.

Such sales and purchases are not governed by a predetermined target or band around the exchange rate.
Hence, statments 2 and 3 are correct.

4. With reference to the "G20 Common Framework", consider the following statements:
1. It is an initiative endorsed by the G20 together with the Paris Club.
2. It is an initiative to support low-income countries with unsustainable debt.
Which of the statements given above is/are correct?
(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2

4. Ans: c
Explanation:
The **Common Framework for debt treatment beyond the DSSI (Common Framework)** is an initiative endorsed by the **G20, together with the Paris Club to support, in a structural manner, Low Income Countries with unsustainable debt.**

The **Common Framework considers debt treatment, on a case-by-case basis, driven by requests from eligible debtor countries**. In response to a request for debt treatment, a Creditor Committee is convened. **Negotiations are supported by the IMF and the World Bank, including through their Debt Sustainability Analysis**.

The idea is that the debt treatment under the Common Framework should be accompanied by reforms ensuring the future sustainability of public debt, and consistent with the parameters of an Upper Credit Tranche (UCT) IMF-supported program.
Hence, statements 1 and 2 are correct.

5. With reference to the Indian economy, what are the advantages of "Inflation-Indexed Bonds (IIBs)"?
1. The government can reduce the coupon rates on its borrowing by way of IIBs.
2. IIBs provide protection to investors from uncertainty regarding inflation.
3. The interest received as well as capital gains on IIBs are not taxable.
Which of the statements given above are correct?
(a) 1 and 2 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2 and 3

5. Ans: a
Explanation:

Inflation-Indexed Bonds
Inflation-Indexed Bonds, also known as inflation Bonds, are a type of government-issued security designed to protect investors from inflation, these bonds adjust their principal value and interest payments based on the inflation rate, as measured by **Consumer Price index (CPI).**

If Inflation Bonds are purchased , the principal amount is adjusted periodically based on the changes in CPI i.e if inflation rises, the bond's principal increases, and if inflation falls, the principal decreases. As aresult , the interest payments, which are calculated as a percentage of the adjusted principal, also vary with inflation.

Example of working IIBs:
Suppose an investor purchases an IIB with a face value of Rs. 1,00,000, a ten-year maturity, and a Coupon rate of 3% above inflation.
If the inflation rate is 4% when the bond is issues, the investor will receive an annual interest payment of Rs. 3120 (3% of INR 1,04,000) in the first year instead of Rs.3000
If the inflation rate increases to 5% in the second year, the investor will receive an annual interest payment of Rs. 3276. 0 (3% of INR 1,09,200) in the second year.
The Coupon rate will remain at 3% above inflation throughout the ten-year tenure.
IIBs will provide inflation protection to both principal and interest payments.

- Capital protection will be provided by paying higher of the adjusted principal and face value (FV) at redemption. If adjusted principal goes below FV due to deflation, the FV would be paid at redemption and thus, capital will get protected.
- Interest rate will be provided protection against inflation by paying fixed coupon rate on the principal adjusted against inflation.

Hence statement 2 is correct.

Taxation provisions:
Extant tax provisions will be applicable on interest payment and capital gains on IIBs. **There will be no special tax treatment for these bonds.**

Hence statement 3 is incorrect.

Since IIBs would be Government securities (G-Sec)

- The different classes of investors eligible to invest in G-Secs would also be eligible to invest in IIBs.
- They can be tradable in the secondary market like other G-Secs.
- Would be eligible for short-sale and repo transactions.
- IIBs would automatically get SLR status.

Like other G-Secs, coupon on IIBs would be paid on half yearly basis. Fixed coupon rate would be paid on the adjusted principal.

Indexed bonds could reduce government borrowing costs: If the market overestimates future inflation, government will reduce borrowing costs by issuing indexed bonds rather than nominal bonds. This may occur because government is able to influence inflation through its policies, may have better information about the future course of inflation, or perhaps has more faith in its commitment to contain it than the public does. In these cases the government can lower its costs by

issuing indexed bonds as the nominal interest rate (i) is the sum of the real rate (r) and expected inflation (p).
Hence statement 1 is correct.

6. With reference to foreign-owned e-commerce firms operating in India, which of the following statements is/are correct?
1. They can sell their own goods in addition to offering their platforms as marketplaces.
2. The degree to which they can own big sellers on their platforms is limited.
Select the correct answer using the code given below:
(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2

6. Ans: d
Explanation:

The Department of Industrial Policy and Promotion (DIPP) has issued the 'Consolidated FDI Policy Circular of 2020' ("FDI Policy"), which provides Foreign Direct Investment (FDI) regulations in Indian e-commerce in order to protect local retailers and small businesses from unfair competition.

- **Marketplace model: The current FDI policy in India allows 100% FDI** under the automatic route for the **marketplace model** of e-commerce activities which means the **e-retailer does not sell directly to consumers**, but provides a **platform to other sellers and acts as a facilitator between the buyer and the seller.**
- **Inventory Model: T**he FDI policy in India **prohibits foreign investment in the business of selling directly to consumers** in the digital marketplace which means **FDI is not permitted for the inventory-based model of e-commerce activities**.
- B2B and B2C transactions: FDI guidelines in India **allow business-to-business (B2B) e-commerce while putting restrictions on business-to-consumer (B2C) e-commerce**.

This means **foreign companies can establish e-commerce platforms that act as intermediaries between buyers and sellers without owning the goods sold**. The policy is designed to ensure prevent price manipulation and avoid capital dumping, which could harm local businesses.

Additionally, foreign e-commerce entities must meet several conditions, including ensuring no single vendor accounts for more than 25% of their sales, submitting annual compliance reports to the Reserve Bank of India (RBI) and adhering to various GST compliance for e-commerce regulations.
Hence, both statements 1 & 2 are incorrect.

7. Which of the following activities constitute a real sector in the economy?
1. Farmers harvesting their crops
2. Textile mills converting raw cotton into fabrics
3. A commercial bank lending money to a trading company
4. A corporate body issuing Rupee Denominated Bonds overseas
(a) 1 and 2 only
(b) 2, 3, and 4 only
(c) 1, 3 and 4 only
(d) 1, 2, 3, 4

7. Ans: a
Explanation:
Every economy as having four broad economic sectors
1. The real sector: The real sector comprises production and expenditure in the economy. Its accounts measure the total activity in the economy, described either from the standpoint of production, expenditure, or income.

2. The external sector: The external sector covers the relations between the economy and the rest of the world. The economic aspects of these relations are recorded in a set of accounts called the balance of payments.

3. The fiscal sector: The fiscal sector involves the activities of government and government-owned non-financial entities called public or stateowned enterprises. Fiscal data include information on government and state enterprise debt and debt service.

4. The monetary sector: The monetary sector comprises the activities of the economy's financial institutions, including its central bank or monetary authority, the commercial (deposit money) banks, and other financial institutions, such as investment banks, finance companies, credit unions, and any microfinance entities.
- Farmers harvesting their crops - The Real sector
- Textile mills converting raw cotton into fabrics - The Real sector
- A commercial bank lending money to a trading company - The monetary sector.
- A corporate body issuing Rupee Denominated Bonds overseas - The external sector.

Hence statement 1, 2 are correct and 3, 4 are incorrect.

8. Which one of the following situations best reflects "Indirect Transfers" often talked about in media recently with reference to India?
(a) An Indian company investing in a foreign enterprise and paying taxes to the foreign country on the profits arising out of its investment
(b) A foreign company investing in India and paying taxes to the country of its based on the profits arising out of its investment
(c) An Indian company purchases tangible assets in a foreign country and sells such assets after their value increases and transfers the proceeds to India
(d) A foreign company transfers shares and such shares derive their substantial value from assets located in India

8. Ans: d

Explanation:

A "transfer" is a change in the direct or indirect ownership of an asset, in whole or in part, whether between independent or related parties. Transfers of ownership may give rise to a taxable capital gain (or loss). It has been defined to include sale, exchange, relinquishment and extinguishment of rights.

Transfers can be 'direct' or 'indirect':

A **direct transfer** involves the disposition of a direct ownership interest in an asset, in whole or in part.

An **indirect transfer** involves the disposition of an indirect ownership interest in an asset, in whole or in part. It is the underlying asset that is being indirectly transferred. It is the transfer of **shares of an overseas company which derive its value substantially, directly or indirectly from the assets located in India,** are **deemed to be assets situated in India**. **Direct or indirect transfer of such share triggers tax liability in India.**

Hence, option d is correct.

9. With reference to the expenditure made by an organization or a company, which of the following statements is/are correct?

1. Acquiring new technology is capital expenditure.
2. Debt financing is considered capital expenditure, while equity financing is considered revenue expenditure.

Select the correct answer using the code given below:

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

9. Ans: a

Explanation:

A capital expenditure ("CapEx" for short) is the payment with either cash or credit to purchase long-term physical or fixed assets used in a business's operations and are considered an investment by a company in expanding its business.

CapEx is important for companies to grow and maintain their business by investing in new property, plant, equipment (PP&E), products, and technology.

Debt: Refers to issuing bonds to finance the business.

Equity: Refers to issuing stock to finance the business.

Debt and equity financing does not involve any expenditure.

Hence, statement 1 is correct & statement 2 is incorrect.

10. With reference to the Indian economy, consider the following statements:

1. A share of the household's financial savings goes towards government borrowings.
2. Dated securities issued at market-related rates in auctions form a large component of internal debt.

Which of the above statements is/are correct?
(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2

10. Ans: c
Explanation:
The fiscal deficit indicates the total borrowing requirements of the government from all sources.
Gross fiscal deficit = Net borrowing at home + Borrowing from RBI + Borrowing from abroad.
Net borrowing at home includes that directly borrowed from the public through debt instruments (for example, the various small savings schemes) and indirectly from commercial banks (People deposits their savings with commercial bank) through Statutory Liquidity Ratio (SLR).

The **Central Government Debt includes all liabilities of Central Government** contracted against the **Consolidated Fund of India (defined as Public Debt)**, other liabilities in the Public Account, (called Other Liabilities) and liabilities of Extra Budgetary Resources (EBR) raised by issuing GoI Fully Serviced Bonds.
Public debt is further classified into internal and external debt.
Internal debt consists of marketable debt and non-marketable debt.
Marketable debt comprises of Government dated securities and Treasury Bills, issued through auctions, Cash Management Bills.
Non-marketable debt comprises of Intermediate Treasury Bills (14 days ITBs) issued to State Governments/UTs of Jammu & Kashmir and Puducherry as well as select Central Banks, special securities issued against small savings, special securities issued to public sector banks/EXIM Bank, IDBI and IIFCL, special securities issued against POLIF (Postal life insurance), securities issued to international financial institutions, and compensation and other bonds, Ways and Means advance.

External debt is the money that a country borrows from a source external to it and has to be repaid in the currency in which it was borrowed after a certain period of time. Most of the time such money is borrowed from foreign institutions like foreign commercial banks and international financial institutions such as the International Monetary Fund (IMF), World Bank, Asian Development Bank (ADB) and also from the governments of foreign nations. Majority of India's external debt comes from multilateral institutions.

Other liabilities include liabilities on account of State Provident Funds, Reserve Funds and Deposits, Other Accounts, etc.

- Of the Central Government total gross liabilities at end-March 2022**, 95.3 per cent wer**e denominated in **domestic currency** while **sovereign external debt constituted 4.7 per cent**, implying low currency risk.Further, the sovereign external debt is mainly from official sources, which minimises the risk associated with the volatility in the international capital markets.
- The **share of marketable securities in internal debt at 76.9 per cent at end-March 2022.**
- Public debt in India is primarily **contracted at fixed interest rates, with floating internal debt constituting only 1.9 per cent of GDP** at end-March 2022. The debt portfolio is, therefore, insulated from interest rate volatility, which also provides stability to interest payments.

- Of the overall Central Government debt, about 92 per cent is internal debt and 8 per cent is external debt. The **internal debt largely consists of market loans in the form of dated securities which are contracted through auction.**

Table 1.2(A): Debt Position of the Central Government (₹ Crore)

	Actuals (end-March)				
Components	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
1	2	3	4	5	6
A. Public Debt (A1+A2)	**7549380**	**8564885**	**10524372**	**12120677**	**13822188**
A1. Internal Debt (a+b)	**7074941**	**8020491**	**9909543**	**11462343**	**13073732**
a. Marketable Securities (i+ii+iii)	5968711	6560225	7859506	8817283	9989233
(i) Dated Securities	5547829	6021815	7168555	8060085	9165921
(ii) Treasury Bills	420882	458410	690950	757198	823313
(iii) Cash Management Bills		80000	0	0	0
b. Non-marketable Securities (i to vii)	1106230	1460266	2050037	2645059	3084498
(i) 14 Day Intermediate T-Bills	122336	154911	205576	216766	213984
(ii) Compensation & Other Bonds [5]	57059	67285	104267	131202	133591
(iii) Securities issued to Intl. Fin. Institutions	106523	101909	100301	101329	96625
(iv) Securities against small savings	608919	848919	1332652	1883921	2279780
(v) Special Sec. against POLIF	20894	20894	20894	20894	20894
(vi) Special Securities issued to PSB/ EXIM Bank/ IDBI Bank/ IIFCL	190500	266348	286348	290948	290948
(vii) Ways and Means Advances	0	0	0	0	48677
A2. External Debt (Current Rate of Exchange - CR)	**474439**	**544394**	**614829**	**658334**	**748456**
B. Public Account - Other Liabilities (a to d)	**1812016**	**1878732**	**1761273**	**1644217**	**1656799**
(a) National Small Savings Fund	892689	932964	754795	536723	446232
(b) State Provident Fund	216795	228430	246944	257260	262349
(c) Other Accounts	400022	412895	425585	430469	410080
(d)Reserve Funds and Deposit (i+ii)	302510	304444	333949	419766	538137
(i) Bearing Interest	211436	160862	215480	248846	263790
(ii) Not bearing interest	91074	143582	118469	170919	274347
C. Pakistan pre-partition debt (approx)	300	300	300	300	300
D. Total (net) Liabilities in line with reporting in Union Budget (A1+B-C+E)	**9156618**	**10198173**	**12058988**	**13545615**	**15223388**
E. External Debt -Historical Rate of Exchange (HR)	269961	299250	388472	439355	493157
F. Extra-Budgetary Resources (EBRs)	89864	111870	138536	139287	137869
G. Cash Balance	125421	48332	237519	37756	5001
H. Gross Liabilities as per FRBM Act (A+B-C+F-G)	**9325539**	**10506855**	**12186361**	**13866125**	**15611554**
Memo Items					
I. Securities issued by States to NSSF	471206	440438	415506	390930	353834
II NSSF Loans to other Public Agencies	72636	88946	92636	85570	85350
III. Post Office Insurance Funds with Fund Managers [6]	73403	82963	92178	105363	116809
I. Net Adjusted Liabilities (H-I-II-III)	**8708294**	**9894508**	**11586041**	**13284262**	**15055562**

Source: Union Budget and Finance Accounts (Various Issues); CGA.

Hence, both statements 1 & 2 are correct.

11. Consider the following statements:

1. In India, credit rating agencies are regulated by the Reserve Bank of India.
2. The rating agency popularly known as ICRA is a public limited company.

3. Brickwork Ratings is an Indian credit rating agency.
Which of the statements given above are correct?
(a) 1 and 2 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2 and 3

11. Ans: b
Explanation:
A credit rating agency is an entity which assesses the ability and willingness of the issuer company for timely payment of interest and principal on a debt instrument. Credit rating is an assessment of the probability of default on payment of interest and principal on a debt instrument. The debt instruments rated by CRAs include Government bonds, Corporate bonds, CDs, Mortgage - backed securities and Collateralized debt obligations.
Rating is denoted by a simple alphanumeric symbol, for e.g. AA+, A- etc. Ratings are based on a comprehensive evaluation of the strengths and weaknesses of the company fundamentals including financials along with an in depth study of the industry as well as macro-economic, regulatory and political environment.
Credit rating agencies are regulated by SEBI.
Hence, statement 1 is incorrect.

Domestic Credit rating agencies registered with SEBI are
Credit Analysis & Research Ltd (CARE) ,
Investment Information and Credit Rating Agency of India Limited (ICRA Ltd),
Credit Rating and
Information Services of India Ltd (CRISIL),
Fitch Ratings India Pvt Ltd ,
Brickwork Ratings India Pvt.Ltd.,
SME Rating Agency of India Ltd (SMERA) - Small &Medium Enterprises Rating Agency of India Ltd., a joint initiative of SIDBI, DUN & BRADSTREET and leading banks .
Some international credit rating agencies - Standard & Poor (S&P), Moodys , Fitch .
Credit
Hence, statement 3 is correct.
Investment Information and Credit Rating Agency of India Limited (ICRA Ltd) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.
Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.
Hence, statement 2 is correct.

12. With reference to the 'Banks Board Bureau (BBB)', which of the following statements is correct?
1. The Governor of RBI is the Chairman of BBB.
2. BBB recommends the selection of heads for Public Sector Banks.
3. BBB helps the Public Sector Banks in developing strategies and capital-raising plans.

Select the correct answer using the code given below:
(a) 1 and 2 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2 and 3

12. Ans: b
Explanation:
Financial Services Institutions Bureau **earlier known as Bank Board Baureau** has been constituted by Central Government for the purpose o**f recommending persons for appointment as whole-time directors and non-executive chairpersons on the Boards of financial services institutions and for advising on certain other matters relating to personnel management in these institutions.**

The members of the government-appointed selection panel are Financial Services Secretary, Department of Public Enterprises Secretary and an RBI Deputy Governor select the Chairman of FSIB.

The functions of the Bureau as outlined in the Clause 2 of the Government Resolution are :-
a) To recommend persons for appointment as whole-time directors (WTDs) and non-executive chairpersons (NECs) on the Boards of Directors in **Public Sector Banks, financial institutions and Public Sector Insurers** (hereinafter referred to as "PSBs", "FIs" and "PSIs" respectively);
b) To advise the Government on matters relating to appointments, transfer or extension of term of office and termination of services of the said directors;
c) To advise the Government on the desired management structure at the Board level for PSBs, FIs and PSIs;
d) To advise the Government on a suitable performance appraisal system for WTDs and NECs in PSBs, FIs and PSIs;
e) To build a databank containing data related to the performance of PSBs, FIs and PSIs;
f) To advise the Government on formulation and enforcement of a code of conduct and ethics for whole-time directors in PSBs, FIs and PSIs;
g) To advise the Government on evolving suitable training and development programmes for management personnel in PSBs, FIs and PSIs;
h) To **help PSBs, FIs and PSIs in terms of developing business strategies and capital raising plan etc.;**
i) To carry out such process and draw up a panel for consideration of competent authority for any other bank, financial institution or insurer for which the Government makes a reference, after consultation with the regulator concerned with that bank, financial institution or insurer.
Hence, statement 1 is incorrect and 2 and 3 are correct.

13. Convertible Bonds consider the following statements:
1. As there is an option to exchange the bond for equity, Convertible Bonds pay a lower rate of interest.
2. The option to convert to equity affords the bondholder a degree of indexation to rising consumer prices.
Which of the statements given above is/are correct?
(a) 1 only
(b) 2 only
(c) Both 1 and 2

(d) Neither 1 nor 2

13. Ans: c

Explanation:

What Is a Convertible Bond?

- Convertible bonds are powerful financial instruments that effectively combine the advantages of both bonds and stocks. These fixed-income securities not only provide regular interest payments but also grant investors the right to convert their bonds into a specified number of company shares, enabling them to directly participate in the company's growth. When a company's stock performs strongly, the value of convertible bonds can rise significantly, offering a robust hedge against inflation.
- Investors can strategically choose to convert their bonds into shares at a predetermined time, with specific conversion terms laid out at the bond's issuance. This feature empowers investors to earn consistent interest while also taking advantage of potential stock price surges. Consequently, convertible bonds generally come with lower interest rates compared to traditional corporate bonds, reflecting the valuable option to convert into equity shares.
- Convertible bonds are also often traded on secondary markets, meaning investors can choose to buy or sell them before maturity.However, the liquidity of each of these types of bonds may be dramatically different depending on the issuer's credit rating and prevailing market conditions.

Hence, statements 1 and 2 are correct.

14. In India, which one of the following is responsible for maintaining price stability by controlling inflation?

(a) Department of Consumer Affairs
(b) Expenditure Management Commission
(c) Financial Stability and Development Council
(d) Reserve Bank of India

14. Ans: d

Explanation:

A **core function of the Reserve Bank has been the formulation and implementation of monetary policy with the objectives of maintaining price stability and ensuring adequate flow of credit to productive sectors of the economy.** To these was added, in more recent times, the goal of maintaining financial stability.

The objective of maintaining financial stability has spanned its role from external account management to oversight of banks and non-banking financial institutions as also of money, government securities and foreign exchange markets.

Hence, option d is correct.

15. With reference to Non-Fungible Tokens (NFTs), consider the following statements:

1. They enable the digital representation of physical assets.
2. They are unique cryptographic tokens that exist on a blockchain.

3. They can be traded or exchanged at equivalency and therefore can be used as a medium transaction of commercial transactions.

Which of the statements given above are correct?

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

15. Ans: a

Explanation:

An NFT or non-fungible token is a unique digital asset stored on the blockchain that serves as proof of ownership or authenticity for a digital or physical item/right. Unlike fungible assets, **NFTs are one-of-a-kind and cannot be replaced.** They use blockchain technology to provide decentralized, secure, and transparent **records of ownership and transfers.**

There is a close link between NFTs and cryptocurrencies as many NFTs are traded in cryptocurrencies.

Fundamentally, NFTs are digital certificates that hold the potential to deliver significant value for both organizations and end users. For companies, NFTs provide a new way to connect with customers and create loyal communities. For users, they provide a new avenue for inclusive ownership in digital goods.

Hence, statemetnt 2 is correct.

Non-fungible tokens, or NFTs, are digital representations of unique assets stored on the blockchain. They are a key component of Web3, allowing for new forms of digital interactions, ownership and exchange. NFTs are unique, and their ownership is recorded on the blockchain, so they cannot be duplicated or counterfeited.

Hence, statement 1 is correct.

Cryptocurrencies are usually fungible from a financial perspective, meaning that they c**an be traded or exchanged, one for another.** This **fungibility characteristic makes cryptocurrencies suitable as a secure medium of transaction in the digital economy.**

In NFTs each token is unique and irreplaceable, making it impossible for one non-fungible token to be "equal" to another. They are digital representations of assets and have been likened to digital passports because each token contains **a unique, non-transferable identity to distinguish it from other tokens. They are also extensible**, **meaning one NFT can be combines with another to create a third, unique NFT— this is called "breeding."**

Hence, statement 3 is incorrect.

16. In India, which one of the following compiles information on industrial disputes, closures, retrenchments, and lay-offs in factories employing workers?

(a) Central Statistics Office
(b) Department for Promotion of Industry and Internal Trade
(c) Labour Bureau

(d) National Technical Manpower Information System 2021

16. Ans: c

Explanation:

The statistics on work-stoppages, closures, retrenchments and lockouts collected under the Industrial Disputes Act, 1947, bring out the industrial relations scenario in the country. As these statistics play a crucial role in making policies for cordial and harmonious relations between the management and the workers and also meeting the demand for historical data and information on industrial conflicts and their causes by the planners, policy makers and decision makers in industry and government .

Labour Bureau brings out up-to-date statistics on work-stoppages, closures, retrenchments and lockouts in its annual publication titled, **'Industrial Disputes, Closures, Retrenchments and LayOffs in industries in India'.**

Hence, option c is correct.

Previous Year UPSC Economy Questions (PYQs) With Explanation 2021

There were 15 Questions from Economy in 2021, of which

- **4 Questions on Economy Basics (Recession, Demand, Inflation, Water Credit)**
- **4 Questions on Money & Banking (RBI, Cooperative Banks, Money Multiplier, Lender of Last Resort)**
- **2 Questions on Balance of Payments (FDI, Devaluation)**
- **2 Questions on Capital & Money Market (Government Bond, Treasury Bill)**
- **2 Questions on Fiscal Policy (Black Money, Budget Deficit)**
- **1 Question on Employment & Unemployment (Casual Workers)**

Examiner tested candidates' conceptual and analytical abilities and understanding of current issues in Economy.

The level of the questions was moderate.

1. Consider the following statements:
1) The Governor of the Reserve Bank of India (RBI) is appointed by the Central Government.
2) Certain provisions in the Constitution of India give the Central Government the right to issue directions to the RBI in public interest.
3) The Governor of the RBI draws his power from the RBI Act.
Which of the above statements are correct?
(a) 1 and 2 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2 and 3

1. Answer: c
Explanation:
According to **Section 8 of the Reserve Bank of India Act 1934** - the Governor and not more than four Deputy Governors of RBI are to be appointed by the Central Government;
The Governor and a Deputy Governor shall hold office for such term not exceeding five years as the Central Government may fix when appointing them, and shall be eligible for re-appointment.
Hence, statement 1 is correct.

According to **Section 7 (1) in the Reserve Bank of India Act, 1934 -** The Central Government may from time to time give such directions to the Bank as it may, after consultation with the Governor of the Bank, consider necessary in the public interest.

The RBI Governor and deputy governor are appointed through the Prime Minister's Office on the recommendation of Finance Ministry.
Hence, statement 2 is incorrect.

Section 7 (3) in The Reserve Bank of India Act, 1934
The Governor and, in his absence, the Deputy Governor nominated by him in his behalf shall also have powers of general superintendence and direction of the affairs and the business of the Bank, and may exercise all powers and do all acts and things which may be exercised or done by the Bank.
Hence, statement 3 is correct.

2. With reference to casual workers employed in India, consider the following statements:
1. All casual workers are entitled to Employees Provident Fund coverage.
2. All casual workers are entitled to regular working hours and overtime payment.
3. The government can by a notification specify that an establishment or industry shall pay wages only through its bank account.

Which of the above statements is correct?
a) 1 and 2 only
b) 2 and 3 only
c) 1 and 3 only
d) 1, 2 and 3

2.Answer: b
Explanation:
After rendering three years' continuous service after conferment of temporary status casual workers, the **casual labourers would be treated on par with temporary Group 'D' employees for the purpose of contribution to the General Provident Fund.**
Hence, statement 1 is incorrect.

Where the **nature of work entrusted to the casual workers and regular employees is the same,** the casual workers may be paid at the rate of 1/30th of the pay at the minimum of the relevant pay scale plus **dearness allowance for work of 8 hours a day.**
Hence, statement 2 is correct.

The Payment of Wages (Amendment) Act 2017 enables the employers to pay the wages to their employees in cash or by Cheque or by crediting the wages in the bank account.
Hence, statement 3 is correct.

3. Which among the following steps is most likely to be taken at the time of an economic recession?
(a) Cut in tax rates accompanied by an increase in interest rate
(b) Increase in expenditure on public projects

(c) Increase in tax rates accompanied by reduction of interest rate
(d) Reduction of expenditure on public projects

3.Answer: b
Explanation:
Recession or **involuntary unemployment** comes into existence because of deficiency of aggregate demand brought about by fall in investment.
Equilibrium in national income and increase in employment can be achieved through:
- (a) The government **reducing income tax**, which leads to an increase in consumption functions.
- (b) **Raising the rate of private investment** by decreasing interest rates by the Central Bank and thus improving credit availability.
- (c) **Increasing Government expenditure (on public works as suggested by Keynes).**
- (d) Expansion of positive Net exports, i.e., **expansion of exports** by tax concessions**.**

Hence, option b is correct.

4. Consider the following statements:
Other things remaining unchanged, market demand for a good might increase if
1. The price of its substitute increases
2. The price of its complement increases
3. The good is an inferior good and the income of the consumers increases
4. Its price falls

Which of the above statements is correct?
(a) 1 and 4 only
(b) 2, 3 and 4
(c) 1, 3 and 4
(d) 1, 2 and 3

4.Answer: a
Explanation:
Demand represents the whole demand schedule and shows **how price of a good is relatable to quantity** which the consumers are willing or able to buy, other factors which determine demand held constant.
Change in demand for a commodity occurs when there is a change in the factors other than prices namely:
- **(a) Income of consumer increases**
- **(b) Preferences of the people for a commodity increase.**
- **(c) Expectations about future prices that a commodity price may increase in future.**
- **(d) The price of related commodities, such as substitutes and complements, also changes the demand for a commodity.**

Example: If the price of coffee rises, other factors remaining constant, this will cause the demand for tea.
Hence, option a is correct.

5. With reference to urban cooperative banks in India consider the following statements:
1. They are supervised and regulated by local boards set up by the state governments

2. They can issue equity shares and preference shares.
3. They were brought under the purview of the Banking Regulation Act, of 1949 through an Amendment in 1966.

Which of the statements given above is/are correct?

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

5.Answer: b

Explanation:

The term Urban Co-operative Banks (UCBs), though not formally defined, refers to primary cooperative banks located in urban and semi-urban areas. These banks, till 1996, were allowed to lend money only for non-agricultural purposes. This distinction does not hold today.

Large cooperative banks with paid-up share capital and reserves of Rs.1 lakh were brought **under the purview of the Banking Regulation Act 1949 with effect from 1st March, 1966 and within the ambit of the Reserve Bank's supervision.**

This marked the beginning of an era of duality of control over these banks. Banking related functions (viz. licensing, area of operations, interest rates, etc.) were to be **governed by RBI** and **registration, management, audit and liquidation, etc. governed by State Governments** as per the provisions of respective State Acts.

In 1968, UCBS extended the benefits of Deposit Insurance.

Hence, option b is correct.

6. Indian Government Bond Yields are influenced by which of the following?

1. Actions of the United States Federal Reserve
2. Actions of the Reserve Bank of India
3. Inflation and short-term interest rates

Select the correct answer using the code given below.

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

6.Answer: d

Explanation:

Actions of the United States Federal Reserve:

If the federal government cuts interest rates, then borrowing costs will be lowered, and spending and investment will be encouraged in the US; such action has impact worldwide.

Actions of the Reserve Bank of India:

RBI controls short-term interest rates and uses monetary policy to manage inflation and liquidity. When RBI raises interest rates, Bond Yields automatically rises.

Inflation and short-term interest rates:

Inflation- It can reduce the real returns on bonds, causing investors to demand higher yields.

Short-term interest rates- Interest rates are a key part of a nation's monetary policy. With short-term bonds, this risk is not as significant because interest rates are less likely to change substantially in the short term. Short-term bonds are also easier to hold until maturity, thereby alleviating an investor's concern about the effect of interest rate-driven changes in the price of bonds.

Hence, option d is correct.

7. Consider the following:

1. Foreign currency convertible bonds.
2. Foreign institutional investment with certain conditions
3. Global depository receipts
4. Non-resident external deposits

Which of the above can be included in Foreign Direct Investments?

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

7.Answer: a

Explanation:

FDI is the investment made by an entity of an economy other than its national economy, into an entity of a foreign nation where it wants to have substantial influence and control over the entity.
FPI are the foreign institutional or individual investors who invest in the security market other than the domestic security market, in different class of assets like bonds, debenture, equity etc.
Global Depository Receipts is a financial instrument in the form of depository created by the overseas depository banks/financial institutions issued in more than one country. GDR is just like ADR but traded in non-US market like Japan, London, Singapore, Hong Kong or any other stock exchanges.
Foreign Currency Convertible Bonds. (FCCB) are bonds issued by the Indian company expressed in foreign currency, to the nonresident investors.
The principal and interest in respect of the instrument are paid in the specified foreign currency. The **bonds are convertible into shares of the issuing company in any manner** like, wholly or partly or on the basis of any equity-related warrant attached to the debt security.

Hence, option a is correct.

8. Consider the following statements:

The effect of devaluation of a currency is that it necessarily

1. Improves the competitiveness of the domestic exports in the foreign markets
2. Increases the foreign value of domestic currency
3. Improves the trade balance

Which of the above statements is/are correct?

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

8.Answer: a

Explanation:

Appreciation of a currency is the increase in its value in terms of another foreign currency where as **Depreciation of a currency is the decrease in its value in terms of another foreign currency.**
In case of devaluation by the government, the prices of Indian exports in terms of foreign currency (say dollar) will fall and will Improve the competitiveness of the domestic exports. This will cause the increase in quantity demanded of Indian exports. As a result Indian exports will increase.
Devaluation or depreciation makes the imports from abroad expensive in terms of domestic currency (rupees in case of India), and therefore, **the imports tend to fall**. With exports increasing and imports declining it is ***expected*** that devaluation (depreciation) will reduce a country's trade deficit.
However, it may be noted that the effect of devaluation or depreciation on balance of trade is ambiguous and quite uncertain because a good deal depends on the ***price elasticity*** of exports and imports of a country and necessarily need not improve trade balance.
Hence, statement 1 is correct & statements 2, 3 are incorrect.

9. Which one of the following effects of the creation of black money in India has been the main cause of worry to the Government of India?
(a) Diversion of resources to the purchase of real estate and investment in luxury housing
(b) Investment in unproductive activities and purchase of precious stones, jewellery, gold, etc.
(c) Large donations to political parties and the growth of regionalism
(d) Loss of revenue to the state exchequer due to tax evasion

9.Answer: d

Explanation:

Black money is a term used in common parlance to refer to **money that is not fully legitimate in the hands of the owner.** This could be for two possible reasons

- money may have been generated through illegitimate activities not permissible under the law, like crime, drug trade, terrorism, and corruption
- wealth may have been generated and accumulated by failing to pay the dues to the public exchequer in one form or other.

Impacts of 'Black Money'

Its major impact is the **loss in revenue collection as it loses the tax which would have come to the Exchequer** if such transactions had been done in the open and duly accounted for.
Black money situation results in an **under-estimation of resources** available in the country which can distort major investment targets and objectives of the government's planning.
In order to avoid detection, these **ill-gotten gains** are kept either outside the country as deposits in foreign bank accounts which deprive the country of a part of its wealth that could have been used for growth or is hoarded within the country and **results in immobilisation of investible funds,** which could have **helped in the economic growth of the country.**
Black money provides an **alternative source of credit at a 'free market'** rate which defeats the Government's economic policies, particularly related to credit and investment, and makes them ineffective.

Lead to **economic inequality and concentration** of wealth in the hands of the unscrupulous few in the country.
Black money **encourages over-financing of business** which adds further to the inflationary pressures in the country.
Hence, option d is correct.

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

10.Answer: d
Explanation:
Money financing was earlier called Deficit financing, refers to created Money. **The Government borrows from the Central Bank,** which is a note-issuing authority. The Central Bank simply issues more notes and gives them to the Government against Government securities i.e., the creation of additional purchasing power in the form of currency notes.
This is referred to as monetisation of fiscal deficit.
Since **Deficit financing involves expansion of the money supply with the Public, it has inflationary potential**.
Hence, option d is correct.

11. The money multiplier in an economy increases with which one of the following?
(a) Increase in the cash reserve ratio in the banks
(b) Increase in the Statutory Liquidity Ratio in the banks
(c) Increase in the banking habits of the people
(d) Increase in the population of the country

11.Answer: c
Explanation:
High powered money: Refers to notes and coins issued by the government and RBI.
Money supply: Is total stock of monetary media.
As a standard concept money supply is composed of two elements:
   (a) Currency with public
   (b) Demand deposit with public
The relationship between High powered money and Money supply is determined by the money multiplier, i.e.,
Money multiplier (m) = Money supply (M)/ High powered money (H)
Size of money multiplier is determined by- (i) Cash Reserve Ratio of Banks; (ii) Currency-Deposit Ratio of public; together determine money multiplier.
Hence, option c is correct.

12. With reference to the Indian economy, demand-pull inflation can be caused/increased by which of the following?

1. Expansionary policies
2. Fiscal stimulus
3. Inflation-indexing wages
4. Higher purchasing power
5. Rising interest rates

Select the correct answer using the code given below.
(a) 1, 2, and 4 only
(b) 3, 4 and 5 only
(c) 1, 2, 3 and 5 only
(d) 1, 2, 3, 4 and 5

12.Answer: a
Explanation:
Demand-pull inflation /monetary theory of inflation:
The reason for demand-pull inflation is increase in aggregate demand,i.e., aggregate demand cannot be met by current supply.
Aggregate demand is the sum of:
Consumer spending on goods & services **+** Government spending on goods and services **+** Net investment made by entrepreneurs.

According to the monetary theory of inflation, inflation is always, and everywhere, a phenomenon,i.e., an **increase in money supply is the cause of inflation.**
So, the factors determining demand-side inflation are:
(a) Increase in money supply (by decrease in interest rate)
(b) Increase in disposable income.
(c) **Fiscal stimulus**-i.e., government spending more and reducing taxes.
(d) Increase in business outlay, i.e., capital expansion.

Hence, option a is correct.

13. With reference to India, consider the following statements:
1. Retail investors through demat accounts can invest in 'Treasury Bills' and 'Government of India Debt Bonds' in the primary market.
2. The 'Negotiated Dealing System-Order Matching' is a government securities trading platform of the Reserve Bank of India.
3. The 'Central Depository Services Ltd' is jointly promoted by the Reserve Bank of India and the Bombay Stock Exchange.

Which of the statements given above is/are correct?
(a) 1 only
(b) 1 and 2
(c) 3 only
(d) 2 and 3

13.Answer: b
Explanation:
Retail investors are allowed participation on a "non-competitive" basis in select auctions of dated **Government of India (GoI) securities and Treasury Bills; stock exchanges have launched debt**

trading (G-Secs as also corporate bonds) segment to cater to the needs of retail investors in Demat form.
Hence, statement 1 is correct.

The securities can be bought/sold in the secondary market through Negotiated Dealing System-Order Matching (NDS-OM)
In August 2005, **RBI introduced an anonymous screen-based order-matching module called NDS-OM.** This is an order-driven electronic system, where the participants can trade anonymously by placing their orders on the system or accepting the orders already placed by other participants.
Hence, statement 2 is correct.

NDS-OM is operated by the Clearing Corporation of India Limited (CCIL) on behalf of the RBI.

What is a Depository?

A depository is an organisation which holds securities **(like shares, debentures, bonds, government securities, mutual fund units etc.)** of investors in electronic form at the request of the investors through a registered Depository Participant. It also provides services related to transactions in securities.

It can be compared with a bank, which holds the funds for depositors. A Bank – Depository analogy is given in the following table:

BANK-DEPOSITORY – AN ANALOGY

BANK	DEPOSITORY
Holds funds in an account	Holds securities in an account
Transfers funds between accounts on the instruction of the account holder	Transfers securities between accounts on the instruction of the BO account holder
Facilitates transfer without having to handle money	Facilitates transfer of ownership without having to handle securities
Facilitates safekeeping of money	Facilitates safekeeping of securities

At present, two Depositories viz. National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) are registered with SEBI.

RBI has no role in Central Depository Services (India) Limited (CDSL).
Hence, statement 3 is incorrect.

14. With reference to 'Water Credit', consider the following statements:
1. It puts microfinance tools to work in the water and sanitation sector.

2. It is a global initiative launched under the aegis of the World Health Organization and the World Bank.
3. It aims to enable poor people to meet their water needs without depending on subsidies.
Which of the statements given above are correct?
(a) 1 and 2 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2 and 3

14.Answer: c
Explanation:
The Water Credit Initiative represents the **creation of a new space at the intersection of water and sanitation and microfinance.**
Hence, statement 1 is correct.

By catalysing small loans to individuals and communities in developing countries who do not have access to traditional credit markets, WaterCredit **empowers people to immediately address their own water needs**. As loans are repaid, they can be redeployed to additional people in need of safe water.
Hence, statement 3 is correct.

Water Credit is an initiative of Water.org, a global non-profit organisation working to bring water and sanitation to the world.
Hence, statement 2 is incorrect.

15. In India, the central bank's function as the 'lender of last resort' usually refers to which of the following?
1. Lending to trade and industry bodies when they fail to borrow from other sources
2. Providing liquidity to the banks having a temporary crisis
3. Lending to governments to finance budgetary deficits
Select the correct answer using the code given below.
(a) 1 and 2
(b) 2 only
(c) 2 and 3 only
(d) 3 only

15.Answer: b
Explanation:
As a Banker to Banks, the Reserve Bank also acts as the 'lender of the last resort'. It can come to the **rescue of a bank that is solvent but faces temporary liquidity problems by supplying it with much needed liquidity when no one else is willing to extend credit to that bank.**
The Reserve Bank extends this facility to protect the interest of the depositors of the bank and to prevent possible failure of the bank, which in turn may also affect other banks and institutions and can have an adverse impact on financial stability and on the economy.
Hence, option b is correct.

Previous Year UPSC Economy Questions (PYQs) With Explanation 2020

There were 21 Questions from Economy in 2020, of which

- **5 Questions on Economy Basics (Interest Coverage Ratio, Non-Financial Debt, Public Investment, Price, WPI & CPI)**
- **4 Questions on Money & Banking (Money Supply, Monetary Policy, Short-term Credit, KCC)**
- **3 Questions on Agriculture (MSP, Pulses, Chemical Fertilisers)**
- **3 Questions on Balance of Payments (Global Financial Crisis, FDI, India- South Asia Trade)**
- **2 Questions on International Institutions (TRIMS, Reserve Tranche)**
- **1 Question on Money Market (CP & CD)**
- **1 Question on Fiscal Policy (FRBM)**
- **1 Question on Economic Liberalisation**
- **1 Question on International Trade (West Texas Intermediate)**

Examiner tested candidates' knowledge of basic concepts and understanding of current issues in Economy.

The level of the questions was easy to moderate.

1. Along with the Budget, the Finance Minister also places other documents before the Parliament which includes "The Macro-Economic Framework Statement'. The aforesaid document is presented because this is mandated by
(a) Long-standing parliamentary convention
(b) Article 112 and Article 110(1) of the Constitution of India
(c) Article 113 of the Constitution of India
(d) Provisions of the Fiscal Responsibility and Budget Management Act, 2003

1.Answer: d
Explanation:

Fiscal Responsibility and Budget Management Act, 2003
This is an Act to provide for the responsibility of the Central Government to ensure intergenerational equity in fiscal management and long-term macro-economic stability by removing fiscal impediments in the effective conduct of monetary policy and prudential debt management consistent with fiscal sustainability through limits on the Central Government borrowings, debt and deficits, greater transparency in fiscal operations of the Central Government and conducting fiscal policy in a medium-term framework and for matters connected therewith or incidental thereto.

As per the Act the Central Government shall lay in each financial year before both Houses of Parliament the **following statements of fiscal policy** along with the annual financial statement (budget) and [demands for grants except the Medium-term Expenditure Framework Statement], namely:—

- (a) the Medium-term Fiscal Policy Statement;
- (b) the Fiscal Policy Strategy Statement;
- **(c) the Macro-economic Framework Statement;**
- (d) the Medium-term Expenditure Framework Statement.

Hence, option d is correct.

2. What is the importance of the term "Interest Coverage Ratio" of a firm in India?
1. It helps in understanding the present risk of a firm to that a bank is going to give a loan to.
2. It helps in evaluating the emerging risk of a firm to that a bank is going to give loan to.
3. The higher a borrowing firm's level of Interest Coverage Ratio, the worse is its ability to service its debt.

Select the correct answer using the code given below.
(a) 1 and 2 only
(b) 2 only
(c) 1 and 3 only
(d) 1, 2 and 3

2.Answer: a
Explanation:
Interest Coverage Ratio
It is a ratio which deals with the **servicing of interest on loan**. It is a **measure of security of interest payable on long-term debts.** It expresses the relationship between profits available for payment of interest and the amount of interest payable.
The interest coverage ratio measures how well a firm can pay the interest due on outstanding debt.
The interest coverage ratio helps lenders, investors, and creditors determine a company's riskiness for future borrowing.
Hence, statements 1 and 2 are correct.

It is calculated as follows:
Interest Coverage Ratio = Net Profit before Interest and Tax / Interest on long-term debts
Significance: It reveals the number of times interest on long-term debts is covered by the profits available for interest. **A higher ratio ensures safety of interest on debts.**
Hence, statement 3 is incorrect.

3. If another global financial crisis happens in the near future, which of the following actions/policies are most likely to give some immunity to India?
1. Not depending on short-term foreign borrowings
2. Opening up to more foreign banks
3. Maintaining full capital account convertibility
Select the correct answer using the code given below:
(a) 1 only
(b) 1 and 2 only
(c) 3 only
(d) 1, 2 and 3

3.Answer: a
Explanation:
In the era of globalisation countries are inter-related financially, the deeper the financial relations, the more is advantage, since it permits the free movement of capital. However, if any crisis arises the deeper the financial relations, the harder is the impact of the crisis.
In case of setting up of more foreign banks, more is the chance of getting impacted by the global crisis.
The Tarapore Committee (2006), defined capital account convertibility as the "freedom to convert local financial assets into foreign financial assets and vice versa." **Full capital account convertibility facilitates easy flight of capital, as experienced during East-Asian crisis.**
Depending on short-term foreign borrowings leads to uncertainties during the financial crisis.
Hence, statement 1 is correct and 2 and 3 are incorrect.

4. If you withdraw Rs. 1,00,000 in cash from your Demand Deposit Account at your bank, the immediate effect on the aggregate money supply in the economy will be

(a) to reduce it by Rs. 1,00,000

(b) to increase it by Rs. 1,00,000

(c) to increase it by more than Rs. 1,00,000

(d) to leave it unchanged

4.Answer: d
Explanation:
Money Supply = CU+DD
CU = Currency with public
DD = Demand Deposits
In the above case if 1 lakh is withdrawn, demand deposit will reduce by 1 lakh and currency held by public will increase by 1 lakh. **So there won't be any immediate change in the money supply in the economy.**
Hence, option d is correct.

5. With reference to Foreign Direct Investment in India, which one of the following is considered its major characteristic?
(a) It is the investment through capital instruments essentially in a listed company.
(b) It is a largely non-debt-creating capital flow.
(c) It is the investment that involves debt-servicing.
(d) It is the investment made by foreign institutional investors in the Government Securities.

5.Answer: b
Explanation:
Concept of FDI as per OECD
Foreign direct investment reflects the objective of obtaining a lasting interest by a resident entity in one economy (''direct investor'') in an entity resident in an economy other than that of the investor (''direct investment enterprise''). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated.

According to RBI , in India ,Foreign Direct Investment ('FDI') means investment through equity instruments by a person resident outside India in an unlisted Indian company; or in 10% or more of the post issue paid-up equity capital on a fully diluted basis of a listed Indian company.

Advantage of FDI:
- Non- debt creating capital inflows
- Technology transfer- modern skills, innovation and new ideas
- Such an investment is not a burden on taxpayer
- Profits are reinvested in modernisation and expansion of existing units
- Makes real addition to the productive capacity of the capital importing countries

Foreign Portfolio Investment
Portfolio investment includes investments by a resident entity in one country in the equity and debt securities of an enterprise resident in another country which seek primarily capital gains and do not necessarily reflect a significant and lasting interest in the enterprise. The category includes investments in bonds, notes, money market instruments and financial derivatives other than those included under direct investment, or in other words, investments which are both **below the ten per cent rule and do not involve affiliated enterprises.** In addition to securities issued by enterprises, foreigners can also purchase sovereign bonds issued by governments.
Hence, option b is correct.

6. In the context of the Indian economy, non-financial debt includes which of the following?
1. Housing loans owed by households
2. Amounts outstanding on credit cards
3. Treasury bills
Select the correct answer using the code given below:
(a) 1 only
(b) 1 and 2 only
(c) 3 only

(d) 1, 2, and 3

6.Answer: d

Explanation:

Non Financial Sectors includes three major domestic economic sectors – **House holds (HH), non-financial companies (NFCs; private and state-owned) and general government (GG; Center + States).**

Hence, option d is correct.

7. With reference to Trade-Related Investment Measures (TRIMS), which of the following statements is/are correct?

1. Quantitative restrictions on imports by foreign investors are prohibited.
2. They apply to investment measures related to trade in both goods and services.
3. They are not concerned with the regulation of foreign investment.

Select the correct answer using the code given below:

(a) 1 and 2 only

(b) 2 only

(c) 1 and 3 only

(d) 1, 2 and 3

7.Answer: c

Explanation:

Trade-Related Investment Measures (TRIMS)

The Agreement on Trade-Related Investment Measures (TRIMS) recognizes that certain investment measures can restrict and distort trade. It states that WTO members may not apply any measure that discriminates against foreign products or that leads to quantitative restrictions, both of which violate basic WTO principles. A list of prohibited TRIMS, such as local content requirements, is part of the Agreement. The TRIMS Committee monitors the operation and implementation of the Agreement.

Hence statement 1 is correct.

The coverage of the Agreement is defined in Article 1, which states that the Agreement applies to investment measures related to trade in goods only. Thus, the **TRIMs Agreement does not apply to services.**

Hence statement 2 is incorrect.

The term "trade-related investment measures" ("TRIMs") is not defined in the Agreement. As an agreement that is based on existing GATT disciplines on trade in goods, **the Agreement is not concerned with the regulation of foreign investment.**

Hence statement 3 is correct.

8. If the RBI decides to adopt an expansionist monetary policy, which of the following would it not do?

1. Cut and optimize the Statutory Liquidity Ratio
2. Increase the Marginal Standing Facility Rate
3. Cut the Bank Rate and Repo Rate

Select the correct answer using the code given below:
(a) 1 and 2 only

(b) 2 only

(c) 1 and 3 only

(d) 1, 2 and 3

8.Answer: b
Explanation
Expansionary Monetary Policy Explained: Expansionary monetary policy, often referred to as loose monetary policy, involves increasing the supply of money and credit in the economy to stimulate growth. Central banks typically implement this policy during challenging economic conditions as a strategy to reduce unemployment and encourage investment.

The primary objective of expansionary monetary policy is to promote consumer spending and borrowing. This is achieved by **lowering interest rates,** which makes loans more accessible and affordable for individuals and businesses. According to economic principles, an increased availability of capital at reduced costs encourages consumers and businesses to purchase more goods and services, thereby stimulating economic growth..

Cut and optimize the Statutory Liquidity Ratio - leads to decrease in interest rate
Increase the Marginal Standing Facility Rate- leads to an increase in interest rate
Cut the Bank Rate and Repo Rate- leads to decrease in interest rate
Hence, option b is correct.

9. With reference to the Indian economy after the 1991 economic liberalization, consider the following statements:
1. Worker productivity (rs. per worker at 2004-05 prices) increased in urban areas while it decreased in rural areas.
2. The percentage share of rural areas in the workforce steadily increased.
3. In rural areas, the growth in the non-farm economy increased.
4. The growth rate in rural employment decreased
Which of the statements given above is/are correct?
(a) 1 and 2 only
(b) 3 and 4 only
(c) 3 only
(d) 1, 2 and 4 only

9.Answer: b
Explanation:
Trends in woker productivity (at current prices) across different worker categories in India
(Rs / Worker)

Year	**Agricultural labour**	**Cultivator**	**Farm workers**	**Non-farm rural workers**	**All rural worker**	**Urban**

1993-94	5040	12271	9410	25822	12947	38934
1999-00	9246	22807	17059	51789	25380	89180
2004-05	10480	25183	19933	82990	37273	120419
2011-12	33937	77144	62208	171836	101755	282515

The above table clearly shows Worker productivity in urban areas and rural areashas increased In 2004-05 productivity of Rural worker was Rs. 37273 in 2011-12, it increased to Rs. 101755, similarly In 2004-05 productivity of urban worker was Rs.120419 in 2011-12, it increased to Rs. 282515

Hence, statement 1 is incorrect.

Changes in population and economically active persons in rural areas between 2004-05 and 2011-12

(million)

Particulars	2004-05	2011-12
1. Population	780	842
2. LFPR (%	45	41
3. Labourforce	349	342
4.Workforce	**343**	**336**
4.1Agriculture	249	216
4.1.1Cultivators	160	141
4.1.2 Agril. labour	89	75
4.2 Non-farm	**94**	**121**

In 2004-05 work force in rural areas was 343 million , in 2011-12 work force in rural areas decreased to 336 million, eventually share of rural workforce to total workforce declined

Hence, statement 2 is incorrect.

During the period 2004-05 to 2011-12, agriculture sector witnessed revival and registered impressive annual growth rate of 4.27 per cent. Similarly, non-farm sectors growth accelerated to 9.21 per cent. Based on acceleration in growth in agriculture as well as nonfarm sectors, this period is termed as the "period of economic acceleration".

Most of the employment opportunities have to be created in the nonfarm sector as the natural choice of the educated youth would be to join more productive nonfarm sectors instead of

agriculture. In rural areas in 2004-05 , 94 million people were employed by 2011-12 it increased to 121 million people
Hence, statement 3 is correct.

After 1999-00, growth rate of rural economy picked up the pace and reached at par with the growth rate of urban economy. This led to stabilization in rural contribution in total NDP at around 48 per cent. The rural share in national NDP dropped slightly during 2004-05 to 2011- 12 despite acceleration in growth rate .

Growth rates in rural employment (Usual status)

1973-94	2.16
1994-05	1.45
2005-12	-0.28

Growth rate of employment in in rural ares in 1970-71 to 1993-94 (termed as pre-reform period) was 2.16 , 1993-94 to 2004-05 (termed as postreform period) was 1.45 and 2004-05 to 2011-12 (termed as period of economic acceleration) was -0.28 , so the growth rate of rural employment after economic reforms decreased .
Hence, statement 4 is correct.

10. Consider the following statements:
1. In terms of short-term credit delivery to the agriculture sector, District Central Cooperative Banks (DCCBs) deliver more credit in comparison to Scheduled Commercial Banks and Regional Rural Banks.
2. One of the most important functions of DCCBs is to provide funds to the Primary Agriculture Credit Societies.
Which of the statements given above is/are correct?
(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2

10.Answer: b
Explanation:
Flow of short term Institutional Credit to Agriculture sector in India(Rs.crore)

Agency	**2017-18**	**2018-19**	**2019-20**
Co- operative banks	138348	142750	148287
RRBs	119546	125654	138069
Commercial Banks	497078	483805	538795

Source: Department of Agriculture, Cooperation & Farmers Welfare

In terms of short-term credit, **Commercial banks provide the highest institutional credit to agriculture.**

Rural co-operative banks: These banks have a three tier structure:
i) **PACS :** Primary agricultural credit societies at the village levels. These societies can be formed by a group of ten farmers, they provide loan to small and marginal farmers.
ii) **District central co-operative banks (DCCBs): They are confederation of PACS at the district level, they lend to PACS**.
iii)**State co-operative banks:** They operate in the apex level in the states, they act as link between NABARD and the lower levels.
Hence statement 1 is incorrect and 2 is correct.

11. In India, which of the following can be considered as public investment in agriculture?
1. Fixing Minimum Support Price for agricultural produce of all crops.
2. Computerization of Primary Agricultural Credit Societies
3. Social Capital Development
4. Free electricity supply to farmers
5. Waiver of agricultural loans by the banking system
6. Setting up of cold storage facilities by the governments.

Select the correct answer using the code given below.
(a) 1, 2 and 5 only
(b) 1, 3, 4 and 5 only
(c) 2, 3 and 6 only
(d) 1, 2, 3, 4, 5 and 6

11.Answer: c
Explanation:
Public investment usually refers to **gross fixed capital formation** (total value of acquisitions, less disposals, of fixed assets) by the state, whether through central or local governments or through publicly owned industries or corporations.
Public investment encompasses **physical or tangible investment i**n infrastructure (such as transport, telecommunications, and buildings), but in a broader sense, public investment can include human or **intangible investment** in education, skills, and knowledge.

Computerization of Primary Agricultural Credit Societies, Setting up of cold storage facilities by the governments are tangible or physical public investment and Social Capital Development is intangible public investment.
Hence, option c is correct.

12. The term 'West Texas Intermediate', sometimes found in the news, refers to a grade of
(a) Crude oil
(b) Bullion
(c) Rare earth elements
(d) Uranium

12.Answer: a

Explanation:

West Texas Intermediate (WTI) is a type of crude oil that serves as one of the primary benchmarks for oil pricing, alongside Brent and Dubai Crude. Known for its high quality, WTI is relatively easy to refine, making it a popular choice in the oil market.

Hence, option a is correct.

13. Which of the following factors/policies were affected the price of rice in India in the recent past?

1. Minimum Support Price
2. Government's trading
3. Government's stockpiling
4. Consumer subsidies

Select the correct answer using the code given below.

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

13.Answer: d

Explanation:

The price of any commodity depends on the input cost and the market conditions like demand and supply.

MInimum Support Price (MSP) affects the price of the rice. An increase in MSP will automatically lead to increase in the prices because one of the parameters for MSP is input cost.

Government trading companies like MMTC export rice. This causes fluctuations in demand and supply, same is the case with **government stockpiling** the food grains for long term food secuirty affects the supply of rice.

Consumer subsidies in the form of Public distribution system PDS rice affects the demand side which influences price of rice in the market.

Hence, option d is correct.

14. Consider the following statements:

1. The value of Indo-Sri Lanka trade has consistently increased in the last decade

2. "Textile and textile articles" constitute an important item of trade between India and Bangladesh.

3. In the last five years, Nepal has been the largest trading partner of India in South Asia.

Which of the statements given above is/are correct?

(a) 1 and 2 only

(b) 2 only

(c) 3 only

(d) 1, 2 and 3

14.Answer: b

Explanation:

India Srilanka Trade:

India has traditionally been among Sri Lanka's largest trade partners and Sri Lanka remains among the largest trade partners of India in the SAARC. India is Sri Lanka's largest trading partner. The Value of trade between India and Sri Lanka is **not showing a consistent increasing trend** instead it is increasing and decreasing hence following a zigzag pattern.

India's Bilateral Trade with Srilanka (2018-2023) **Value in USD Million**

Year	**Import**	**Export**	**Trade Balance**	**Total Trade**
2018	767.57	4167.66	3400.09	4935.23
2019	758.97	3828.76	3069.79	4587.73
2020	604.5	3008.02	2403.52	3612.52
2021	815.11	4418.14	3603.03	5233.25
2022	854.88	4580.55	3725.67	5435.43
2023	829.7	3171.78	2342.08	4001.48

Hence, statement 1 is incorrect.

India and Bangladesh trade: Bangladesh is the largest trading partner of India in South Asia.

- Major principal commodities exported from India to Bangladesh include **cotton yarn, fabrics, made-ups, handloom products**(US$ 1.52 billion), followed by mineral fuels, mineral oils, and products of their distillation; bituminous substances; mineral waxes (US$ 1.17 billion); vehicles other than railway or tramway rolling stock, and parts and accessories thereof; nuclear reactors, boilers, machinery and mechanical appliances; and residues and waste from the food industries; prepared animal fodder, in April-October FY25.
- Major principal commodities imported by India from Bangladesh include articles of **apparel and clothing accessories knitted** or crocheted and not knitted or crocheted (US$ 595.53

million), followed by other v**egetable textile fibres, paper yarn, and woven fabrics** of paper yarn aircraft (US$ 217.51 million), spacecraft, and parts thereof (US$ 176.02 million) in FY24.

Hence, statement 2 is correct.

India and South Asia Trade:

- India is the biggest trading partner for Nepal, Bhutan and Sri Lanka.
- **As per 2024 data, Bangladesh is the largest trading partner of India in South Asia,** followed by Nepal, Sri Lanka, Pakistan, Bhutan, Maldives and Afghanistan.
- India enjoys a substantial trade surplus with all the countries in South Asia.

Indias trade with SOUTH ASIA (2019-20) **Value in USD Million**

Country	**Exports**	**Imports**	**Total Trade**	**Trd.Bal**
AFGHANISTAN	997.58	529.84	1,527.42	467.74
BANGLADESH	8,200.85	1,264.74	9,465.60	6,936.11
BHUTAN	738.6	405.73	1,144.33	332.87
MALDIVES	226.57	6	232.57	220.58
NEPAL	7,160.35	711.61	7,871.95	6,448.74
PAKISTAN	816.64	13.97	830.6	802.67
SRI LANKA	3,800.91	903.69	4,704.61	2,897.22
TOTAL	21,941.51	3,835.58	25,777.09	18,105.93

Hence, statement 3 is incorrect.

15. Under the Kisan Credit Card scheme, short-term credit support is given to farmers for which of the following purposes?
1. Working capital for maintenance of farm assets
2. Purchase of combine harvesters, tractors, and mini trucks.
3. Consumption requirements of farm households
4. Post-harvest expense
5. Construction of family house and setting up of village cold storage facility.

Select the correct answer using the code given below:
(a) 1, 2 and 5 only
(b) 1, 3 and 4 only
(c) 2, 3, 4 and 5 only
(d) 1, 2, 3 4 and 5

15. Answer: b
Explanation:
The KCC Scheme was introduced with the objective of providing adequate and timely credit to the farmers for their agricultural operations. The Government of India provides interest subvention of 2% and Prompt Repayment Incentive of 3% to the farmers, thus making the credit available at a very subsidized rate of 4% per annum.
The Kisan Credit Card scheme aims at providing adequate and timely credit support from the banking system under a single window with the flexible and simplified procedures to the farmers for their cultivation and other needs as indicated below :

1. To meet the short term credit requirements for the cultivation of crops;
2. **Post-harvest expenses;**
3. Produce marketing loan;
4. **Consumption requirements of farmer household;**
5. **Working capital for maintenance of farm assets and activities** allied to agriculture;
6. Investment credit requirement for agriculture and allied activities

Hence statement 1, 3 and 4 are only correct.

16. Consider the following statements:
1. The weightage of food in the Consumer Price Index (CPI) is higher than that in the Wholesale Price Index (WPI).
2. The WPI does not capture changes in the prices of services, which CPI does.
3. The Reserve Bank of India has now adopted WPI as its key measure of inflation and to decide on changing the key policy rates.
Which of the statements given above is/are correct?
(a) 1 and 2 only
(b) 2 only
(c) 3 only
(d) 1, 2 and 3

16.Answer: a
Explanation:
Wholesale Price Index
- Wholesale price is generally defined to capture all **bulk transactions of goods** carried out in the domestic market. The universe of WPI, therefore, comprises all possible transactions at first point of bulk sale in the domestic market. However, there are, in practice, many points of bulk sale, such as for agricultural items for which it refers to the mandi price; for minerals, it refers to ex-mine prices; and for petroleum products it refers to Refinery Transfer Price (RTP)

- The Office of the Economic Advisor (OEA), Ministry of Commerce and Industry, publishes WPI with effect from 1942 onwards.
- The WPI commodity basket has three constituent commodity groups (a) **primary articles, (b) fuel, power, light, and lubricants and (c) manufactured products, with weights primary articles 20.618 %, fuel, power, light, and lubricants 13.152 % and manufactured products 64. 230%.**

Selection of Base Year
The well-known criteria for the selection of a new base year are:
(i) a normal year, i.e., a year in which there are no abnormalities in the level of production, trade and in the price level and price variations
(ii) a year for which reliable production, price and other required data are available, and
(iii) a year as recent as possible and comparable with other data series.
The year 2011-12 was assessed to be a normal year from the point of view of agriculture production and commodity prices. The Central Statistics Office (CSO) shifted its National Account Statistics (NAS) base to the new base year of 2011-12. In order to make the WPI series compatible with other important series in terms of a common base to all of them it was decided that the year 2011-12 would be the new base year for the new WPI series also.

Base year revised from 2004-05 to 2011-12 in 2015
2004-05 The set of Wholesale Price Index numbers with base year 2004-05 was introduced with effect from 14th September, 2010. Significant structural changes have taken place in the Indian economy since then. Therefore, it became necessary to revise the index basket of the existing series of Index numbers of Wholesale Price in India (Base 2004-05=100).and revisit a range of issues such as examination of the coverage of commodities, base year, and weighting diagram etc.

Comparative Statement of Weight assigned to Product Groups in old and new WPI series

Major Groups/Groups	**2004-05**	**2011-12**
All Commodities	**100.000**	**100.000**
Primary Articles	**20.118**	**22.618**
Food Articles	14.337	15.256
Non Food Articles	4.258	4.119
Minerals	0.623	0.833
Crude Petroleum & Natural Gas	0.900	2.410
Fuel and Power	**14.910**	**13.152**
Coal	2.094	2.138
Mineral Oils	9.364	7.950
Electricity	3.452	3.064

Manufactured Products	**64.972**	**64.230**
Food Products	9.974	9.122
Beverages	1.762	0.909
Tobacco Products		0.514
Textiles	7.326	4.881
Wearing Apparel		0.814
Leather and Related Products	0.835	0.535
Wood and Products of Wood and Cork	0.587	0.772
Paper and Paper Products	2.034	1.113
Printing and Reproduction of Recorded Media		0.676
Chemical and Chemical Products	12.018	6.465
Pharmaceuticals, Medicinal Chemical and Botanical Products		1.993
Rubber and Plastics Products	2.987	2.299
Other Non-Metallic Mineral Products	2.556	3.202
Basic Metals	10.748	9.646
Fabricated Metal Products, Except Machinery and Equipment		3.155
Computer, Electronic and Optical Products		2.009
Electrical Equipment		2.930
Machinery and Equipment	8.931	4.789
Motor Vehicles, trailers and Semi-Trailers	5.213	4.969

Other Transport Equipment		1.648
Furniture		0.727
Other Manufacturing	0.000	1.064

Consumer Price Index (CPI)

- CPI measure changes over time in **general level of prices of goods and services** that households acquire for the purpose of consumption.
- CPI numbers are widely used as a macroeconomic **indicator of inflation, as a tool by governments and central banks for inflation targeting** and for monitoring price stability, and as deflators in the national accounts.
- CPI is also used for indexing dearness allowance to employees for increase in prices. CPI is therefore considered as one of the most important economic indicators.
- National Statistical Office under MOSPI publishes CPI.
- In India, the most important category in the consumer price index is **Food and beverages have the highest weightage (45.86 percent of total weight)**, {of which **Cereals and products (9.67 percent)**, Milk and products (6.61 percent), Vegetables (6.04 percent), Prepared meals, snacks, sweets, etc. (5.55 percent), Meat and fish (3.61 percent), and Oils and fats (3.56 percent)}.
- **Miscellaneous accounts for 28.32 percent,** {of which Transport and communication (8.59 percent)**,** health (5.89 percent), and education (4.46 percent).
- **Housing accounts for 10.07 percent**; **Fuel and light for 6.84 percen**t; **Clothing and footwear for 6.53 percent; and Pan, tobacco and intoxicants for 2.38 percent.**

Hence, statements 1 and 2 are correct.

In 2013, the consumer price index replaced the wholesale price index (WPI) as a main measure of inflation. RBI uses CPI-combined as a measure of inflation.

Core inflation, measured by excluding food and energy items from CPI headline inflation.
(Headline inflation includes all items in basket)

More about CPI:

The National Statistical Office (NSO), Ministry of Statistics and Programme Implementation (MoSPI) compiles All India as well as state-wise Consumer Price Index (CPI) for Rural, Urban, Combined sectors and releases the CPI numbers on 12th day of every month for current month and Final Index of previous month.

Consumer Price Index (CPI) is also calculated for

- CPI for Agricultural Labourers (AL),
- CPI for Rural Labourers (RL) and
- CPI for Industrial Workers (IW)

these are compiled and released by the Labour Bureau in the Ministry of Labour,

Core Inflation corresponds to the component of inflation that is **likely to continue for a long period.** Thus, core inflation captures the underlying trend of inflation and is, therefore, more stable. Unlike the non-core component of inflation, core inflation is not affected by temporary shocks. In India, core inflation is generally measured by **excluding highly volatile components from the headline inflation.** By their very nature, food and fuel have been highly volatile. Therefore, we arrive at core inflation by removing food and fuel components from the headline inflation. As headline inflation exhibits volatility due to short run shocks, Central banks in many countries focus on core inflation.
Hence, statement 3 is incorrect.

17. Consider the following statements:
1. In the case of all cereals, pulses, and oil seeds, the procurement at Minimum Support Price (MSP) is unlimited in any State/UT of India.
2. In the case of cereals and pulses, the MSP is fixed in any State/UT at a level to which the market price will never rise.

Which of the statements given above is/are correct?
(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2

17.Answer: d
Explanation:
The Central Government extends price support to paddy, coarse grains and wheat through the Food Corporation of India and the State Agencies.
The procurement policy of Government of India (GOI) is **open ended, under which paddy and wheat offered by farmers all over the country** within the stipulated period (conforming to specifications prescribed in advance by GOI) **are purchased for Central Pool at Minimum Support Price** (MSP) by Food Corporation of India (FCI)/State Governments/State.
Central pool refers to stocks procured through MSP operations for welfare schemes and calamity relief.
Government Agencies to help farmers get remunerative price and prevent distress cell. **However, if any producer/farmer gets better price in comparison to MSP, he/she is free to sell his/her produce in open market**. Coarse grains are procured at MSP by State Government as per the procurement plan prepared in consultation with FCI and approved by the Central Government.

Decentralized Procurement of food grains
The scheme of Decentralized Procurement of food grains was introduced by the Government in 1997-98 with a view to enhancing the efficiency of procurement and PDS and encouraging local procurement to the maximum extent thereby extending the benefits of MSP to local farmers as well as to save on transit costs. This also enables procurement of food grains more suited to the local taste. Under the decentralized procurement scheme, the State Government itself undertakes direct purchase of paddy and wheat .Purchase centres are opened by the State Governments and their agencies as per their requirements. The State Governments procure, store and distribute food grains under TPDS and other welfare schemes. In the event of the total quantity of wheat and rice thus procured falling short of the total allocation made by the Central Government for meeting the requirement of TPDS and other schemes, the Central Government, through FCI, meets the deficit out

of the Central Pool stocks. The Central Government undertakes to meet the entire expenditure incurred by the State Governments on the procurement operations as per the approved costing. The Central Government also monitors the quality of food grains procured under the scheme and reviews the arrangements made to ensure that the procurement operations are carried on smoothly.
Hence, both statements are incorrect.

18. With reference to the Indian economy, consider the following statements:
1. 'Commercial Paper' is a short-term unsecured promissory note.
2. 'Certificate of Deposit' is a long-term instrument issued by the Reserve Bank of India to a corporation.
3. 'Call Money' is a short-term finance used for interbank transactions.
4. 'Zero-Coupon Bonds are the interest-bearing short-term bonds issued by the Scheduled Commercial Banks to corporations.

Which of the statements given above is/are correct?
(a) 1 and 2 only
(b) 4 only
(c) 1 and 3 only
(d) 2, 3, and 4 only

18.Answer: c
Explanation:
Commercial Paper (CP) is an **unsecured money market instrument** issued in the form of a promissory note. CP, as a privately placed instrument with a view to enable highly rated corporate borrowers to diversify their sources of **short-term borrowings** and to provide an additional instrument to investors.
Corporates, primary dealers (PDs) and all-India financial institutions (FIs) that have been permitted to raise short-term resources under the umbrella limit fixed by the Reserve Bank of India are eligible to issue CP.
Hence, statement 1 is correct.

Certificate of Deposit (CD) is a **negotiable money market instrument** and issued in dematerialised form against funds deposited at a bank or other eligible financial institution for a specified time period.
CDs can be **issued by (i) scheduled commercial banks excluding Regional Rural Banks (RRBs) and Local Area Banks (LABs); and (ii) select all-India Financial Institutions** that have been permitted by RBI to raise short-term resources within the umbrella limit fixed by RBI.
Hence, statement 2 is incorrect.

The call/notice money market forms an important segment of the Indian Money Market. Under call money market, funds are transacted on overnight basis and under notice money market, funds are transacted for the period between 2 days and 14 days.
Hence, statement 3 is correct.

Zero Coupon Bonds – Zero coupon bonds are bonds with no coupon/ interest payments. Treasury bills are zero coupon securities and pay no interest
Hence, statement 4 is incorrect.

19. With reference to pulse production in India, consider the following statements:
1. Black gram can be cultivated as both kharif and rabi crops.
2. Green gram alone accounts for nearly half of pulse production.
3. In the last three decades, while the production of kharif pulses has increased the production of rabi pulses has decreased.

Which of the statements given above is/are correct?
(a) 1 only
(b) 2 and 3 only
(c) 2 only
(d) 1, 2 and 3

19.Answer: a

Explanation:

India is the largest pulses producing country in the world. It ranks first in area and production Pulses are grown in all three seasons. The three crop seasons for the commodity are:
Kharif : Arhar (Tur), Urd (Blackgram), Moong (Greengram), Lobia (Cowpea), Kulthi (Horsegram) and Moth;
Rabi : Gram, Lentil, Pea, Lathyrus and Rajmash;
Summer : Greengram, Blackgram and Cowpea.

Sowing, harvesting season of major pulses and major producing States

Pulses	Season	Sowing	Harvesting	Major Producing States
Tur	Kharif	June- July	Nov - April	Karnataka, Maharashtra, Madhya Pradesh, Gujarat
Urad	Kharif (Main)	June - Jul	Sep - Oct	Madhya Pradesh, Rajasthan, Uttar Pradesh, Tamil Nadu
	Rabi	Oct -Nov	Jan - Feb	
	Summer	Feb - Mar	May - June	
Chana	Rabi	Oct - Nov	Mar - May	Madhya Pradesh, Rajasthan, Maharashtra, Uttar Pradesh
Moong	Kharif (Main)	June - Jul	Sep - Oct	Rajasthan, Madhya Pradesh, Maharashtra, Karnataka
	Rabi	Oct -Nov	Jan - Feb	
	Summer	Feb - Mar	May - June	
Masoor	Rabi	Oct -Nov	Mar - May	Madhya Pradesh, Uttar Pradesh, West Bengal, Bihar

The production of pulses in 1950-51 was 84.1 lakh MT with an average yield of 441 kg/ hectare, increased to 192.7 lakh MT with the average yield almost doubling (764 kg/hectare) in 2013-14. However, for the aforesaid period, rice production has increased five-fold, with nearly four-fold increase in yield. Wheat production has increased 15-fold with four and a half times' enhancement in yield.

As three decade period is a very long period there is no consistent increase or decrease in kharif and rabi pulse production.

	(Area-lakh ha, Production-lakh tons, Yield-kg/ha)				
Crop	**Normal (2017-18 to 2021-22)**			**Contribution (%)**	
	Area	**Production**	**Yield**	**Area**	**Production**
Gram	101.08	115.70	1145	34	47
Tur	46.29	40.07	866	16	16
Urd	48.38	27.28	564	16	11
Mung	48.52	26.48	546	17	11
Lentil	14.19	13.43	947	5	5
Other Kharif Pulses	17.62	7.61	432	6	3
Other Rabi Pulses	16.86	16.01	949	6	7
Total Kharif Pulses	**139.70**	**84.34**	**604**	**48**	**34**
Total Rabi Pulses	**153.25**	**162.22**	**1059**	**52**	**66**
Total	**292.94**	**246.56**	**842**		

Source: DES, Min. of Agri. & FW, GOI
Hence, option a is correct.

20. "Gold Tranche" (Reserve Tranche) refers to
(a) a loan system of the World Bank
(b) one of the operations of a Central Bank
(c) a credit system granted by WTO to its members
(d) a credit system granted by the IMF to its members

20.Answer: d
Explanation:

The **Reserve Tranche** represents the member's unconditional drawing right on the IMF, created by the foreign exchange portion of the quota subscription, plus increase (decrease) through the IMF's sale (repurchase) of the member's currency to meet the demand for use of IMF resources by other members in need of balance of payments financing. A member's reserve position in the IMF constitutes part of its reserve assets in the international investment position.
Hence, option d is correct.

21. With reference to chemical fertilisers in India, consider the following statements :
1. At present, the retail price of chemical fertilisers is market-driven and not administered by the Government.
2. Ammonia, which is an input of urea, is produced from natural gas.
3. Sulphur, which is a raw material for phosphoric acid fertiliser, is a by-product of oil refineries.

Which of the statements given above is/are correct?
(a) 1 only
(b) 2 and 3 only
(c) 2 only
(d) 1, 2 and 3

21.Answer: b
Explanation:
Urea, is provided to the farmers at a statutorily notified Maximum Retail Price (MRP).
As far as market-linking of urea prices is concerned, the MRP of urea is statutorily fixed by the Government.
The difference between the delivered cost of fertilizers at farm gate and MRP payable by the farmer is given as subsidy to the fertilizer manufacturer/importer by the Government of India.

For Phosphatic & Potassic (P&K) fertilizers, the Government has implemented Nutrient Based Subsidy (NBS) scheme w.e.f. 1.4.2010. Under the NBS scheme, a fixed amount of subsidy, decided on an annual/bi-annual basis, is provided on subsidized P&K fertilizers depending on their nutrient content including Di-Ammonium Phosphate (DAP). **Under this scheme, MRP is fixed by fertilizer companies as per market dynamics at a reasonable level which is monitored by the Government. T**he P&K sector is decontrolled and under the NBS scheme the companies are free to take initiatives to produce/import fertilizers as per market dynamics.
So prices of all chemical fertilizers are not administered prices.
Hence statement 1 is incorrect.

Ammonia is produced by the Haber-Bosch process, which converts **hydrogen and nitrogen to ammonia**, this is one of the most important industrial chemical reactions ever developed. The Haber–Bosch process to synthesize ammonia enabled an increase in food production
Haber-Bosch process consumes alot of energy . The reaction, which runs at temperatures around 500 °C and at pressures up to about 20 MPa, sucks up about 1% of the world's total energy production. The carbon footprint of ammonia synthesis goes well beyond its energy demands. **Hydrogen used for the reaction comes from natural gas, coal, or oil through processes that release CO2.**
Hence statement 2 is correct.

Phosphoric acid is produced either by acidulatton of phosphate rock by a mineral acid in a wet process or by burning of phosphorus produced through electro-thermal process. **Processes using sulphuric acid are the commonest and most important** and may be classified according to the hydrate form in which calcium sulphate crystallises, viz, anhydrate (CaSO4), hemihydrate (CaSO4.l/2H2O) and dihydrate (CaSO4.2H2O). The hydrate form is controlled mainly by temperature and acid concentration.

Sulphur is an essential raw material for many chemical industries and is essentially used for the production of sulphuric acid, which in turn is used for the production of phosphoric acid chemical fertilizers, textiles, dyestuffs.

In India, presently there are no mineable elemental sulphur reserves. Sulphur combines directly with almost all the elements with the exception of gold, platinum and the noble gases. Sulphide occurs naturally in mineral ores, oil and coal deposits. Petroleum refineries and gas processing plants extract H2S when making “clean fuels” and use it as a feed stock to produce sulphur and water. The domestic production of elemental sulphur is limited to by-product recoveries from petroleum refineries and fuel oil used as feedstock for manufacturing fertilizer.
Hence statement 3 is correct.