



Day 35

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Economy: Money and Banking

Following topics of Indian Economy have been at the forefront of the news headlines, and as UPSC always attempts to test the basics, a basic awareness is required. Questions from this topic are largely asked from static as well as current affairs portions. According to the trend observed, the facts, their contexts, basic background information can be asked by the UPSC from these topics.

Basic Concepts

Previous Year Question

Q. Which one of the following is not the most likely measure the Government/RBI takes to stop the slide of Indian rupee?

- (a) Curbing imports of non-essential goods and promoting exports
- (b) Encouraging Indian borrowers to issue rupee-denominated Masala Bonds
- (c) Easing conditions relating to external commercial borrowing

(d) Following an expansionary monetary policy

Q. Which one of the following statements correctly describes the meaning of legal tender money? (2018)

(a) The money which is tendered in courts of law to defray the fee of legal cases

(b) The money which a creditor is under compulsion to accept in settlement of his claims

(c) The bank money in the form of cheques, drafts, bills of exchange, etc.

(d) The metallic money in circulation in a country

Q. Which of the following is a most likely consequence of implementing the 'Unified Payments Interface (UPI)'? (2017)

(a) Mobile wallets will not be necessary for online payments.

(b) Digital currency will totally replace the physical currency in about two decades.

(c) FDI inflows will drastically increase.

(d) Direct transfer of subsidies to poor people will become very effective.

Q. With reference to 'Bitcoins', sometimes seen in the news which of the following statements is/are correct? (2016)

1. Bitcoins are tracked by the Central Banks of the countries.

2. Anyone with a Bitcoin address can send and receive Bitcoins from anyone else with a Bitcoin address.

3. Online payments can be sent without either side knowing the identity of the other.

Select the correct answer using the code given below:

(a) 1 and 2 only

(b) 2 and 3 only

(c) 3 only

(d) 1, 2 and 3

Q. Which of the following measures would result in an increase in the money supply in the economy? (2012)

1. Purchase of government securities from the public by the Central Bank

2. Deposit of currency in commercial banks by the public

3. Borrowing by the government from the Central Bank

4. Sale of government securities to the public by the Central Bank

Select the correct answer using the codes given below:

(a) 1 only

(b) 2 and 4 only

(c) 1 and 3 only

(d) 2, 3 and 4

Q. Under which of the following circumstances may 'capital gains' arise? (2012)

1. When there is an increase in the sales of a product
2. When there is a natural increase in the value of the property owned
3. When you purchase a painting and there is a growth in its value due to increase in its popularity

Select the correct answer using the codes given below:

(a) 1 only

(b) 2 and 3 only

(c) 2 only

(d) 1, 2 and 3

Banking Related Concepts

Previous Year Question

Q. The Chairman of public sector banks are selected by the

(a) Banks Board Bureau

(b) Reserve Bank of India

(c) Union Ministry of Finance

(d) Management of concerned bank

Q. Which one of the following links all the ATMs in India? (2018)

(a) Indian Banks' Association

(b) National Securities Depository Limited

(c) National Payments Corporation of India

(d) Reserve Bank of India

Q. Which one of the following best describes the term “Merchant Discount Rate” sometimes seen in the news? (2018)

(a) The incentive given by a bank to a merchant for accepting payments through debit cards pertaining to that bank.

(b) The amount paid back by banks to their customers when they use debit cards for financial transactions for purchasing goods or services.

(c) The charge to a merchant by a bank for accepting payments from his customers through the bank’s debit cards.

(d) The incentive given by the Government to merchants for promoting digital payments by their customers through Point of Sale (PoS) machines and debit cards.

Q. Consider the following statements: (2018)

1. Capital Adequacy Ratio (CAR) is the amount that banks have to maintain in the form of their own funds to offset any loss that banks incur if the account-holders fail to repay dues.
2. CAR is decided by each individual bank.

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

Q. With reference to the governance of public sector banking in India, consider the following statements: (2018)

1. Capital infusion into public sector banks by the Government of India has steadily increased in the last decade.
2. To put the public sector banks in order, the merger of associate banks with the parent State Bank of India has been affected.

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

Q. What is the purpose of setting up Small Finance Banks (SFBs) in India? (2017)

1. To supply credit to small business units
2. To supply credit to small and marginal farmers
3. To encourage young entrepreneurs to set up business particularly in rural areas.

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

Q. What is/are the purpose/purposes of the 'Marginal Cost of Funds based Lending Rate (MCLR)' announced by RBI? (2016)

1. These guidelines help improve the transparency in the methodology followed by banks for determining the interest rates on advances.
2. These guidelines help ensure availability of bank credit at interest rates which are fair to the borrowers as well as the banks.

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

Q. The establishment of 'Payment Banks' is being allowed in India to promote financial inclusion. Which of the following statements is/are correct in this context? (2016)

1. Mobile telephone companies and supermarket chains that are owned and controlled by residents are eligible to be promoters of Payment Banks.
2. Payment Banks can issue both credit cards and debit cards.
3. Payment Banks cannot undertake lending activities.

Select the correct answer using the code given below:

(a) 1 and 2 only

(b) 1 and 3 only

(c) 2 only

(d) 1, 2 and 3

External Sector

- Forex Reserves For Economic Stimulus
- Increased Investments through P-notes
- 100% FDI in Air India for NRIs
- Increase in Foreign Portfolio Investment
- Forex Reserves
- New FDI Rule
- Dollar Swap Agreement

Previous Year Question

Q. Which of the following is issued by registered foreign portfolio investors to overseas investors who want to be part of the Indian stock market without registering themselves directly?

(a) Certificate of Deposit

(b) Commercial Paper

(c) Promissory Note

(d) Participatory Note

Q. Consider the following statements:

1. Purchasing Power Parity (PPP) exchange rates are calculated by comparing the prices of the same basket of goods and services in different countries.
2. In terms of PPP dollars, India is the sixth-largest economy in the world.

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

Q. The term 'Base Erosion and Profit Shifting' is sometimes seen in the news in the context of (2016)

(a) mining operation by multinational companies in resource-rich but backward areas

(b) curbing of the tax evasion by multinational companies

(c) exploitation of genetic resources of a country by multinational companies

(d) lack of consideration of environmental costs in the planning and implementation of developmental projects

Q. The problem of international liquidity is related to the non-availability of (2015)

(a) goods and services

(b) gold and silver

(c) dollars and other hard currencies

(d) exportable surplus

Q. Convertibility of rupee implies (2015)

(a) being able to convert rupee notes into gold

(b) allowing the value of rupee to be fixed by market forces

(c) freely permitting the conversion of rupee to other currencies and vice versa

(d) developing an international market for currencies in India

Q. With reference to Balance of Payments, which of the following constitutes/constitute the Current Account? (2014)

1. Balance of trade
2. Foreign assets
3. Balance of invisibles
4. Special Drawing Rights

Select the correct answer using the code given below:

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

Financial Institutions & Markets

Previous Year Question

Q. Consider the following statements: The Reserve Bank of India's recent directives relating to 'Storage of Payment System Data, popularly known as data diktat, command the payment system providers that

1. they shall ensure that entire data relating to payment systems operated by them are stored in a system only in India
2. they shall ensure that the systems are owned and operated by public sector enterprises
3. they shall submit the consolidated system audit report to the Comptroller and Auditor General of India by the end of the calendar year

Which of the statements given above is/are correct?

- (a) 1 only**
- (b) 1 and 2 only
- (c) 3 only
- (d) 1, 2 and 3
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Q. Which of the following statements is/are correct regarding the Monetary Policy Committee (MPC)? (2017)

1. It decides the RBI's benchmark interest rates.
2. It is a 12-member body including the Governor of RBI and is reconstituted every year.
3. It functions under the chairmanship of the Union Finance Minister.

Select the correct answer using the code given below:

(a) 1 only

(b) 1 and 2 only

(c) 3 only

(d) 2 and 3 only

Q. 'Basel III Accord' or simply 'Basel III', often seen in the news, seeks to (2015)

(a) develop national strategies for the conservation and sustainable use of biological diversity

(b) improve banking sector's ability to deal with financial and economic stress and improve risk management

(c) reduce the greenhouse gas emissions but places a heavier burden on developed countries

(d) transfer technology from developed countries to poor countries to enable them to replace the use of chlorofluorocarbons in refrigeration with harmless chemicals

Q. In the context of Indian economy, 'Open Market Operations' refers to (2013)

(a) borrowing by scheduled banks from the RBI

(b) lending by commercial banks to industry and trade

(c) purchase and sale of government securities by the RBI

(d) None of the above

Q. The Reserve Bank of India regulates the commercial banks in matters of (2013)

1. liquidity of assets
2. branch expansion
3. merger of banks
4. winding-up of banks

Select the correct answer using the codes given below:

- (a) 1 and 4 only
- (b) 2, 3 and 4 only
- (c) 1, 2 and 3 only
- (d) 1, 2, 3 and 4**
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Q. The Reserve Bank of India (RBI) acts as a 'bankers' bank. This would imply which of the following? (2012)

1. Other banks retain their deposits with the RBI.
2. The RBI lends funds to the commercial banks in times of need.
3. The RBI advises the commercial banks on monetary matters.

Select the correct answer using the codes given below:

- (a) 2 and 3 only
- (b) 1 and 2 only
- (c) 1 and 3 only
- (d) 1, 2 and 3**
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Q. Consider the following statements: (2018)

1. The Reserve Bank of India manages and services Government of India Securities but not any State Government Securities.
2. Treasury bills are issued by the Government of India and there are no treasury bills issued by the State Governments.
3. Treasury bills offered are issued at a discount from the par value.

Which of the statements given above is/are correct?

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

(c) 2 and 3 only

(d) 1, 2 and 3

Q. Consider the following statements: (2017)

1. National Payments Corporation of India (NPCI) helps in promoting the financial inclusion in the country.
2. NPCI has launched RuPay, a card payment scheme.

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