DO NOT OPEN THIS TEST BOOKLET UNTIL YOU ARE TOLD TO DO SO

T.B.C. : STS-K-TPT
Serial No.:

Test Booklet Series

B

TEST BOOKLET

Subject : Test 4 – Economics
Answer Key

Time Allowed : Two Hours **Maximum Marks : 200**

INSTRUCTIONS

1.IMMEDIATELY AFTER THE COMMENCEMENT OF THE EXAMINATION, YOU SHOULD CHECK THAT THIS TEST BOOKLET DOES NOT HAVE ANY UNPRINTED OR TORN OR MISSING PAGES OR ITEMS, ETC. IF SO, GOT IT REPLACED BY A COMPLETE TEST BOOKLET.

2. Please note that it is the candidate's responsibility to encode and fill in the Roll Number and Test Booklet Series A, B, C or D carefully and without any omission or discrepancy at the appropriate places in the OMR Answer Sheet. Any omission/discrepancy will render the Answer Sheet liable for rejection.

3. You have to enter your Roll Number on the Test Booklet in the Box provided alongside. DO NOT write anything else on the Test Booklet.

4. This Test Booklet contains 100/80 items (questions). Each item is printed in English. Each item comprises of four responses (answers). You will select the response which you want to mark on the Answer Sheet. In case you feel that there is more than one correct response, mark the response which you consider the best. In any case, choose ONLY ONE response for each item.

5. You have to mark all your responses ONLY on the separate Answer Sheet provided. See directions in the Answer Sheet.

6. All items carry equal marks

7. Before you proceed to mark in the Answer Sheet the response to various items in the Test Booklet, you have to fill in some particulars in the Answer Sheet as per instructions sent to you with your Admission Certificate.

8. After you have completed filling in all your responses on the Answer Sheet and the examination has concluded, you should hand over to the Invigilator only the Answer Sheet. You are permitted to take away with you the Test Booklet.

9. Sheets for rough work are appended in the Test Booklet at the end.

10. **Penalty for wrong answers:**

THERE WILL BE PENALTY FOR WRONG ANSWERS MARKED BY A CANDIDATE IN THE OBJECTIVE TYPE QUESTION PAPERS

(i) There are four alternatives for the answer to every question. For each question for which a wrong answer has been given by the candidate, **one third** if the marks assigned to that question will be deducted as penalty.

(ii) If a candidate gives more than one answer, it will be treated as a wrong answer even if one of the given answers happens to be correct and there will be same penalty as above to that question.

(iii) If a question is left blank, i.e., no answer is given by the candidate, there will be no penalty for that question.

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1. In India's financial architecture, different entities discharge specialised functions ranging from liquidity support to market intermediation and government operations. Consider the following table:

Institution	Core Role / Function	Correct Description
1. Anchor Bank	Provides stability and liquidity support to weaker banks during systemic stress	Acts as a lender of last resort for banks
2. Shadow Bank	Engages in credit intermediation outside the traditional banking system	Includes NBFCs without direct access to central bank liquidity
3. Merchant Bank	Mobilises public deposits and provides retail loans	Accepts demand deposits from the public
4. Agency Bank	Authorised by the RBI to perform government-related banking functions	Collects taxes, makes pension payments, and handles govt receipts and payments

How many of the above rows are correctly matched?

a) Only one
b) Only two
c) Only three
d) All four

✅ **Correct Answer: (b) Only two**

🔎 **Brief Explanation**

- **Row 1 – Incorrect** ❌
  Lender of Last Resort is a function of the **RBI**, not an Anchor Bank.
- **Row 2 – Correct** ✓
  Shadow banks (e.g., NBFCs) engage in credit intermediation outside traditional banking and lack direct central bank liquidity access.
- **Row 3 – Incorrect** ❌
  Merchant banks do **not** accept public deposits or provide retail loans; they mainly handle issue management, underwriting, and corporate advisory.
- **Row 4 – Correct** ✓
  Agency Banks are RBI-authorised banks that conduct government business such as tax colle

2. What was the primary reason given by the Reserve Bank of India (RBI) for withdrawing ₹2000 denomination banknotes from circulation in 2023?

a) To introduce a new ₹1000 denomination note
b) To curb counterfeit currency in the economy
c) To ensure clean note policy as it had completed its expected lifespan.
d) To eliminate high-value currency to discourage digital transactions

Correct Answer: C (The ₹2000 notes had completed their expected lifespan and were no longer widely used for transactions)

3. Money performs several important roles in an economy, facilitating exchange and economic calculation.
With reference to the **functions of money**, consider the following statements:

1. Money acts as a **unit of account**, enabling valuation and comparison of goods and services.
2. Money serves as a **medium of exchange**, eliminating the need for barter.
3. Money functions as a **store of value**, allowing individuals to transfer purchasing power over time.
4. **Easy convertibility into goods and services** is considered a Primary function of money.

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

c) 2, 3 and 4 only
d) 1, 2, 3 and 4

Correct Answer: a) 1, 2 and 3 only
Explanation (Statement-wise):

- **Statement 1 – Correct:**
  Money acts as a **unit of account**, providing a **common measure of value** that allows comparison of goods and services.
- **Statement 2 – Correct:**
  As a **medium of exchange**, money **eliminates the inefficiencies of the barter system**, such as the double coincidence of wants.
- **Statement 3 – Correct:**
  Money serves as a **store of value**, enabling individuals to **transfer purchasing power over time**.
- **Statement 4 – Incorrect:**
  Easy convertibility into goods and services is a **property or characteristic of money**, not a **primary function**. The primary functions are **medium of exchange, unit of account, and store of value**.

👉 Hence, **statements 1, 2 and 3 only are correct**.

4. Different forms of money in a modern economy vary in terms of their **issuer, backing, and legal status**. With reference to **money issuance and asset backing**, consider the following statements:

1. Government-issued paper currency, commonly referred to as **fiat money**, is not backed by any physical commodity such as gold or silver.
2. The value of fiat money is derived from **legal sanction and public confidence**, rather than intrinsic worth.
3. **Bank demand deposits and cheques** represent claims on banks and are therefore classified as **fiduciary money**.
4. Fiduciary money is backed by Gold and Bonds held by commercial banks.

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

Correct Answer: a) 1, 2 and 3 only

Answer Explanation:

- **Statement 1 – Correct** ✅
  - Fiat money has **no commodity backing**; its acceptance is enforced by law.
- **Statement 2 – Correct** ✅
  - Fiat money derives value from **state authority and trust**, not intrinsic value.
- **Statement 3 – Correct** ✅
  - **Demand deposits and cheques** are examples of **fiduciary money**, as they are based on trust in the issuing bank.
- **Statement 4 – Incorrect** ❌
  - Fiduciary money is **not backed by precious metals**.
  - It is backed by the **assets and credibility of the issuing institution/customer**, not gold or silver.

5. Different types of crypto-assets have gained attention in recent years due to their **design, use cases, and risk profile**.
Consider the following table:

Crypto Asset Type	**Basis / Backing**	**Key Feature**
1. Stablecoin	Backed by fiat currency or other assets	Designed to reduce price volatility
2. Meme Coin	Backed by sovereign guarantee	Value driven largely by social media trends
3. Utility Token	Issued for accessing a blockchain-based service	Used to pay fees or access digital platforms
4. Central Bank Digital Currency (CBDC)	Issued by private crypto exchanges	Decentralised and anonymous by design

How many of the above rows are **correctly matched**?
a) Only one
b) Only two

c) Only three
d) All four

Correct Answer: (b) Only two
Explanation (Row-wise):

- **Row 1 – Correct:**
  Stablecoins are typically **backed by fiat currency or other reserve assets** and are designed to **minimise price volatility**.
- **Row 2 – Incorrect:**
  Meme coins are **not backed by any sovereign guarantee**; their value is largely **speculative and sentiment-driven**, often influenced by social media.
- **Row 3 – Correct:**
  Utility tokens are issued to **access or use services** on a blockchain platform, such as **paying fees or enabling functionality**.
- **Row 4 – Incorrect:**
  CBDCs are **issued by central banks**, not private exchanges, and are **centralised and regulated**, not decentralised or anonymous by design.

👉 Hence, **only Rows 1 and 3 are correctly matched**, making the correct answer **"Only two."**

6. Which of the following statements correctly describes the limitations and functions of Payments Banks in India?

1. Payments Banks can accept deposits up to ₹2 lakh per customer but cannot offer fixed deposits (FDs) or recurring deposits (RDs).
2. They can provide personal loans and issue credit cards to customers as part of financial inclusion efforts.
3. Payments Banks must invest at least 75% of their demand deposits in government securities (G-Secs) or treasury bills with a maturity of up to one year.
4. They are allowed to facilitate digital transactions, issue debit/prepaid cards, and offer remittance services but can engage only in limited forex transactions.

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

Correct Answer: B (1, 3, and 4 only)
Correct Answer: (b) 1, 3, and 4 only
Explanation (Statement-wise):

- **Statement 1 – Correct:**
  Payments Banks can accept deposits up to **₹2 lakh per customer** but are **not permitted to offer lending products** such as **fixed deposits (FDs)** or **recurring deposits (RDs)**.
- **Statement 2 – Incorrect:**
  Payments Banks **cannot provide personal loans or issue credit cards**. They are designed as **payments and deposit institutions**, not credit intermediaries.
- **Statement 3 – Correct:**
  Payments Banks must invest **at least 75% of their demand deposits** in **government securities or treasury bills** with a **maturity of up to one year**, ensuring safety and liquidity.
- **Statement 4 – Correct:**
  They are allowed to **facilitate digital transactions**, issue **debit/prepaid cards**, offer **remittance services**, and undertake **limited foreign exchange transactions** (such as inward remittances).

👉 Hence, **statements 1, 3, and 4 only are correct**.

7. With reference to Soulbound Tokens (SBTs) in the Web3 ecosystem, consider the following:

1. SBTs are transferable non-fungible tokens (NFTs) that can be sold in open markets.
2. They are envisioned to represent verifiable credentials or affiliations.
3. SBTs promote decentralized identity systems by being non-transferable.

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

Answer: (b)
Explanation:

• Statement 1 is incorrect: SBTs are non transferable by design.
• Statements 2 and 3 are correct: They represent certifications, memberships, etc., tied to a user's digital identity.

8. With reference to the **Financial Services Institutions Bureau (FSIB)**, consider the following statements:

1. FSIB replaced the **Banks Board Bureau (BBB)**.
2. FSIB recommends appointments of **Whole-time Directors and Non-Executive Chairpersons** of Public Sector Banks.
3. FSIB has been entrusted with recommending appointments in **Public Sector Insurance Companies and Financial Institutions** in addition to banks.
4. FSIB is a statutory body established through an Act of Parliament.

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

Correct Answer: b) 1, 2 and 3 only
Explanation (Statement-wise):

- **Statement 1 – Correct:**
  The **Financial Services Institutions Bureau (FSIB)** was created to **replace the Banks Board Bureau (BBB)**.
- **Statement 2 – Correct:**
  FSIB **recommends appointments** of **Whole-time Directors (WTDs)** and **Non-Executive Chairpersons** of **Public Sector Banks**.
- **Statement 3 – Correct:**
  Its mandate extends beyond banks to include **Public Sector Insurance Companies** and **Financial Institutions**, strengthening governance across the financial sector.
- **Statement 4 – Incorrect:**
  FSIB is **not a statutory body** established by an Act of Parliament; it is an **executive body** constituted by the Government.

👉 Hence, **statements 1, 2 and 3 only are correct**.

9. The **India Debt Resolution Company Ltd (IDRCL)** was created as part of India's strategy to resolve large stressed assets in the banking system.
With reference to **IDRCL**, consider the following statements:

1. IDRCL works alongside the **National Asset Reconstruction Company Ltd (NARCL)** in resolving stressed assets.
2. While NARCL acquires Non-Performing Assets (NPAs), IDRCL is responsible for **managing, resolving, and selling these assets**.
3. IDRCL is a **government-owned company**, with majority ownership held by public sector banks.
4. The **15:85 structure**—with 15% cash payment and 85% backed by government-guaranteed Security Receipts—forms the funding model of IDRCL.

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

Correct Answer: a) 1 and 2 only
Correct Answer: (a) 1 and 2 only
Explanation (Statement-wise):

- **Statement 1 – Correct:**
  The **India Debt Resolution Company Ltd (IDRCL)** operates **in tandem with NARCL** as part of the bad bank framework for resolving large stressed assets.
- **Statement 2 – Correct:**
  NARCL acquires NPAs from banks, while **IDRCL manages, resolves, and monetises** these assets through restructuring or sale.
- **Statement 3 – Incorrect:**
  IDRCL is **not government-owned**. It is a **private sector company**, with majority ownership held by **private lenders and asset management firms**, not public sector banks.

- **Statement 4 – Incorrect:**
  The **15:85 cash–Security Receipt structure with government guarantee** applies to **NARCL**, not to IDRCL.

👉 Hence, **statements 1 and 2 only are correct**.

10. Which of the following correctly differentiates between a Credit Rating Agency (CRA) and a Credit Information Company (CIC)?

1. Credit Rating Agencies (CRAs) assess the creditworthiness of companies, financial instruments, and government bonds, whereas Credit Information Companies (CICs) provide credit scores and reports for individual borrowers.
2. CRAs assign ratings such as AAA, AA, A, etc., while CICs generate credit scores like CIBIL Score, Experian Score, and Equifax Score.
3. CRAs are regulated by RBI, while CICs are regulated by the IBBI as a information utility company.
4. Only CRAs impact loan approvals, while CICs have no influence on a borrower's ability to secure loans.

Which of the above statements are correct?

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

Correct Answer: B (1, and 2 only)

Explanation:
Statement 1 (Correct): CRAs evaluate corporate and government entities, while CICs assess individual borrowers.
Statement 2 (Correct): CRAs give ratings like AAA, AA, BBB for bonds, whereas CICs provide individual credit scores (e.g., CIBIL, Experian, Equifax).
Statement 3 (InCorrect): CRAs are regulated by SEBI, while CICs are regulated by RBI.
Statement 4 (Incorrect): CICs significantly impact loan approvals, as banks rely on credit scores before granting personal loans, home loans, etc.

11. The DICGC is a key pillar of depositor protection in India. With reference to the DICGC, consider the following statements:

1. DICGC is a wholly owned subsidiary of the Reserve Bank of India and functions under the DICGC Act, 1961.
2. The Chairperson of DICGC is appointed by the Central Government and is not the Finance Minister of India.
3. DICGC provides insurance cover of up to ₹5 lakh per depositor per bank, including commercial banks, RRBs, Small Finance Banks and eligible cooperative banks.
4. Deposits held with NBFCs are covered under the DICGC insurance framework.
5. Deposit insurance premium is borne by banks, and the premium structure has recently been aligned with a risk-based assessment model.

Which of the statements given above are correct?

a) 1, 2, 3 and 5 only
b) 1, 3 and 4 only
c) 2 and 4 only
d) 1, 2, 3, 4 and 5

✅ **Correct Answer: (a) 1, 2, 3 and 5 only**

🔎 **Brief Explanation**

- **Statement 1 – Correct ✓**
  DICGC is a wholly owned subsidiary of RBI under the DICGC Act, 1961.
- **Statement 2 – Correct ✓**
  The Finance Minister is not the Chairperson; the Chairperson is nominated as per statutory provisions (traditionally RBI Governor or Deputy Governor).
- **Statement 3 – Correct ✓**
  Insurance cover remains **₹5 lakh per depositor per bank** across eligible bank categories.
- **Statement 4 – Incorrect ❌**
  NBFC deposits are **not covered** under DICGC insurance.
- **Statement 5 – Correct ✓**
  The premium is paid by banks (not depositors), and the framework has moved towards a **risk-based premium system** rather than a uniform flat rate

(In our economics notes, we have given as flat rate – update it as risk based premium)

12. With reference to certain financial and regulatory entities in India, consider the following table:

Entity	Primary Function / Role
1. Asset Reconstruction Company (ARC)	Acquisition and resolution of stressed assets from banks
2. Asset Management Company (AMC)	Managing mutual fund schemes on behalf of investors
3. Alternative Investment Fund (AIF)	Raising pooled funds for investment in startups, real estate, private equity
4. Competition Commission of India (CCI)	Regulating credit risk and supervising banks

Which of the above are **correctly matched**?
a) 1, 2 and 3 only
b) 1 and 4 only
c) 2 and 3 only
d) 1, 2, 3 and 4

✅ **Correct Answer**
a) 1, 2 and 3 only
Explanation (Row-wise):

- **1. Asset Reconstruction Company (ARC) – Correct:**
  ARCs acquire **stressed assets/NPAs from banks and financial institutions** and undertake their resolution or recovery.
- **2. Asset Management Company (AMC) – Correct:**
  AMCs **manage mutual fund schemes**, investing pooled funds on behalf of investors as per the scheme mandate.
- **3. Alternative Investment Fund (AIF) – Correct:**
  AIFs raise **pooled capital for investments** in areas such as **startups, private equity, venture capital, and real estate**, as regulated by SEBI.
- **4. Competition Commission of India (CCI) – Incorrect:**
  CCI's mandate is to **promote competition and prevent anti-competitive practices**; it **does not regulate credit risk or supervise banks** (this role lies with the RBI).

👉 Hence, **only statements 1, 2 and 3 are correctly matched**.

13. What does the term "Base Effect" refer to in the context of inflation measurement?
a) The additional tax levied by the government to control inflation
b) The impact of foreign exchange rates on domestic inflation
c) The difference between core inflation and headline inflation
d) The influence of last year's price levels on the current year's inflation rate

Correct Answer: D (The influence of last year's price levels on the current year's inflation rate)

Explanation:
Base Effect occurs when inflation appears distorted due to exceptionally high or low inflation in the previous year.
If inflation was low in the previous year, even a small increase in prices will lead to a high YoY inflation rate.
It does not relate to forex, core inflation, or government tax measures.

14. Which of the following is a key difference between the Consumer Price Index (CPI) and the Wholesale Price Index (WPI)?
a) CPI gives more weightage to manufactured products, while WPI gives more weightage to food items
b) CPI includes services like health and education, whereas WPI does not cover services
c) WPI is used to measure retail-level inflation, while CPI measures wholesale inflation
d) CPI is calculated by the Reserve Bank of India (RBI), while WPI is calculated by the Ministry of Finance

Correct Answer: B (CPI includes services like health and education, whereas WPI does not cover services)

Explanation:

CPI gives more weight to food items, while WPI gives more weight to manufactured products.

CPI includes services (health, education, recreation), whereas WPI does not cover services.

WPI tracks wholesale inflation, while CPI tracks retail inflation.

CPI is compiled by the National Statistical Office (NSO), while WPI is compiled by the Office of Economic Adviser, Ministry of Commerce and Industry.

15. India uses multiple macroeconomic indices to track **inflation, industrial performance, and taxation-related price changes**.

Consider the following table:

Index	Compiled / Released by	Primary Purpose
1. Wholesale Price Index (WPI)	Ministry of Commerce and Industry	Measures price changes at the wholesale level for goods
2. Consumer Price Index (CPI)	Ministry of Statistics and Programme Implementation	Measures retail inflation faced by households, including services
3. Index of Industrial Production (IIP)	Ministry of Statistics and Programme Implementation	Measures changes in the volume of industrial output
4. Cost Inflation Index (CII)	Reserve Bank of India	Used for adjusting income tax liability for inflation

How many of the above rows are **correctly matched**?

a) Only one

b) Only two

c) Only three

d) All four

Correct Answer: c) Only three

Answer Explanation (Row-wise, UPSC-Oriented):

Row 1 – Correct ✅ WPI is released by the **Department for Promotion of Industry and Internal Trade (DPIIT)** under the Ministry of Commerce and Industry. It measures **wholesale-level price movements of goods**.

Row 2 – Correct ✅ CPI (Combined) is released by **MOSPI** and reflects **retail inflation**, including services like housing, health, and education. It is the **headline inflation index used by RBI**.

Row 3 – Correct ✅ IIP is compiled and released by **MOSPI**.It measures **changes in industrial output** in mining, manufacturing, and electricity.

Row 4 – Incorrect ❌ Cost Inflation Index (CII) is notified by the **Central Board of Direct Taxes (CBDT)** under the **Income Tax Act**, not by RBI. It is used to **index capital gains for inflation**.

16. **Which of the following pairs are correctly matched?**

Concept	Explanation
A. Shrinkflation	Physical quantity of product is reduced but price remains the same
B. Skimpflation	Reduction in service quality or quantity while keeping price same
C. Greedflation	Price increase due to genuine rise in input costs
D. Excuseflation	Using crises as pretext to increase prices beyond actual cost rises

Select the correct answer:

(a) A, B and C only

(b) A, B and D only

(c) B, C and D only

(d) A, B, C and D

Answer: (b)

Explanation:

- **C is incorrect**: *Greedflation* refers to **unjustified price hikes driven by profit expansion**, not genuine cost-based increases.

17. In India's monetary policy framework, banks are required to maintain certain reserves and liquidity buffers as mandated by the central bank. Collectively, these mandatory requirements are referred to as the **Statutory Reserve Arrangement (SRA)**.
Which of the following instruments form part of the **Statutory Reserve Arrangement** as prescribed by the Reserve Bank of India?

1. Cash Reserve Ratio (CRR)
2. Statutory Liquidity Ratio (SLR)
3. Liquidity Adjustment Facility (LAF)
4. Marginal Standing Facility (MSF)
5. Bank Rate

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

✅ **Answer Key with Brief Explanation**
Correct Answer: (a) 1 and 2 only
Brief Explanation

- The **Statutory Reserve Arrangement (SRA)** refers to **mandatory reserve requirements** that banks must maintain with the RBI.
- **Cash Reserve Ratio (CRR)** and **Statutory Liquidity Ratio (SLR)** are **statutorily mandated** and hence form part of SRA.
- **Liquidity Adjustment Facility (LAF)**, **Marginal Standing Facility (MSF)**, and **Bank Rate** are **monetary policy tools**, not mandatory reserve requirements.

18. **Bank Rate** and **Base Rate** (now largely replaced by newer benchmark systems) have historically been important instruments in India's monetary policy framework.
With reference to **Bank Rate and Base Rate** as instruments of the Reserve Bank of India, consider the following statements:

1. Commercial banks generally do not lend below the Base Rate, though the RBI has permitted limited exceptions such as differential lending to specific categories.
2. Bank Rate is used as a reference rate for imposing penalties on banks for default in maintaining **Cash Reserve Ratio (CRR)** and **Statutory Liquidity Ratio (SLR)**.
3. In the current monetary policy framework, the Base Rate has been completely replaced by the **External Benchmark Lending Rate (EBLR)** for all new floating-rate loans.

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

Correct Answer: (a) 1 and 2 only
Explanation (Statement-wise):

- **Statement 1 – Correct:**
  Under the **Base Rate system**, banks were generally **not permitted to lend below the Base Rate**, except for **specific categories** allowed by RBI (such as differential interest rate schemes).
- **Statement 2 – Correct:**
  The **Bank Rate** is used by the RBI as a **reference rate for penal interest** on banks for defaults in maintaining **CRR and SLR**.
- **Statement 3 – Incorrect:**
  While the **External Benchmark Lending Rate (EBLR)** applies to **new floating-rate loans**, the **Base Rate has not been completely replaced in all contexts**, as legacy loans and certain references may still persist.

👉 Hence, **statements 1 and 2 only are correct**.

19. With reference to the **Indian banking system** and the use of reserve requirements as monetary policy instruments by the Reserve Bank of India, consider the following statements:

1. As per the latest monetary policy stance, the **Cash Reserve Ratio (CRR)** is maintained at around **4.5%**, and the RBI **does not pay interest** on CRR balances.
2. There is **no historical precedent** in India where the CRR was raised to **100%**.

3. During the **demonetisation episode of 2016**, the RBI imposed a **temporary 100% incremental CRR** on banks to absorb excess liquidity.
4. Decisions relating to changes in **CRR and SLR** are taken by the **Monetary Policy Committee (MPC)** as part of its statutory mandate.

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

Answer: a) 1 and 3 only

Correct Answer: (a) 1 and 3 only
Explanation (Statement-wise):

- **Statement 1 – Correct:**
  The **CRR has been around 4.5% in recent policy periods**, and the **RBI does not pay interest** on CRR balances maintained by banks.
- **Statement 2 – Incorrect:**
  There **is a historical precedent**—India has effectively seen a **100% incremental CRR** (not the standard CRR) during exceptional circumstances.
- **Statement 3 – Correct:**
  During **demonetisation in 2016**, the RBI imposed a **temporary 100% incremental CRR** to **absorb excess liquidity** arising from large deposit inflows.
- **Statement 4 – Incorrect:**
  CRR and SLR decisions are taken by the RBI, not by the **Monetary Policy Committee (MPC)**. The MPC's statutory mandate is primarily over **policy rates**.

👉 Hence, **statements 1 and 3 only are correct**.

20. Commercial banks support government borrowing through certain **regulatory and operational mechanisms** mandated or facilitated by the central bank.
Which one of the following terms refers to a **mechanism through which commercial banks provide credit to the government by mandatorily holding government securities**?

a) Cash Credit Ratio
b) Debt Service Obligation
c) Liquidity Adjustment Facility
d) Statutory Liquidity Ratio

Answer: d) Statutory Liquidity Ratio

Explanation (Precise & Exam-Oriented):

- **Statutory Liquidity Ratio (SLR)** requires banks to maintain a prescribed percentage of their **Net Demand and Time Liabilities (NDTL)** in the form of **government securities, treasury bills, gold, or cash**.
- By compelling banks to hold **government securities**, SLR becomes an **indirect but assured mechanism of financing government borrowing**.

Why other options are incorrect:

- **Cash Credit Ratio:** Not a standard regulatory term in India; confused with CRR.
- **Debt Service Obligation:** Refers to repayment commitments, not a banking mechanism to fund the government.
- **Liquidity Adjustment Facility (LAF):** A short-term liquidity management tool operated by the Reserve Bank of India, not a mechanism for direct government financing.

21. The **Monetary Policy Committee (MPC)** is the key institutional mechanism through which monetary policy decisions are taken in India.
With reference to the **Monetary Policy Committee (MPC)**, consider the following statements:

1. The MPC was given **statutory status** through an amendment to the **RBI Act, 1934**.
2. The MPC consists of **six members**, of which **three are nominated by the Central Government** and **three are from the Reserve Bank of India**.
3. In the event of a tie in voting, the **Governor of the Reserve Bank of India exercises a casting vote**.
4. The MPC decides on **all monetary policy instruments**, including changes in **CRR and SLR**.

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

Answer: a) 1, 2 and 3 only
Correct Answer: (a) 1, 2 and 3 only
Explanation (Statement-wise):

- **Statement 1 – Correct:**
  The **Monetary Policy Committee (MPC)** was accorded **statutory status** through the **RBI (Amendment) Act, 2016**, which amended the **RBI Act, 1934**.
- **Statement 2 – Correct:**
  The MPC comprises **six members**:
  - **Three from the RBI** (Governor, Deputy Governor in charge of monetary policy, and one RBI officer), and
  - **Three external members** nominated by the **Central Government**.
- **Statement 3 – Correct:**
  In case of a **tie**, the **RBI Governor** has a **casting vote**, ensuring decisiveness.
- **Statement 4 – Incorrect:**
  The MPC primarily decides on **policy rates** (such as the repo rate).
  CRR and SLR decisions are taken by the **RBI**, not by the MPC.

👉 Hence, **statements 1, 2 and 3 only are correct**.

22. With reference to the **Repo Rate, MSF, Reverse Repo and Standing Deposit Facility (SDF)**, consider the following table:

Instrument	**Nature of Operation**	**Position in Policy Corridor**
1. Repo Rate	Short-term **secured lending** by RBI to banks	Centre of the corridor
2. Marginal Standing Facility (MSF)	Overnight **secured lending** by RBI to banks	Upper bound of the corridor
3. Standing Deposit Facility (SDF)	**Uncollateralised absorption** of liquidity by RBI	Lower bound of the corridor
4. Reverse Repo Rate	Primary floor rate replacing SDF in the corridor	Lower bound of the corridor

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

Answer: c) Only three

Correct Answer: (c) Only three
Explanation (Row-wise):

- **Row 1 – Correct:**
  The **Repo Rate** represents the **policy rate** at which RBI lends short-term funds to banks and forms the **centre of the policy corridor**.
- **Row 2 – Correct:**
  The **Marginal Standing Facility (MSF)** is an **overnight lending facility** provided by RBI and constitutes the **upper bound of the corridor**.
- **Row 3 – Correct:**
  The **Standing Deposit Facility (SDF)** allows RBI to **absorb liquidity without collateral** and currently acts as the **lower bound of the policy corridor**.
- **Row 4 – Incorrect:**
  The **Reverse Repo Rate no longer serves as the floor rate** of the corridor after the introduction of the **SDF**.
  Hence, it does **not replace SDF** as the lower bound.

👉 Therefore, **only three rows are correctly matched**.

23. Economic curves are often used as **analytical tools** to guide policy formulation. Some of these curves are particularly relevant for **monetary policy decisions** taken by central banks in developed economies.
With reference to commonly used **economic curves**, consider the following table:

Curve	What it Represents	Relevance to Monetary Policy
1. Phillips Curve	Trade-off between inflation and unemployment	Used by central banks to assess inflation–employment dynamics
2. Laffer Curve	Relationship between tax rates and tax revenue	Used to design optimal monetary policy stance
3. Lorenz Curve	Degree of income inequality in an economy	Used to determine interest rate policy
4. Kuznets Curve	Relationship between economic growth and income inequality	Used for short-term monetary policy calibration

How many of the above rows are **correctly matched**?

a) Only one
b) Only two
c) Only three
d) All four

Answer: a) Only one
Correct Answer: (a) Only one
Explanation (Row-wise):

- **Row 1 – Correct:**
  The **Phillips Curve** depicts the **trade-off between inflation and unemployment** and is widely used by central banks to understand **inflation–employment dynamics**, making it relevant for monetary policy.
- **Row 2 – Incorrect:**
  The **Laffer Curve** relates **tax rates to tax revenue** and is primarily a **fiscal policy** tool, not a guide for monetary policy stance.
- **Row 3 – Incorrect:**
  The **Lorenz Curve** measures **income inequality** and is used in welfare and distributional analysis, not for determining **interest rate policy**.
- **Row 4 – Incorrect:**
  The **Kuznets Curve** explains the **long-term relationship between economic growth and inequality**, not short-term monetary policy calibration.

👉 Hence, **only one row (Row 1) is correctly matched**.

24. In India, the lending rates charged by banks to customers are linked to specified **benchmark interest rates** to improve transparency and monetary policy transmission.
With reference to the **benchmark interest rate system for bank lending to customers in India**, consider the following statements:

1. The **External Benchmark Lending Rate (EBLR)** system links certain categories of bank loans to external benchmarks such as the **repo rate** of the Reserve Bank of India.
2. Under the EBLR framework, banks are required to **reset lending rates at least once in three months**.
3. The **Marginal Cost of Funds based Lending Rate (MCLR)** has been completely abolished and is no longer applicable to any category of bank loans.
4. The objective of introducing external benchmarks was to ensure **faster and more effective transmission of monetary policy** to borrowers.

Which of the statements given above are correct?

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

Answer: a) 1, 2 and 4 only
Correct Answer: (a) 1, 2 and 4 only
Explanation (Statement-wise):

- **Statement 1 – Correct:**
  The **External Benchmark Lending Rate (EBLR)** framework links certain categories of bank loans—such as retail

and MSME loans—to **external benchmarks** like the **RBI's repo rate**, improving transparency.

- **Statement 2 – Correct:**
  Under the **EBLR framework**, banks must **reset lending rates at least once every three months**, ensuring quicker pass-through of policy rate changes.
- **Statement 3 – Incorrect:**
  The **MCLR system has not been completely abolished**. It continues to apply to **existing loans and some categories** not covered under EBLR.
- **Statement 4 – Correct:**
  The introduction of **external benchmarks** aims to ensure **faster and more effective monetary policy transmission** from the RBI to borrowers.

👉 Hence, **statements 1, 2 and 4 only are correct**.

25. With reference to the **monetary aggregates (M1 to M4)** in India, which one of the following statements is **incorrect**?
a) **M1** includes currency with the public and demand deposits with banks.
b) **M2** includes currency with the public, demand deposits with banks, and savings deposits with post offices.
c) **M3** includes currency with the public, demand deposits with banks, savings deposits with post offices, and time deposits with banks.
d) **M4** includes currency with the public, demand and time deposits with banks, and total deposits with post offices.

Correct Answer: c)

Explanation:

- **Option (a) – Correct:**
  M1 consists of currency with the public and demand deposits with banks (most liquid form of money).
- **Option (b) – Correct:**
  M2 = M1 plus savings deposits with post offices, reflecting slightly lower liquidity than M1.
- **Option (c) – Incorrect (Hence the answer):**
  M3 does NOT include savings deposits with post offices.
  Correctly, M3 = M1 + time deposits with banks.
  Savings deposits with post offices are included only in M2 and M4, not M3.
- **Option (d) – Correct:**
  M4 is the broadest aggregate, including currency, demand and time deposits with banks, and total deposits with post offices.

👉 **Therefore, option (c) is incorrect.**

26. The **Financial Stability and Development Council (FSDC)** was established to strengthen India's financial architecture through coordinated oversight and systemic risk management.
With reference to the **functions and mandate of the FSDC**, which one of the following statements is **NOT correct**?
a) It promotes **inter-regulatory coordination** among financial sector regulators.
b) It aims at **strengthening and institutionalising financial stability** in the Indian financial system.
c) It undertakes **macro-prudential oversight of financial conglomerates** to address systemic risks.
d) It **replaces the Department of Economic Affairs** in the formulation of the Union Budget and fiscal policy.

Correct Answer: d)
Explanation:

- The **Financial Stability and Development Council (FSDC)** is a high-level forum chaired by the **Union Finance Minister** to ensure **inter-regulatory coordination**, **financial stability**, and **macro-prudential oversight**.
- **Options (a), (b), and (c)** correctly describe the FSDC's mandate:
  - It facilitates **coordination among regulators** such as RBI, SEBI, IRDAI, and PFRDA.
  - It works to **strengthen financial stability** and monitor **systemic risks**, including risks posed by **financial conglomerates**.

- **Option (d) – Incorrect (Hence the answer):**
  The FSDC **does not replace the Department of Economic Affairs (DEA)** in **Union Budget preparation or fiscal policy formulation**. These remain core functions of the **Ministry of Finance**.

👉 Therefore, **option (d) is NOT correct**.

27. With reference to the **Countercyclical Capital Buffer (CCyB)** framework as applicable in India, consider the following statements:

1. The CCyB requires banks to hold **additional capital during periods of excessive credit growth**.
2. The CCyB is intended to be **released during economic downturns** to support lending activity.
3. The decision to activate or deactivate the CCyB in India is taken by the **Monetary Policy Committee (MPC)**.
4. The CCyB forms part of the **Basel III regulatory framework** adopted by India.

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

Correct Answer: a) 1, 2 and 4 only
Explanation (Statement-wise):

- **Statement 1 – Correct:**
  The **Countercyclical Capital Buffer (CCyB)** requires banks to **build up additional capital during periods of excessive credit growth**, enhancing resilience against systemic risks.
- **Statement 2 – Correct:**
  During **economic downturns or stress**, the CCyB can be **released** to **support lending and absorb losses**, thereby smoothing the credit cycle.
- **Statement 3 – Incorrect:**
  The decision to **activate or deactivate the CCyB** in India is taken by the **Reserve Bank of India**, **not the Monetary Policy Committee (MPC)**. The MPC focuses on policy rates.
- **Statement 4 – Correct:**
  The CCyB is a key component of the **Basel III regulatory framework**, which India has adopted to strengthen bank capital adequacy.

👉 Hence, **statements 1, 2 and 4 only are correct**.

28. In the context of India's monetary system, Broad Money (M3) is an important measure of the money supply. Which of the following correctly represents the components of Broad Money (M3)?

1. Currency with the Public
2. Demand Deposits with Banks
3. Time Deposits with Banks
4. 'Other' Deposits with the RBI
5. Interbank Deposits held by Commercial Banks

Select the answer from the below codes
a) 1, 2, 3, and 4 only
b) 1, 2, and 5 only
c) 2, 3, 4, and 5 only
d) 1, 2, 3, 4, and 5

Correct Answer: A (1, 2, 3, and 4 only)
Explanation:
• Statement 1 (Correct): Currency with the Public is an integral part of Broad Money (M3) as it represents the physical cash held by individuals and businesses.
• Statement 2 (Correct): Demand Deposits with Banks (e.g., savings accounts, current accounts) contribute to M3 as they are part of the liquid money supply.
• Statement 3 (Correct): Time Deposits with Banks (e.g., fixed deposits, recurring deposits) are included in M3 because they are an important component of money supply, though not as liquid as demand deposits.
• Statement 4 (Correct): 'Other' Deposits with RBI include special deposits like employee provident funds and some government-related accounts, which are considered part of M3.
• Statement 5 (Incorrect): Interbank Deposits held by Commercial Banks are NOT included in M3, as they are part of the banking system's internal liquidity management rather than the money supply available to the public.

29. With reference to the **Cash Reserve Ratio (CRR)** and **Statutory Liquidity Ratio (SLR)** in India, consider the following statements:

1. The Cash Reserve Ratio can be raised by the RBI **up to 100% of a bank's Net Demand and Time Liabilities (NDTL)** under the RBI Act.
2. The Statutory Liquidity Ratio has **no statutory upper limit** and can be raised up to 100% of NDTL.
3. Decisions regarding CRR and SLR are taken by the **Monetary Policy Committee (MPC)**.

Which of the statements given above are correct?

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

✅ **Correct Answer: a) 1 only**

Correct Answer: (a) 1 only

Explanation (Statement-wise):

- **Statement 1 – Correct:**
  Under the **RBI Act, 1934**, the **Cash Reserve Ratio (CRR)** has **no statutory ceiling** and **can be raised up to 100% of a bank's NDTL**. Historically, very high CRR levels have been imposed during exceptional situations.
- **Statement 2 – Incorrect:**
  The **Statutory Liquidity Ratio (SLR) does have a statutory upper limit** prescribed under the **Banking Regulation Act, 1949** (earlier capped at 40%). It **cannot be raised up to 100%**.
- **Statement 3 – Incorrect:**
  Decisions on **CRR and SLR are taken by the RBI**, not by the **Monetary Policy Committee (MPC)**. The MPC's mandate is limited to **policy interest rates**.

👉 Hence, **only statement 1 is correct**.

30. With reference to factors influencing the **money multiplier in an economy**, consider the following statements:

1. A reduction in **Cash Reserve Ratio (CRR)** and **Statutory Liquidity Ratio (SLR)** increases the capacity of banks to create credit.
2. A shift in public preference from holding **currency in hand to depositing money in banks** enhances deposit creation.
3. An increase in the **repo rate** raises the cost of borrowing for banks and discourages credit expansion.
4. A higher proportion of the monetary base being held as **currency with the public** reduces the scope for deposit multiplication.

Which of the statements given above would lead to an **increase in the money multiplier**?

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

Correct Answer: a) 1 and 2 only

Explanation (Statement-wise):

- **Statement 1 – Correct:**
  A **reduction in CRR and SLR** increases the **lendable resources of banks**, thereby **enhancing their ability to create credit**, which raises the **money multiplier**.
- **Statement 2 – Correct:**
  When the public **shifts from holding currency to bank deposits**, a larger share of money enters the **banking system**, enabling **greater deposit multiplication**.
- **Statement 3 – Incorrect:**
  An **increase in the repo rate** discourages borrowing and **contracts credit**, which **reduces**, not increases, the money multiplier.
- **Statement 4 – Incorrect (for this question):**
  A higher currency–deposit ratio **reduces** the money multiplier; it does **not contribute to an increase**.

👉 Hence, **statements 1 and 2 only** lead to an **increase in the money multiplier**.

31. With reference to the **factors affecting money supply in India**, consider the following statements:

1. An increase in the **money multiplier or velocity of money** leads to greater circulation of money in the economy.
2. Expansion of the asset side of the **Reserve Bank of India**, such as through accumulation of foreign exchange reserves or purchase of government securities, injects liquidity into the system.
3. Greater **banking penetration, financial inclusion, and formalisation** increase access to credit and expand money supply.
4. Adoption of **contractionary monetary policy** by the RBI increases liquidity in the economy.

Which of the statements given above are correct?

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

Correct Answer: (c) 1, 2 and 3 only

Explanation (Statement-wise):

- **Statement 1 – Correct:**
  A rise in the **money multiplier** or **velocity of money** increases the **effective circulation of money**, thereby expanding money supply in the economy.
- **Statement 2 – Correct:**
  Expansion of the **RBI's asset side**—such as through **foreign exchange reserve accumulation** or **Open Market Purchases of government securities**—**injects liquidity** into the banking system.
- **Statement 3 – Correct:**
  Greater banking penetration, financial inclusion, and formalisation bring more transactions into the banking system, **enhancing credit creation and money supply**.
- **Statement 4 – Incorrect:**
  Contractionary monetary policy aims to **reduce liquidity** to control inflation, not increase it.

👉 Hence, **statements 1, 2 and 3 only are correct**.

32. What is the primary objective of the RBI's Operating Framework of Monetary Policy?

a) To align the Weighted Average Call Rate (WACR) with the Policy Repo Rate through liquidity management

b) To directly control the inflation rate by setting fixed prices for essential goods

c) To regulate foreign exchange rates and prevent currency depreciation

d) To manage fiscal policy decisions and government borrowing

Correct Answer: A (To align the Weighted Average Call Rate (WACR) with the Policy Repo Rate through liquidity management)

33. Which of the following correctly defines the concept of the Money Multiplier (MM) in an economy?

a) It represents the amount of Reserve Money (M0) that the central bank can generate from the total money supply (M3).

b) It indicates the relationship between the monetary base (M0) and the money supply (M3), showing how much money banks create through lending.

c) It is the ratio of broad money (M3) to narrow money (M1) and is influenced solely by changes in currency circulation.

d) It is a constant value that remains unaffected by changes in monetary policy tools such as the Cash Reserve Ratio (CRR) and the Statutory Liquidity Ratio (SLR).

Correct Answer: B

Explanation:

MM = M3/M0, which measures the ability of banks to expand the money supply based on the available base money (M0).

Option A is incorrect → The central bank does not "generate" M0 from M3; it is the other way around.

Option C is incorrect → MM is a ratio between M3 (Broad Money) and M0 (Monetary Base), not M1.

Option D is incorrect → MM fluctuates based on monetary policy changes such as repo rate, CRR, and SLR.

34. Which of the following statements correctly describe Priority Sector Lending (PSL) in India?

1. Priority Sector Lending (PSL) mandates banks to allocate a specified percentage of their total lending to sectors identified as critical for economic development.
2. NBFCs are required to meet the same PSL targets as scheduled commercial banks.
3. Agriculture, MSMEs, renewable energy, and affordable housing are among the sectors classified under PSL.
4. RBI regularly revises the PSL guidelines to align with emerging economic needs and sectoral priorities.

Which of the above statements are correct?

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

Correct Answer: B (1, 3, and 4 only)
Explanation:
Statement 1 (Correct): PSL requires banks to lend a certain percentage (currently 40% for domestic scheduled commercial banks and foreign banks with 20+ branches) to priority sectors.
Statement 2 (Incorrect): NBFCs are not directly subject to PSL targets like banks, but they participate through PSL certificates and partnerships.
Statement 3 (Correct): PSL includes sectors like Agriculture, MSMEs, Export Credit, Renewable Energy, and Affordable Housing.
Statement 4 (Correct): RBI frequently updates PSL norms to include new focus areas, such as startups, green projects, and health infrastructure.

35. In the banking and monetary framework, different rates and ratios serve distinct purposes related to lending, deposits, and regulation.

Consider the following table:

Instrument / Rate	**What it Represents**	**Correct Description**
1. Weighted Average Lending Rate (WALR)	Average interest rate charged by banks	Calculated on outstanding loans of banks
2. Weighted Average Deposit Rate (WADR)	Average interest rate offered by banks	Reflects cost of deposits mobilised by banks
3. Marginal Cost of Funds Lending Rate (MCLR)	Benchmark lending rate	Minimum rate below which banks normally cannot lend
4. Cash Reserve Ratio (CRR)	Prudential requirement	Percentage of NDTL to be kept with RBI in government securities

How many of the above rows are **correctly matched**?

a) Only one
b) Only two
c) Only three
d) All four

Correct Answer: (c) Only three
Explanation (Row-wise):
Row 1 – Correct:
Weighted Average Lending Rate (WALR) represents the **average interest rate charged by banks**, typically calculated on **outstanding (or fresh) loans**, depending on the series.
Row 2 – Correct:
Weighted Average Deposit Rate (WADR) reflects the **average interest rate paid on deposits**, indicating the **cost of funds** for banks.
Row 3 – Correct:
Marginal Cost of Funds Lending Rate (MCLR) is a **benchmark lending rate** below which banks **normally do not lend**, barring permitted exceptions.
Row 4 – Incorrect:
CRR requires banks to keep a **percentage of NDTL as cash with the RBI**, **not in**

government securities (that requirement pertains to **SLR**).

👉 Hence, **three rows (1, 2, and 3) are correctly matched**.

36. With reference to the **Cash Reserve Ratio (CRR)** in India, consider the following statements:

Which one of the following statements is **incorrect**?

a) CRR is also referred to as the **Required Reserve Ratio**, as it mandates banks to keep a portion of their deposits with the central bank.

b) CRR is commonly known as the **Credit–Deposit Ratio**, reflecting the lending behaviour of banks.

c) The rate of CRR is determined and notified exclusively by the **Reserve Bank of India**.

d) Changes in CRR have a **direct impact on money creation and liquidity** in the banking system.

Correct Answer: b)

Answer Explanation (Brief & Exam-Oriented):

Option (a) – Correct ✅ CRR is often termed the **Required Reserve Ratio** in macroeconomic literature.

Option (b) – Incorrect ❌ **Credit–Deposit Ratio (CDR)** is a **separate banking indicator** that measures how much of deposits are used for lending. It has **no direct equivalence with CRR**.

Option (c) – Correct ✅ CRR is a **monetary policy instrument** decided solely by the RBI.

Option (d) – Correct ✅ An increase in CRR reduces lendable resources and money creation; a decrease has the opposite effect.

37. With reference to **Financial Benchmarks India Pvt. Ltd. (FBIL)**, consider the following statements:

1. FBIL acts as the benchmark administrator for key Indian financial benchmarks such as **MIBOR, MIFOR, and government securities yield curves**.
2. FBIL is jointly promoted by **Indian Banks' Association (IBA), FIMMDA, and FEDAI** to ensure transparent and market-driven benchmark administration.
3. FBIL functions as a **statutory regulator** for money, bond, and foreign exchange markets in India.
4. Benchmarks administered by FBIL are widely used for **pricing, valuation, and settlement** across financial markets.

Which of the statements given above are correct?

a) 1 and 2 only

b) 1, 2 and 4 only

c) 2 and 3 only

d) 1, 3 and 4 only

Correct Answer: b) 1, 2 and 4 only

Correct Answer: (b) 1, 2 and 4 only

Explanation:

- **Statement 1 – Correct:** FBIL is the benchmark administrator for major Indian financial benchmarks such as **MIBOR, MIFOR, and G-Sec yield curves**.
- **Statement 2 – Correct:** FBIL is jointly promoted by **IBA, FIMMDA, and FEDAI**, ensuring transparent and market-based benchmark setting.
- **Statement 3 – Incorrect:** FBIL is **not a statutory regulator**; it is a benchmark administrator. Regulatory oversight rests with RBI and other statutory bodies.
- **Statement 4 – Correct:** FBIL benchmarks are widely used for **pricing, valuation, and settlement** across money, bond, and forex markets.

👉 Hence, **statements 1, 2 and 4 are correct**.

38. Which of the following best differentiates Marginal Standing Facility (MSF) from Repo Rate?

1. MSF is available only to Scheduled Commercial Banks, not cooperative banks.
2. MSF is a penal rate higher than the Repo Rate.
3. Under MSF, banks can borrow using excess SLR securities.
4. MSF requires RBI's prior approval for each borrowing transaction.

Select the correct answer:

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

Answer: (a)
Explanation:
• Statements 1–3 are correct
• Statement 4 is incorrect: MSF access is automatic, within the prescribed limit.

39. With reference to the Bank Rate as used by the Reserve Bank of India, consider the following statements:

1. Bank Rate is also referred to as the Penal Rate because it is linked to penalties imposed for non-maintenance of CRR and SLR.
2. Bank Rate is also known as the Discount Rate as it is the rate at which the RBI rediscounts commercial bills and exchange instruments.
3. The Bank Rate is statically fixed by the RBI and is not linked to changes in the policy repo or MSF rate.
4. Bank Rate automatically changes in line with the MSF rate whenever the policy repo rate is revised.

Which of the statements given above are correct?

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

Answer: (b)
Explanation:
• Statement 1 is correct – Bank Rate acts as the penal reference rate for CRR/SLR violations.
• Statement 2 is correct – Bank Rate is also known as the Discount Rate as RBI rediscounts commercial paper at this rate.
• Statement 3 is incorrect – Bank Rate is not static; it changes with MSF and Repo rate changes.
• Statement 4 is correct – It is aligned with MSF, so changes with MSF and policy repo rate.

40. The **Balance of Payments (BoP)** records all economic transactions between residents of a country and the rest of the world during a given period. It is broadly classified into **Current Account** and **Capital Account** (as per Indian convention).
With reference to India's Balance of Payments, consider the following statements:

1. **External Commercial Borrowings (ECBs)** and **Foreign Direct Investment (FDI)** are recorded under the **Capital Account** of the Balance of Payments.
2. **Private transfers**, including **remittances sent by Indians working abroad**, are recorded under the **Current Account** of the Balance of Payments.
3. Portfolio investments by Foreign Institutional Investors (FIIs) are treated as part of the **Current Account**, as they involve cross-border financial flows.

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

Answer: a) 1 and 2 only
Correct Answer: (a) 1 and 2 only

Explanation (Statement-wise):

Statement 1 – Correct:
External Commercial Borrowings (ECBs) and Foreign Direct Investment (FDI) involve cross-border capital flows and are therefore recorded under the Capital Account of India's Balance of Payments.

Statement 2 – Correct:
Private transfers, including remittances from Indians working abroad, are recorded under the Current Account, specifically under the secondary income (transfers) component.

Statement 3 – Incorrect:
Portfolio investments by Foreign Institutional Investors (FIIs) represent financial investments and are classified under the Capital Account, not the Current Account.

👉 Hence, statements 1 and 2 only are correct.

41. Changes in exchange rates can occur either due to **government action** or **market forces**, and different terms are used to describe these movements.
With reference to **exchange rate terminology**, consider the following table:

Term	Nature of Change	Description
1. Devaluation	Government action	Official reduction in the value of domestic currency
2. Revaluation	Government action	Official increase in the value of domestic currency
3. Depreciation	Market-determined	Fall in the value of domestic currency due to market forces
4. Appreciation	Market-determined	Rise in the value of domestic currency due to market forces
5. Accommodating transactions	Balance of Payments	Transactions undertaken to cover deficit or surplus in BOP

How many of the above rows are **correctly matched**?
a) Only two
b) Only three
c) Only four
d) All five

Correct Answer: d) All five

Answer Explanation (UPSC-Oriented & Precise):

Row 1: Devaluation ✔

- Devaluation is a **deliberate downward adjustment** of a country's currency by the **government or central bank** under a fixed or managed exchange rate regime.

Row 2: Revaluation ✔

- Revaluation is the **official upward adjustment** of the domestic currency's value by the **government**.

Row 3: Depreciation ✔

- Depreciation occurs when the value of a currency **falls due to market forces** (demand and supply) in a floating exchange rate system.

Row 4: Appreciation ✔

- Appreciation refers to an **increase in currency value caused by market forces**, not government intervention.

Row 5: Accommodating transactions ✔

- These are **BOP-related transactions** (like borrowing from IMF or drawing down reserves) undertaken to **finance deficits or absorb surpluses**.

42. According to the **latest IMF assessment**, which of the following best describes **India's current exchange rate arrangement**?
a) Free-floating exchange rate system, with no central bank intervention
b) Stabilised arrangement, with exchange rate anchored to a fixed parity
c) Crawl-like arrangement, where the exchange rate remains within a narrow band around a trend
d) Currency board arrangement, backed fully by foreign exchange reserves

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Correct Answer: c) Crawl-like arrangement
Explanation:

- The IMF has **reclassified India's de facto exchange rate regime** from a **"stabilised arrangement"** to a **"crawl-like arrangement."**
- A **crawl-like arrangement** implies:
    - The exchange rate moves gradually (crawls) over time, and
    - Remains within a **±2% band around a trend for at least six months**.
- This indicates that while the exchange rate is **not fixed**, it is also **not fully free-floating**.

Why other options are incorrect:

- **Option (a):** Incorrect — India does not follow a pure free float due to active intervention by the **Reserve Bank of India**.
- **Option (b):** Outdated — IMF no longer classifies India as a stabilised arrangement.
- **Option (d):** Incorrect — India does not operate a currency board system.

43. Which of the following measures can the RBI adopt to prevent excessive depreciation of the Rupee?

1. Sell US dollars in the forex market
2. Increase the Cash Reserve Ratio
3. Raise Repo Rate
4. Reduce customs duty on gold imports

Options:

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

Correct Answer: (b) 1 and 3 only
Explanation: Selling USD boosts INR demand; raising Repo Rate attracts foreign capital. CRR impacts liquidity but not directly currency; customs duty reduction curbs gold imports but doesn't directly strengthen INR.

44. With reference to the **Money Market in India**, consider the following statements:

1. The money market deals in short-term funds and instruments, generally having a maturity period of **up to one year**.
2. The **Reserve Bank of India** and commercial banks are among the **principal participants** in the money market.
3. Instruments such as **Treasury Bills, Commercial Paper, and Certificates of Deposit** are traded in the money market.
4. Call money and notice money transactions are undertaken **only between commercial banks**, and non-bank financial institutions are not permitted to participate.

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

Answer: a) 1, 2 and 3 only

Correct Answer: (a) 1, 2 and 3 only
Explanation (Statement-wise):

- **Statement 1 – Correct:**
  The **money market** deals with **short-term funds and instruments**, typically with maturities of **up to one year**.
- **Statement 2 – Correct:**
  The **Reserve Bank of India**, **commercial banks**, and other financial institutions are **key participants** in the money market.
- **Statement 3 – Correct:**
  Treasury Bills (T-Bills), **Commercial Paper (CP)**, and **Certificates of Deposit (CDs)** are **standard money market instruments**.
- **Statement 4 – Incorrect:**
  Call money and notice money markets are **not restricted only to commercial banks**. Other eligible entities such as **Primary Dealers and select financial institutions** are permitted to participate, subject to RBI regulations.

👉 Hence, **statements 1, 2 and 3 only are correct**.

45. Treasury Bills and Government Bonds (also known as Dated Securities) are key instruments through which the Government of India raises funds from the market.
With reference to **Treasury Bills (T-Bills)** and **Government Bonds / Dated Securities** issued in India, consider the following statements:

1. Treasury Bills are **short-term debt instruments** issued at a discount and redeemed at face value, whereas Government Bonds are generally issued with a **fixed coupon rate**.
2. Treasury Bills are issued for maturities of **91 days, 182 days, and 364 days**, while Government Bonds usually have **medium to long-term maturities** exceeding one year.
3. Interest income from Treasury Bills is paid periodically, similar to Government Bonds.
4. Both Treasury Bills and Government Bonds are issued by the Government of India and are considered **sovereign securities with negligible credit risk**.

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

Answer: a) 1, 2 and 4 only

Correct Answer: (a) 1, 2 and 4 only
Explanation (Statement-wise):

- **Statement 1 – Correct:**
  Treasury Bills (T-Bills) are **zero-coupon instruments** issued at a **discount** and redeemed at **face value**, while **Government Bonds (Dated Securities)** typically carry a **fixed coupon** paid periodically.
- **Statement 2 – Correct:**
  T-Bills are issued for **91, 182, and 364 days**, whereas Government Bonds have **medium- to long-term maturities** (generally beyond one year).
- **Statement 3 – Incorrect:**
  T-Bills **do not pay periodic interest**; the return accrues via the **discount**. Periodic interest payments apply to Government Bonds.
- **Statement 4 – Correct:**
  Both instruments are issued by the **Government of India** and are considered **sovereign securities** with **negligible credit risk**.

👉 Hence, **statements 1, 2 and 4 only are correct**.

46. Money market instruments are used for **short-term borrowing and liquidity management** by governments, banks, and corporates.
Consider the following table:

Instrument	**Issuer / Participant**	**Key Characteristic**
1. Commercial Paper (CP)	Corporates and NBFCs	Unsecured short-term instrument issued at a discount
2. Call Money	Banks and Primary Dealers	Overnight unsecured borrowing and lending
3. Cash Management Bill (CMB)	Government of India	Short-term instrument issued to manage temporary cash mismatches
4. Certificate of Deposit (CD)	Reserve Bank of India	Long-term secured instrument issued to absorb liquidity

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

Correct Answer: c) Only three

Answer Explanation (Row-wise, UPSC-Oriented):

Row 1 – Correct ✅ Commercial Paper (CP) is an **unsecured money market instrument** issued by **creditworthy corporates and NBFCs** at a discount to face value.

Row 2 – Correct ✅ Call money refers to **overnight funds**, usually **unsecured**, traded mainly among **banks and primary dealers**.

Row 3 – Correct ✅Cash Management Bills (CMBs) are issued by the **Government of India** to address **temporary mismatches in cash flows**.They are short-term instruments, similar to Treasury Bills but issued on an ad-hoc basis.

Row 4 – Incorrect ❌Certificates of Deposit (CDs) are issued by **commercial banks and financial institutions**, **not by RBI**. They are **short-term negotiable instruments**, not long-term instruments.

47. **Match List I (Types of Capital) with List II (Characteristic or Example):**

List I – Type of Capital	**List II – Description / Example**
A. Fixed Capital	1. Health, training, and skill development
B. Working Capital	2. Tangible assets like machinery and tools
C. Physical Capital	3. Cash in hand and raw materials used in production
D. Human Capital	4. Durable goods used over time in production
E. Social Capital	5. Social networks, civic norms, and institutions

Choose the correct code:
(a) A-4, B-3, C-2, D-1, E-5
(b) A-2, B-1, C-4, D-3, E-5
(c) A-2, B-3, C-1, D-4, E-5
(d) A-4, B-2, C-3, D-1, E-5

✅ **Correct Answer:** (a) A-4, B-3, C-2, D-1, E-5

Explanation:

- **A. Fixed Capital – 4:** Used over many production cycles (e.g., machines).
- **B. Working Capital – 3:** Short-term resources like cash and inventories.
- **C. Physical Capital – 2:** Tangible assets aiding production.
- **D. Human Capital – 1:** Intangible investments in people such as skills and health.
- **E. Social Capital – 5:** Trust, norms, and networks facilitating cooperation in society.

48. The **Reserve Bank of India** exercises regulatory and supervisory oversight over banks and certain financial institutions to ensure financial stability and sound governance.
With reference to the **regulatory framework of the RBI for financial institutions**, consider the following aspects:

1. Granting licences to banks and regulating their **branch expansion**.
2. Approving the **appointment of Chief Executive Officers (CEOs)** of Public Sector Banks.
3. Prescribing and overseeing compliance with **accounting and reporting standards**, including convergence with International Financial Reporting Standards (IFRS).
4. Implementing and overseeing **resolution mechanisms** for stressed banks and financial institutions.

Which of the above fall within the ambit of the RBI's regulatory framework?
a) 1, 2 and 3 only
b) All the above
c) 2, 3 and 4 only
d) 3 and 4 only

Correct Answer: b) All the above
Correct Answer: (b) All the above
Explanation (Aspect-wise):

- **Aspect 1 – Correct:**
  The **RBI grants banking licences** and regulates **branch expansion** under the **Banking Regulation Act, 1949**.
- **Aspect 2 – Correct:**
  The **appointment and removal of CEOs/Whole-Time Directors of Public Sector Banks** require **RBI approval**, ensuring fit-and-proper governance standards.
- **Aspect 3 – Correct:**
  The RBI **prescribes accounting, disclosure, and reporting norms** for

banks and oversees **convergence with IFRS (Ind AS)** to improve transparency and comparability.

- **Aspect 4 – Correct:**
  The RBI plays a central role in **bank resolution and stress management**, including **Prompt Corrective Action (PCA)**, resolution planning, and coordination under relevant resolution frameworks.

👉 Hence, **all the listed aspects fall within the RBI's regulatory and supervisory ambit**.

49. To ensure compliance with regulatory norms, the **Reserve Bank of India** is empowered to impose monetary penalties on banks under various legislations.
In this context, RBI imposes penalties under **Section 47A of the Banking Regulation Act, 1949**, and also under laws such as the **PMLA, 2002**, **FEMA**, and the **Payment and Settlement Systems Act, 2007**.
The exercise of such powers by the RBI is best described as which one of the following?
a) Moral suasion
b) Selective credit control
c) Direct action
d) Credit rationing

Correct Answer: (c) Direct action
Explanation:

- The imposition of **monetary penalties** by the **Reserve Bank of India** under statutory provisions such as **Section 47A of the Banking Regulation Act, 1949**, **PMLA, FEMA**, and the **Payment and Settlement Systems Act, 2007** represents the **use of coercive regulatory powers**.
- Such actions involve **legal enforcement and punitive measures** to ensure compliance, which clearly falls under **direct action**.
- **Why others are incorrect:**
  - **Moral suasion** involves persuasion without legal compulsion.
  - **Selective credit control** and **credit rationing** relate to directing or limiting the flow of credit, not imposing penalties.

👉 Hence, the correct answer is **(c) Direct action**.

50. With reference to the **committees associated with the establishment of the RBI**, consider the following table:

Committee	Year	Relevance to RBI
1. Hilton Young Commission	1926	Recommended the establishment of a central bank for India
2. Maclagan Committee	1915	Examined banking conditions and emphasised the need for a central banking authority
3. Herschell Committee	1920	Suggested separation of central and commercial banking functions
4. Henry Fowler Committee	1898	Recommended creation of RBI and regulation of paper currency

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

Correct Answer: b) Only two
Explanation (Row-wise):

- **Row 1 – Correct:**
  The **Hilton Young Commission (1926)** recommended the **establishment of a central bank for India**, which directly led to the creation of the RBI.
- **Row 2 – Correct:**
  The **Maclagan Committee (1915)** examined Indian banking conditions and **highlighted the need for a central banking authority**.
- **Row 3 – Incorrect:**
  The **Herschell Committee (1920)** primarily dealt with **currency and exchange arrangements**; the clear recommendation on separating **central and commercial banking functions** is more closely associated with later deliberations (not accurately matched here).

- **Row 4 – Incorrect:**
  The **Henry Fowler Committee (1898)** focused on **currency reforms** in British India but **did not recommend the creation of the RBI** (which came much later).

👉 Hence, **only two rows (1 and 2) are correctly matched**.

51. The **National Financial Reporting Authority (NFRA)** was established to strengthen oversight over the auditing profession and enhance corporate governance. With reference to the **scope of governance and jurisdiction of NFRA**, consider the following bodies/entities:

1. Statutory auditors of **listed companies**
2. Statutory auditors of **large unlisted public companies** notified by the Central Government
3. The **Institute of Chartered Accountants of India (ICAI)** in respect of disciplinary control over all its members
4. Audit firms and individual auditors associated with companies falling under NFRA's jurisdiction

Which of the above come under the **governance / disciplinary jurisdiction of NFRA**?

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

Correct Answer: b) 1, 2 and 4 only

Answer Explanation

Statement 1 – Correct ✅ NFRA has jurisdiction over **auditors of listed companies**.

Statement 2 – Correct ✅ NFRA also covers **auditors of certain large unlisted public companies**, as notified by the Central Government under the Companies Act, 2013.

Statement 3 – Incorrect ❌ **ICAI as an institution is not governed by NFRA**.NFRA only **overrides ICAI's disciplinary powers** in cases where NFRA has assumed jurisdiction over specific auditors or audit firms.

Statement 4 – Correct ✅ **Audit firms and individual auditors** engaged with companies under NFRA's scope fall within its disciplinary and oversight jurisdiction.

52. India's **Unified Payments Interface (UPI)** has witnessed significant regulatory and technological updates in the last one year to enhance **security, inclusiveness, and international reach**.
With reference to the **recent updates related to UPI**, consider the following statements:

1. UPI has enabled **credit on UPI** by allowing linkage of **pre-sanctioned credit lines** to UPI for payments.
2. The **UPI Lite X** feature allows users to make **offline digital payments** without real-time internet connectivity.
3. The **National Payments Corporation of India** introduced **interoperability of UPI with RuPay credit cards** to expand merchant payments.
4. RBI has mandated that **all UPI transactions must necessarily be routed through SWIFT** for enhanced cross-border security.

Which of the statements given above are correct?

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

Correct Answer: a) 1, 2 and 3 only
Explanation (Statement-wise):

- **Statement 1 – Correct:**
  Credit on UPI allows users to make payments by linking **pre-sanctioned credit lines** (including credit cards and bank credit lines) to UPI.
- **Statement 2 – Correct:**
  UPI Lite X enables **offline digital payments**, allowing small-value transactions to be completed **without real-time internet connectivity**.
- **Statement 3 – Correct:**
  The **NPCI** introduced **interoperability between UPI and RuPay credit cards**, enabling **merchant payments** via UPI using credit cards.
- **Statement 4 – Incorrect:**
  The RBI has **not mandated routing UPI transactions through SWIFT**. SWIFT is used for **international**

banking messages, not domestic UPI transactions.

👉 Hence, **statements 1, 2 and 3 only are correct**.

53. With reference to the regulation of **All-India Financial Institutions (AIFIs)** in India, consider the following statements:

1. The Reserve Bank of India derives its powers to regulate and supervise All-India Financial Institutions primarily from the **Reserve Bank of India Act, 1934**.
2. The All-India Financial Institutions regulated by the RBI include **EXIM Bank, NABARD, SIDBI, and the National Housing Bank (NHB)**.

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

Correct Answer: c) Both 1 and 2

Brief Answer Explanation

- **Statement 1 – Correct:**
  RBI's regulatory and supervisory powers over AIFIs flow mainly from the **RBI Act, 1934**, along with institution-specific statutes. These powers cover prudential norms, inspections, liquidity access, and supervisory oversight.
- **Statement 2 – Correct:**
  The AIFIs currently **regulated by RBI** are:
  - **EXIM Bank**
  - **NABARD**
  - **SIDBI**
  - **National Housing Bank (NHB)**

These institutions provide **long-term developmental finance** and do not function like commercial banks.

54. With reference to certain entities regulated or overseen by the **Reserve Bank of India (RBI)**, consider the following table:

Entity	**Regulatory Law / Framework**	**Core Function**
1. Financial Benchmarks India Pvt. Ltd. (FBIL)	Banking Regulation Act, 1949	Administration of financial market benchmarks
2. Credit Information Companies (CICs)	Credit Information Companies (Regulation) Act, 2005	Collection and dissemination of credit information
3. All-India Financial Institutions (AIFIs)	RBI Act, 1934	Long-term finance to priority and developmental sectors
4. Authorised Dealers (ADs)	Payment and Settlement Systems Act, 2007	Handling foreign exchange transactions

Which of the above rows are **correctly matched**?

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

✅ **Correct Answer:**
b) 2 and 3 only

Brief Answer Explanation (UPSC-Oriented)

- **Row 1 – Incorrect (Trap):**
  FBIL is **not regulated under the Banking Regulation Act, 1949**.
  RBI regulates financial benchmarks (including FBIL) under **Section 45W of the RBI Act, 1934**, not the BR Act.
- **Row 2 – Correct:**
  Credit Information Companies are governed by the **CIC (Regulation) Act, 2005**, and deal with **credit data collection and sharing**.
- **Row 3 – Correct:**
  AIFIs are regulated by RBI mainly under the **RBI Act, 1934** and provide **long-term developmental finance** (not deposit banking).

- **Row 4 – Incorrect (Strong Misdirection):**
  Authorised Dealers operate under **FEMA, 1999**, not the **Payment and Settlement Systems Act, 2007** (which applies to payment systems like UPI, RTGS, etc.).

55. Under the **Pradhan Mantri Mudra Yojana (PMMY)**, loans are provided to micro and small enterprises under different categories.
With reference to **MUDRA loan categories**, consider the following table:

Loan Category	**Loan Amount Range**	**Eligibility / Purpose**
1. Shishu	₹50,001 to ₹5 lakh	Existing enterprises seeking expansion
2. Kishore	Up to ₹50,000	New / start-up micro enterprises
3. Tarun	₹5 lakh to ₹10 lakh	Well-established micro enterprises
4. Tarun Plus	₹10 lakh to ₹20 lakh	Successful borrowers with good repayment history

Which of the above rows are **correctly matched**?
a) 3 and 4 only
b) 1 and 2 only
c) 2, 3 and 4 only
d) 1, 2, 3 and 4

✅ **Correct Answer:**
a) 3 and 4 only

Brief Answer Explanation (UPSC-Oriented)

- **Row 1 – Incorrect (Trap):**
  Shishu loans are **up to ₹50,000**, not ₹5 lakh.
- **Row 2 – Incorrect (Trap):**
  Kishore loans range from **₹50,001 to ₹5 lakh**, not up to ₹50,000.
- **Row 3 – Correct:**
  Tarun loans cover **₹5–10 lakh** for established enterprises.
- **Row 4 – Correct:**
  Tarun Plus loans (₹10–20 lakh) are meant for **repeat borrowers with strong credit history**.

56. **Consider the following table:**

Scheme	**Primary Target Group**	**Nodal Ministry**
A. Pradhan Mantri **Shram Yogi Maandhan Yojana**	1. Unorganised workers such as street vendors, domestic workers	i. Ministry of Labour & Employment
B. Pradhan Mantri **Laghu Vyapari Maandhan Pension**	2. Small traders and shopkeepers with GST turnover below threshold	ii. Ministry of MSME
C. Pradhan Mantri **Karam Yogi Maandhan Scheme**	3. Gig and platform workers registered on e-Shram	iii. Ministry of Commerce & Industry
D. **Atal Pension Yojana (APY)**	4. Voluntary pension for workers in informal sector	iv. Ministry of Finance

Which of the following is the correct match?
a) A-1-i, B-2-ii, C-3-iii, D-4-iv
b) A-1-i, B-2-i, C-3-i, D-4-iv
c) A-4-iv, B-2-ii, C-1-i, D-3-iii
d) A-1-ii, B-2-i, C-3-iv, D-4-i

✅ **Correct Answer: (b)**

Brief Answer Explanation

- **PM Shram Yogi Maandhan** → Unorganised workers → **Ministry of Labour & Employment**
- **PM Laghu Vyapari Maandhan** → Small traders & shopkeepers → **Ministry of Labour & Employment** (not MSME – key trap)
- **PM Karam Yogi Maandhan** → Platform/gig workers → **Ministry of Labour & Employment**
- **Atal Pension Yojana** → Informal sector pension → **Ministry of Finance**

57. **With reference to the National Bank for Financing Infrastructure and Development (NaBFID), consider the following statements:**

1. NaBFID was established under a separate Act of Parliament passed in 2021 as a Development Financial Institution (DFI) for infrastructure financing.
2. NaBFID is regulated and supervised by the Reserve Bank of India as an All India Financial Institution (AIFI) under the RBI Act, 1934.
3. NaBFID is the fifth AIFI in India, after EXIM Bank, NABARD, NHB and SIDBI.
4. NaBFID is authorised to accept public deposits that will be used for Infrastructure projects.
5. The authorised share capital of NaBFID is ₹1 lakh crore, and its head office is located in Mumbai.

Which of the statements given above are correct?

a) 1, 2, 3 and 5 only
b) 1, 3 and 4 only
c) 2, 4 and 5 only
d) 1, 2, 3, 4 and 5

✅ **Correct Answer: (a) 1, 2, 3 and 5 only**

Brief Answer Explanation:

- **Statement 1** is correct: NaBFID was established through the *NaBFID Act, 2021* as a DFI for long-term infrastructure financing.
- **Statement 2** is correct: It is regulated by the RBI as an **All India Financial Institution (AIFI)** under Sections 45L and 45N of the RBI Act, 1934.
- **Statement 3** is correct: NaBFID is the **fifth AIFI**, after EXIM Bank, NABARD, NHB and SIDBI.
- **Statement 4** is incorrect: Like other AIFIs, NaBFID **does not accept public deposits like banks**; it raises funds via government support, bonds, and market borrowings.
- **Statement 5** is correct: NaBFID has an **authorised share capital of ₹1 lakh crore**, and its **head office is in Mumbai**.

58. In the context of banking regulation, **Demand and Time Liabilities (DTL)** and **Net Demand and Time Liabilities (NDTL)** form the base for key reserve requirements.
With reference to **Demand and Time Liabilities in the Indian banking system**, consider the following statements:

1. **Demand liabilities** include deposits payable on demand, such as current account deposits and outstanding demand drafts.
2. **Time liabilities** include fixed deposits, recurring deposits, cash certificates, and the **time-liability portion of savings bank deposits**.
3. Banks are required by the **Reserve Bank of India** to maintain prescribed ratios of their **NDTL** in the form of **Cash Reserve Ratio (CRR)** and **Statutory Liquidity Ratio (SLR)**.
4. **Foreign currency deposits maintained with Indian banks** are excluded from the computation of NDTL for regulatory purposes.

Which of the statements given above are correct?

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

Correct Answer: b) 1, 2 and 3 only
Correct Answer: (b) 1, 2 and 3 only
Explanation (Statement-wise):

- **Statement 1 – Correct:**
  Demand liabilities are obligations payable **on demand**, including **current account deposits** and **outstanding demand drafts**.
- **Statement 2 – Correct:**
  Time liabilities consist of **fixed and recurring deposits**, **cash certificates**, and the **time-liability portion of savings bank deposits**.
- **Statement 3 – Correct:**
  Banks are required to maintain **CRR and SLR** as prescribed by the **RBI**, calculated as a **percentage of Net Demand and Time Liabilities (NDTL)**.
- **Statement 4 – Incorrect:**
  Foreign currency deposits with

Indian banks are included in the computation of **NDTL** for regulatory purposes and are **not excluded**.

👉 Hence, **statements 1, 2 and 3 only are correct**.

59. With reference to the **functions performed by banks**, consider the following table:

Activity	**Category Assigned**
1. Accepting deposits from the public	Core Activity
2. Providing locker facilities	Ancillary Activity
3. Collection of cheques and bills on behalf of customers	Agency Activity
4. Issuing demand drafts and banker's cheques	Agency Activity

Which of the above are **correctly matched**?

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

✅ **Correct Answer**
a) 1, 2 and 3 only

Explanation (Exam-Oriented)

- **1. Accepting deposits → Core Activity** ✅
  Fundamental banking function.
- **2. Locker facilities → Ancillary Activity** ✅
  Supporting / utility service.
- **3. Collection of cheques & bills → Agency Activity** ✅
  Bank acts as an agent for customers.
- **4. Issuing demand drafts → ❌ Incorrectly classified**
  Issuing demand drafts is an **ancillary (general utility) service**, **not an agency function**.

60. With reference to **Cross-Chain Bridges** in blockchain ecosystems, examine the following statements:

1. Cross-chain bridges facilitate interoperability by allowing assets and information to move across blockchains that may follow different consensus protocols.
2. By enabling direct blockchain-to-blockchain transfers, cross-chain bridges can reduce dependence on centralized exchanges for token swaps.
3. Cross-chain bridges are free from security risks since transactions are executed through smart contracts without intermediaries.

Which of the statements given above are correct?

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

Correct Answer: (b) 1 and 2 only
Explanation:

- **Statement 1 is correct:** Cross-chain bridges are designed to enable interoperability between different blockchains, even when they use distinct consensus mechanisms.
- **Statement 2 is correct:** They allow users to transfer or swap tokens directly across chains, thereby reducing reliance on centralized exchanges.
- **Statement 3 is incorrect:** Cross-chain bridges are **not inherently secure** and have been vulnerable to hacks and interoperability challenges, making them one of the risk-prone components in blockchain infrastructure.

👉 Hence, **only statements 1 and 2 are correct**.

61. Which of the following can improve India's Gross Savings Rate?

1. Increase in household financial savings
2. Government fiscal deficit
3. Public sector profit reinvestment
4. Fall in real interest rates on savings

Options:

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

Answer: (a) 1 and 3 only
Explanation: Household savings and retained profits improve gross savings. Fiscal deficit and lower real interest may discourage savings.

62. The Four Balance Sheet (4BS) Problem, also known as Twin Balance Sheet 2.0, extends beyond the traditional Twin Balance Sheet (TBS) issue by including additional stressed sectors. Which of the following correctly represents the key components of the 4BS framework?

a) Stressed banking sector, fiscal deficit, private consumption slowdown, and monetary tightening.

b) High corporate debt, weak public sector finances, real estate crisis, and banking sector NPAs.

c) Banking sector NPAs, stressed corporate balance sheets, liquidity crisis in NBFCs, and real estate sector distress.

d) Current account deficit, fiscal deficit, high inflation, and weak manufacturing sector.

Answer: (C) **c) Banking sector NPAs, stressed corporate balance sheets, liquidity crisis in NBFCs, and real estate sector distress.**

63. Recently RBI issued a circular named "Prudential Framework for Resolution of Stressed Assets". Which of the following statements is incorrect with reference to this new norm on managing NPA?

a) Before identifying an asset as a stressed asset, resolution strategy and plan can be made.

b) Loan defaults to be recognized within 30 days

c) There must be an Inter Creditor Agreement put up right away, and the Resolution Plan must be carried out in compliance with the Insolvency and Bankruptcy Code.

d) Before beginning the Resolution Process, a necessary institutional arrangement, known as the Joint Lenders Forum, must exist.

Correct Answer (Incorrect statement): (d)
Explanation:

- The **Prudential Framework for Resolution of Stressed Assets (2019)** introduced by the RBI **did away with earlier institutional mechanisms** such as the **Joint Lenders Forum (JLF)**.
- Under the new framework:
  - **Early recognition of stress** is mandated (default to be recognised promptly).
  - Lenders are required to **put in place an Inter-Creditor Agreement (ICA)** and work towards a **time-bound Resolution Plan**, with **IBC as a backstop**.
  - Resolution planning can begin **even before formal classification as NPA**, encouraging early intervention.
- **Statement (d) is incorrect** because the **JLF is no longer required or mandated** under the new prudential framework.

👉 Hence, option **(d)** is the incorrect statement.

64. With reference to the **Prompt Corrective Action (PCA) framework** of the **Reserve Bank of India**, consider the following indicators:

1. Decline in Capital to Risk-Weighted Assets Ratio (CRAR) below prescribed thresholds
2. Deterioration in asset quality reflected by rising Net Non-Performing Assets (NNPAs)
3. Persistent negative profitability indicators such as Return on Assets (RoA)
4. Increase in credit growth beyond RBI-specified limits

Which of the above are used as **triggers for placing a bank under PCA**?
a) 1, 2 and 3 only
b) 1 and 2 only
c) 2 and 4 only
d) 1, 2, 3 and 4

✅ **Correct Answer**
a) 1, 2 and 3 only

Explanation (Exam-Oriented)

- **Statement 1 – Correct :** Low **CRAR** signals capital stress and is a **primary PCA trigger**.
- **Statement 2 – Correct :** Rising **Net NPAs** indicate deterioration in asset quality, triggering supervisory action.
- **Statement 3 – Correct :** Sustained losses / negative **RoA** reflect weak viability and trigger PCA.
- **Statement 4 – Incorrect :** Excessive credit growth may invite supervisory caution, but it is **not a direct PCA trigger**.

65. With reference to **interest rates and inflation**, consider the following statements:

1. The gain that borrowers receive due to a rise in prices (inflation) is commonly referred to as an **inflation premium**.
2. The interest rate charged by banks without adjusting for inflation is known as the **nominal interest rate**.
3. When inflation is positive, the **real interest rate** is lower than the nominal interest rate.
4. A rise in the inflation premium necessarily indicates **higher profits for lending institutions**.

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

Correct Answer: b) 2 and 3 only
Explanation:

- **Statement 1 – Incorrect:**
  The gain to borrowers from inflation is captured through a **reduction in real interest burden**, not termed an *inflation premium*. *Inflation premium* refers to the extra return lenders demand to compensate for expected inflation.
- **Statement 2 – Correct:**
  The **nominal interest rate** is the stated rate charged by banks **without adjusting for inflation**.
- **Statement 3 – Correct:**
  When inflation is positive,
  Real Interest Rate
  = Nominal Interest Rate
  – Inflation

Hence, the real rate is **lower than the nominal rate**.

- **Statement 4 – Incorrect:**
  A higher inflation premium compensates lenders for inflation risk; it **does not necessarily translate into higher real profits**, as real returns depend on actual inflation.

👉 Therefore, **only statements 2 and 3 are correct**.

66. **Match the following inflation terms with their correct descriptions:**

Term	Description
A. Disinflation	Decrease in the rate of inflation
B. Deflation	Sustained decline in general price level
C. Reflation	Policy-induced rise in price to counteract deflationary pressure
D. Stagflation	Inflation combined with stagnating growth and high unemployment

Select the correct code:
(a) A and B only
(b) A, B and D only
(c) B, C and D only
(d) A, B, C and D
Answer: (d)
Explanation:
All definitions match the terms precisely.

67. Which of the following statements are correct regarding Wholesale Price Index (WPI) and Consumer Price Index (CPI)?

1. WPI gives higher weight to manufactured goods while CPI gives higher weight to food.
2. WPI includes services like education and health, while CPI excludes services.
3. Core inflation in WPI and CPI excludes both food and fuel components.
4. RBI uses CPI, not WPI, for inflation targeting under monetary policy.

Choose the correct option:

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

Answer: (d)
Explanation: Statement 2 is incorrect: CPI includes services, WPI does not.

68. In monetary economics, the **money multiplier** explains the relationship between the expansion of the money supply and the increase in high-powered money (monetary base).
Which one of the following correctly represents the **formula for the money multiplier**?
a) Money Multiplier = Change in total money supply **plus** change in the monetary base
b) Money Multiplier = Change in total money supply **minus** change in the monetary base
c) Money Multiplier = Change in total money supply **multiplied by** change in the monetary base
d) Money Multiplier = Change in total money supply **divided by** change in the monetary base

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Answer: d) Money Multiplier = Change in total money supply ÷ Change in the monetary base

✅ **Brief Answer Explanation**
Correct Answer: (d) Money Multiplier = Change in total money supply ÷ Change in the monetary base
Explanation:

- The **money multiplier** measures how much the **total money supply (M)** increases for a given increase in **high-powered money or monetary base (H)**.
- It is defined as the **ratio of the change in money supply to the change in the monetary base**:

$$\text{Money Multiplier} = \frac{\Delta M}{\Delta H}$$

- This relationship captures the role of the **banking system**, where deposits, reserves, and lending amplify the initial injection of base money.
- The other options incorrectly treat the relationship as **additive, subtractive, or multiplicative**, which does not reflect the theoretical definition.

👉 Hence, option **(d)** correctly represents the money multiplier formula.

69. Which of the following statements **correctly describe the characteristics and functions of the Bank Rate in India**?

1. The Bank Rate is the rate at which banks can borrow **long-term funds from the RBI without collateral**.
2. Penalties imposed on banks for non-maintenance of **CRR and SLR** are linked to the Bank Rate.
3. The Bank Rate is the same as the Repo Rate and both are used identically for day-to-day liquidity management.
4. The Bank Rate is **aligned with the Marginal Standing Facility (MSF) rate** and changes automatically when the MSF rate is revised.
5. The Bank Rate is also referred to as the **Discount Rate**, as it is the rate at which RBI rediscounts eligible bills.

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

Correct Answer: d) 1, 2, 4 and 5 only
Explanation (Statement-wise):

- **Statement 1 – Correct:**
  The **Bank Rate** is the rate at which the

RBI lends long-term funds to banks without collateral, unlike repo operations which are collateralised and short-term.

- **Statement 2 – Correct:**
  Penal interest for default in maintaining CRR and SLR is **linked to the Bank Rate**, making it an important reference rate for regulatory enforcement.
- **Statement 3 – Incorrect:**
  The **Bank Rate is not the same as the Repo Rate**.
  - Repo Rate is a **short-term liquidity management tool** under LAF.
  - Bank Rate has a **signalling and penal reference role**, not used for daily liquidity operations.
- **Statement 4 – Correct:**
  In the current framework, the **Bank Rate is aligned with the MSF rate** and **automatically changes** whenever the MSF rate is revised.
- **Statement 5 – Correct:**
  The Bank Rate is also known as the **Discount Rate**, as it is the rate at which the RBI **rediscounts eligible commercial bills**.

👉 Hence, **statements 1, 2, 4 and 5 only are correct**.

70. Which of the following facility enables a bank in Liquidity Crunch to get Cash inflow

1. Standing Deposit Facility (SDF)
2. Repo Facility
3. Marginal Standing Facility
4. Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR)

Select the answer from the give codes

a) One option only
b) Two options only
c) Three options only
d) All the four options

Answer : first statement is liquidity absorption and the remaining three are liquidity injection in case of Liquidity Crunch.

71. The **Incremental Cash Reserve Ratio (I-CRR)** is a special liquidity management tool occasionally used by the **Reserve Bank of India**.

With reference to the **use of Incremental CRR in India**, consider the following statements:

1. RBI imposed an **Incremental CRR of 100% in 2016** to absorb excess liquidity generated after **demonetisation**.
2. In **August 2023**, RBI introduced an **Incremental CRR of 10%** on the increase in banks' **NDTL** to manage liquidity arising from the withdrawal of **₹2000 notes**.
3. Incremental CRR leads to a **permanent increase** in banks' reserve requirements.
4. Incremental CRR is used as a **temporary liquidity absorption measure**.

Which of the statements given above are correct?

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

Correct Answer: b) 1, 2 and 4 only
Explanation (Statement-wise):

- **Statement 1 – Correct:**
  In **2016**, following **demonetisation**, the RBI imposed a **100% Incremental CRR** to absorb the **surge in excess liquidity** from large deposit inflows.
- **Statement 2 – Correct:**
  In **August 2023**, the RBI introduced a **10% Incremental CRR** on the **increase in banks' NDTL** to manage liquidity arising from the **withdrawal of ₹2000 banknotes**.
- **Statement 3 – Incorrect:**
  Incremental CRR is **not permanent**; it is a **temporary and reversible measure**.
- **Statement 4 – Correct:**
  Incremental CRR is used as a **temporary liquidity absorption tool** during exceptional circumstances.

👉 Hence, **statements 1, 2 and 4 only are correct**.

72. In the context of Broad Money (M3) in India, which of the following correctly defines Aggregate Deposits?

a) The total amount of cash held by the public and banks, including interbank deposits.

b) The sum of Demand Deposits with Banks, Time Deposits with Banks, and 'Other' Deposits with the Reserve Bank of India.

c) The amount of currency in circulation plus the reserves held by commercial banks with the RBI.

d) The total value of all assets held by financial institutions, including loans, advances, and securities.

Correct Answer: B
Explanation: Broad Money includes two components : Currency with the Public + Aggregate Deposits
• Aggregate Deposits are a key component of Broad Money (M3) and
include:

o Demand Deposits with Banks (e.g., savings accounts, current accounts).

o Time Deposits with Banks (e.g., fixed deposits, recurring deposits).

o 'Other' Deposits with the Reserve Bank of India (RBI) (e.g., special deposits).

• Option A is incorrect because interbank deposits are not included in Aggregate Deposits.
• Option C is incorrect as it describes components of Reserve Money (M0), not M3.
• Option D is incorrect because Aggregate Deposits exclude loans, advances, and securities.

73. What is the primary role of Financial Benchmarks India Private Ltd (FBIL)?

a) To regulate stock market trading in India

b) To determine and administer financial benchmarks like interest rates and forex rates in India

c) To oversee banking regulations and monetary policy decisions

d) To manage government securities auctions and bond issuance

Correct Answer: B (To determine and administer financial benchmarks like interest rates and foreign exchange rates in India)

Explanation:
FBIL was established to set and administer financial benchmarks like the Mumbai Interbank Offered Rate (MIBOR), Market Repo Rate, and USD/INR Reference Rate.
Option A (Incorrect): Stock market regulation is handled by SEBI, not FBIL.
Option C (Incorrect): RBI is responsible for banking regulation and monetary policy, not FBIL.
Option D (Incorrect): Government securities auctions are managed by RBI and CCIL, not FBIL.
Note: FBIL is regulated by RBI

74. India's foreign exchange reserves are maintained to ensure **external sector stability**, manage balance of payments pressures, and instil confidence in the economy.
With reference to the **composition of India's foreign exchange reserves**, consider the following components:

1. **Foreign Currency Assets (FCA)**
2. **Gold holdings of the monetary authority**
3. **Special Drawing Rights (SDRs)** held with the International Monetary Fund
4. **Reserve Tranche Position (RTP)** with the International Monetary Fund

Which of the above are included in India's foreign exchange reserves?
a) 1 and 2 only
b) 3 and 4 only
c) 1, 2 and 3 only
d) 1, 2, 3 and 4

Correct Answer: (d) 1, 2, 3 and 4
Explanation:
India's **foreign exchange reserves** comprise all internationally accepted reserve assets held by the **Reserve Bank of India** to meet external obligations and manage exchange rate stability. These include:

- **Foreign Currency Assets (FCA)** – the largest component, held in major foreign currencies.

- **Gold holdings** – owned by the monetary authority as a store of value and confidence asset.
- **Special Drawing Rights (SDRs)** – reserve assets allocated by the **IMF** to member countries.
- **Reserve Tranche Position (RTP)** – India's readily available claim on the IMF.

👉 Hence, **all four components are included in India's foreign exchange reserves**.

75. Which of the following is NOT a component of India's capital account in the Balance of Payments?

(a) External commercial borrowings
(b) Portfolio investment
(c) Foreign Direct Investment
(d) Merchandise exports

Answer: (d) Merchandise exports
Explanation: Merchandise exports belong to the current account, not capital account.

76. Which of the following can lead to capital account deficit?

(a) Large FDI inflows
(b) Increase in ECB repayments
(c) Rise in foreign investment in equity
(d) NRI deposits increase

Answer: (b) Increase in ECB repayments
Explanation: Repayment of external commercial borrowings (ECB) is an outflow under capital account.

77. A Tri-Party Agent in a Tri-party repo will do which of the following functions

1. Collateral selection,
2. Payment and settlement,
3. Custody and management during the life of the transaction.

Select the answer from the below codes
a) 1 and 2 only
b) 2 and 3 only
c) 1 and 3 only
d) 1, 2 and 3

Answer: d) 1, 2 and 3
Correct Answer: (d) 1, 2 and 3

Explanation:

- In a **Tri-party repo**, the **Tri-Party Agent** (such as **CCIL** in India) performs **all core operational and risk-management functions**, including:
  - **Collateral selection** in accordance with eligibility criteria and haircuts,
  - **Payment and settlement** of funds and securities between the borrower and lender, and
  - **Custody and collateral management** throughout the life of the transaction, including margining and substitution.
- By centralising these functions, the tri-party agent **reduces counterparty risk**, improves **operational efficiency**, and enhances **market transparency**.

👉 Hence, **all three functions are correctly attributed to the Tri-Party Agent**.

78. What is an inventory?
(a) It is a stock of unsold finished goods.
(b) It is a stock of unsold raw materials.
(c) It is treated as capital.
(d) All of the above

Answer : (d) All of the above

79. Which of the following statements about the relationship between gold prices and currency value are correct?
1. Gold prices move in the opposite direction of the US dollar value.
2. When the US dollar weakens, the demand for gold increases.
3. If the Indian rupee depreciates, gold prices in India rise.

Select the correct answer:
a) 1 and 2 only
b) 2 and 3 only
c) 3 only
d) 1, 2, and 3

Correct Answer: D (1, 2, and 3)

Explanation:
Statement 1 (Correct): Gold prices are inversely proportional to the US dollar value. When the

dollar strengthens, gold becomes more expensive for other currencies, reducing demand.
Statement 2 (Correct): A weaker USD makes gold cheaper in international markets, increasing global demand.
Statement 3 (Correct): When the rupee depreciates, gold becomes costlier in India because India imports most of its gold in USD.

80. **Match the instrument with its features:**

Instrument	**Feature**
A. Treasury Bills	1. Issued by companies, unsecured
B. Commercial Paper	2. Issued at discount, no interest
C. Certificate of Deposit	3. Negotiable deposit by banks
D. Inter-Corporate Deposit	4. Unsecured lending between corporates

Choose the correct code:
(a) A-2, B-1, C-3, D-4
(b) A-3, B-2, C-4, D-1
(c) A-1, B-2, C-3, D-4
(d) A-2, B-4, C-1, D-3
Answer: (a) A-2, B-1, C-3, D-4
Explanation:
Based on standard classification in money markets.

81. Which of the following correctly describes Certificate of Deposit (CD)?
1. It is a negotiable money market instrument issued by scheduled banks.
2. It is issued in both physical and dematerialized form.
3. It is backed by government securities as collateral.
Select the correct answer using the codes below:
(a) 1 and 2 only
(b) 1 and 3 only
(c) 2 and 3 only
(d) 1, 2 and 3
Answer: (a) 1 and 2 only
Explanation: CDs are unsecured instruments and not backed by collateral

82. The **Reserve Bank of India** performs multiple roles to ensure monetary stability, financial regulation, and orderly functioning of the banking system.
With reference to the **functions of the RBI**, consider the following statements:
1. The RBI acts as the **custodian of the cash reserves** of scheduled commercial banks.
2. The RBI functions as the **banker to the Government of India**, managing its public debt and treasury operations.
3. The RBI directly regulates and supervises **all Non-Banking Financial Companies (NBFCs)** and **stock exchanges** in India.
4. The RBI acts as the **lender of last resort** by providing liquidity support to banks during periods of financial stress.

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

Answer: a) 1, 2 and 4 only
Correct Answer: (a) 1, 2 and 4 only
Explanation (Statement-wise):
- **Statement 1 – Correct:**
  The **RBI acts as the custodian of cash reserves** of **scheduled commercial banks** through the **Cash Reserve Ratio (CRR)** mechanism.
- **Statement 2 – Correct:**
  The RBI functions as the **banker, agent, and debt manager** to the **Government of India**, managing **public debt, treasury bills, and government accounts**.
- **Statement 3 – Incorrect:**
  While the RBI **regulates and supervises NBFCs**, **stock exchanges are regulated by SEBI**, not the RBI.
- **Statement 4 – Correct:**
  The RBI acts as the **lender of last resort**, providing **liquidity support** to banks during periods of financial stress to maintain financial stability.

👉 Hence, **statements 1, 2 and 4 only are correct**.

83. The **Reserve Bank of India** uses both **quantitative** and **qualitative (selective)** instruments of monetary policy to regulate credit and liquidity in the economy.
With reference to these instruments, which of the following are **qualitative instruments** rather than **quantitative instruments** of monetary policy?

1. Credit rationing
2. Cash Reserve Ratio (CRR)
3. Reverse Repo Rate
4. Loan-to-Value (LTV) requirement

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

Correct Answer: c) 1 and 4 only
Correct Answer: (c) 1 and 4 only
Explanation (Instrument-wise):

- **Instrument 1 – Credit rationing (Qualitative):**
  It selectively restricts the **flow of credit to particular sectors or uses**, influencing the **direction** rather than the **overall volume** of credit.
- **Instrument 2 – Cash Reserve Ratio (CRR) (Quantitative):**
  CRR affects the **overall liquidity** in the banking system and is a **quantitative** tool.
- **Instrument 3 – Reverse Repo Rate (Quantitative):**
  It influences **system-wide liquidity and interest rates**, making it a **quantitative** instrument.
- **Instrument 4 – Loan-to-Value (LTV) requirement (Qualitative):**
  LTV norms regulate **how much credit can be extended against collateral** for specific sectors (e.g., housing), thus a **selective/qualitative** tool.

84. Which of the following institutions are classified as **All-India Financial Institutions (AIFIs)** in India?
a) **LIC, IFCI, PFC, NIIF**
b) **IFCI, PFC, NHB, NABARD**
c) **NABARD, SIDBI, EXIM Bank, NHB**
d) **SIDBI, LIC, EXIM Bank, NIIF**

✅ **Correct Answer:**
c) NABARD, SIDBI, EXIM Bank, NHB

🧠 **Brief Answer Explanation**

- **All-India Financial Institutions (AIFIs)** are **statutory institutions created by Acts of Parliament** and regulated by RBI under a special framework.
- RBI regulates Five AIFIs such as EXIM Bank, NABARD, NHB, SIDBI, and NaBFID
- The **only recognised AIFIs** are:
  - **NABARD** – agriculture & rural development
  - **SIDBI** – MSMEs
  - **EXIM Bank** – export–import financing
  - **NHB** – housing finance
- **Why other institutions are NOT AIFIs:**
  - **LIC** → Insurance company (IRDAI)
  - **PFC / IFCI** → NBFCs
  - **NIIF** → Investment fund

Only **Option (c)** contains **exclusively AIFIs**, making it the correct choice.

85. An enterprise engaged in **services** reports the following for FY 2025–26:

- Investment in equipment: **₹24 crore**
- Annual turnover: **₹110 crore**

Based on the **MSME classification under Budget 2025**, the enterprise will be classified as:
a) Micro enterprise
b) Small enterprise
c) Medium enterprise
d) Not eligible for MSME classification

✅ **Correct Answer:**
c) Medium enterprise
Brief Explanation:

- Though **investment (₹24 crore)** falls within **Small enterprise** limits,

- **Turnover (₹110 crore)** exceeds the **Small enterprise ceiling (₹100 crore)**,
- Hence, classification shifts upward to **Medium enterprise**, subject to medium limits being satisfied.

86. Which of the following activities is a Non Banking Financial Company (NBFC) strictly prohibited from undertaking?

a) Providing loans to individuals and businesses

b) Investing in securities and other financial instruments

c) Borrowing funds from banks for operational needs

d) Accepting demand deposits from the public

Correct Answer: D (Accepting demand deposits from the public)

87. With reference to the **economic characteristics of money**, consider the following statements:

1. Money possesses the **highest degree of liquidity** among all assets.
2. Money yields the **highest return** compared to other financial or real assets.
3. Money with a **stable value** tends to enjoy **general acceptability** in transactions.
4. Holding money helps individuals **offset the opportunity cost** of not holding other assets.

Which of the statements given above are correct?

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

Correct Answer: a) 1 and 3 only
Explanation:

- **Statement 1 – Correct:**
  Money has the **highest liquidity**, as it can be immediately used for transactions without loss of value.
- **Statement 2 – Incorrect:**
  Money typically yields **low or zero return** compared to financial assets (like bonds, shares) or real assets (like land).
- **Statement 3 – Correct:**
  Stability in value increases trust and acceptability of money as a medium of exchange.
- **Statement 4 – Incorrect:**
  Holding money actually **involves an opportunity cost**, as funds could have earned returns if invested in other assets.

👉 Hence, **only statements 1 and 3 are correct**.

88. Consider the following statements about Meme Coins in the cryptocurrency market:

1. Meme coins derive their value largely from community hype rather than underlying utility.
2. Dogecoin and Shiba Inu are examples of such coins.
3. Meme coins are generally regulated by central banks.

Which of the statements given above is/are correct?

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

Answer: (a)
Explanation:
Statements 1 and 2 are correct—meme coins are driven by internet culture. Statement 3 is incorrect—most meme coins are unregulated or decentralized, not controlled by central banks.

89. A **capitalist economy** is one of the major forms of economic organisation observed across countries.
With reference to the **characteristics of a capitalist economy**, consider the following statements:

1. The means of production are predominantly owned by **private individuals or enterprises**.
2. Allocation of resources is largely guided by the **price mechanism** operating through demand and supply.
3. The primary objective of economic activity is **profit maximisation**, subject to market competition.
4. The State plays **no role** regulation, redistribution, or correction of market failures.

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

Correct Answer: a) 1, 2 and 3 only
Explanation (Statement-wise):

- **Statement 1 – Correct:**
  In a **capitalist economy**, the **means of production** are largely **privately owned** by individuals or enterprises.
- **Statement 2 – Correct:**
  Resource allocation is primarily determined by the **price mechanism**, reflecting **demand and supply** conditions in the market.
- **Statement 3 – Correct:**
  Profit maximisation under conditions of **competition** is a central driving force of economic activity in capitalism.
- **Statement 4 – Incorrect:**
  The State **does play a role**—through **regulation, redistribution, and correction of market failures**—even in capitalist economies.

👉 Hence, **statements 1, 2 and 3 only are correct**.

90. Which of the following statements is correct?
1. Inflation Tax refers to the loss of purchasing power when inflation reduces the value of cash holdings.
2. Imported Inflation occurs when prices rise due to increased costs of importedgoods, often caused by a weaker domestic currency.
Select the answer from the below codes
a) Only 1 is correct
b) Only 2 is correct
c) Both 1 and 2 are correct
d) Neither 1 nor 2 are correct

Correct Answer: C (Both 1 and 2 are correct)
Explanation:
Inflation Tax is not an actual tax but the loss in value of cash due to inflation. Imported Inflation happens when rising costs of imports, often due to currency depreciation, push domestic prices higher.

91. With reference to Index of Industrial Production (IIP), consider the following:
1. IIP is released monthly by the Ministry of Commerce & Industry.
2. IIP covers both sectoral and use-based classifications.
3. Eight Core Industries account for about 40.27% of the IIP.
4. Electricity and Refinery Products are part of the Eight Core Industries.
Which of the above are correct?
(a) 1 and 2 only
(b) 2 and 3 only
(c) 2, 3 and 4 only
(d) 1, 2, 3 and 4
Answer: (d)
Explanation:
• All statements are correct. The Office of Economic Adviser under DPIIT compiles the 8 core industries.

92. The **Standing Deposit Facility (SDF)** was introduced as part of India's evolving monetary policy operating framework to improve liquidity management.
With reference to the **Standing Deposit Facility (SDF)** of the Reserve Bank of India, consider the following statements:

1. The SDF enables the RBI to **absorb surplus liquidity without the need to provide government securities as collateral**.
2. It is a **liquidity absorption facility** available to scheduled commercial banks.
3. The SDF is an instrument designed and operated by the **International Monetary Fund (IMF)** for its member countries.
4. The SDF allows banks to **park excess funds with the RBI at their discretion**, without any collateral requirement.

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

Answer: b) 1, 2 and 4 only
Correct Answer: (b) 1, 2 and 4 only
Explanation (Statement-wise):

- **Statement 1 – Correct:**
  The **Standing Deposit Facility (SDF)** allows the RBI to **absorb surplus liquidity without providing government securities as collateral**, overcoming earlier constraints on collateral availability.
- **Statement 2 – Correct:**
  The SDF is a **liquidity absorption facility available to scheduled commercial banks**, forming part of the RBI's liquidity management toolkit.
- **Statement 3 – Incorrect:**
  The SDF is **not an IMF-designed instrument**. It is a **domestic monetary policy tool** created and operated by the **Reserve Bank of India**.
- **Statement 4 – Correct:**
  Banks can **park excess funds with the RBI at their discretion** under the SDF, and **no collateral is required**.

👉 Hence, **statements 1, 2 and 4 only are correct**.

93. Inflationary or deflationary outcomes in an economy largely depend on the **liquidity and credit conditions** influenced by the actions of the **Reserve Bank of India**.
With reference to the impact of various monetary policy actions, consider the following:
Which of the following measures are **likely to have an inflationary effect** on the economy?

1. Issuance of new bonds by the RBI in the open market
2. Reduction in the repo rate by the RBI
3. Increase in the bank rate by the RBI
4. Complete abolition of the Cash Reserve Ratio (CRR)

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

Correct Answer: b) 2 and 4 only
Explanation (Measure-wise):

- **Measure 1 – Incorrect:**
  Issuance/sale of bonds by the RBI in the open market absorbs liquidity from the system, which is deflationary, not inflationary.
- **Measure 2 – Correct:**
  A reduction in the repo rate lowers borrowing costs, encourages credit expansion, and can stimulate demand, leading to inflationary pressures.
- **Measure 3 – Incorrect:**
  An increase in the bank rate raises the cost of borrowing from the RBI, discourages credit, and is therefore deflationary.
- **Measure 4 – Correct:**
  Abolishing CRR would release all reserves held with the RBI, dramatically increasing liquidity and lending capacity, which would be highly inflationary.

👉 **Hence, measures 2 and 4 only are likely to be inflationary.**

94. The **Statutory Liquidity Ratio (SLR)** is a key regulatory instrument prescribed by the **Reserve Bank of India** to ensure financial stability and prudent banking behaviour. With reference to the **objectives of the Statutory Liquidity Ratio**, which one of the following statements is **incorrect**?
a) It helps in **controlling excessive expansion of bank credit** in the economy.
b) It ensures that commercial banks maintain adequate **liquidity and solvency**.
c) It requires banks to hold a portion of their deposits in **safe and liquid assets**, including government securities.
d) It mandates banks to **allocate credit to priority sectors** such as agriculture and MSMEs.

Correct Answer: d)
Explanation:

- **Options (a), (b), and (c)** correctly describe the **objectives of the Statutory Liquidity Ratio (SLR)**:
  - **(a)** By mandating banks to keep a portion of deposits in liquid assets, SLR **restrains excessive credit expansion**.
  - **(b)** It ensures **liquidity and solvency**, enhancing the stability of the banking system.
  - **(c)** Banks are required to hold **safe and liquid assets** such as **government securities, cash, and gold**.
- **Option (d) – Incorrect (Hence the answer):**
  Priority Sector Lending (PSL) norms—not SLR—mandate credit allocation to sectors like **agriculture and MSMEs**.

👉 Therefore, **option (d) is incorrect**.

95. Which of the following are monetary instruments?
1. Reserve Ratios
2. Policy Rate
3. Public Policy
4. Open Market Operation

Select the answer from the codes below
a) 2 and 4 only
b) 1 and 3 only
c) 1, 2 and 4 only
d) 1, 2, 3 and 4

Answer (c) 1, 2 and 4 only

96. As per the Reserve Bank of India Act, 1934 (as amended), which authority is responsible for determining the inflation target in terms of the Consumer Price Index (CPI) for India, and how often is this target reviewed?
a) The Reserve Bank of India (RBI), every three years
b) The Monetary Policy Committee (MPC), every five years
c) The Central Government, in consultation with the Reserve Bank of India, every five years
d) The Department of Monetary Policy, on an annual basis

Correct Answer: C (The Central Government, in consultation with the Reserve Bank of India, every five years)

97. With reference to the **Open Market Operations (OMO)** conducted by the **Reserve Bank of India**, consider the following options:
Open Market Operations refer to:
a) The outright sale of government securities by RBI to raise funds for financing government welfare programmes.
b) The outright purchase of government securities by RBI solely to expand bank credit.
c) The outright **purchase and sale of government securities** by RBI with the objective of **managing liquidity conditions in the economy**.
d) The outright purchase and sale of government and private sector equity instruments to maximise government returns.

Correct Answer: c)

Brief Answer Explanation:

- **Open Market Operations (OMO)** involve the **purchase and sale of government securities** by the RBI in the open market.

- The primary objective is to **inject or absorb liquidity** in the banking system:
  - **Purchase of securities → Injects liquidity**
  - **Sale of securities → Absorbs liquidity**
- OMOs are **monetary policy tools**, not fiscal instruments for raising government funds.

98. Which of the following assets are eligible for maintenance under SLR norms?

1. Cash
2. Gold
3. Government-approved securities
4. Commercial papers

Select the correct answer using the code below:
(a) 1, 2 and 3 only
(b) 2, 3 and 4 only
(c) 1 and 3 only
(d) 1, 2, 3 and 4
Answer: (a)
Explanation:
SLR includes cash, gold, and approved G-Secs. Commercial papers are not eligible under SLR.

99. With reference to the **primary and secondary capital markets**, consider the following statements:

1. When an investor purchases shares **directly from the issuing company**, the transaction takes place in the **secondary market**.
2. Transactions involving **buying and selling of shares among investors** are carried out in the **primary market**.
3. Both the **primary market and the secondary market** require a **formal, institutionalised trading platform** for transactions.

Which of the statements given above are **not correct**?
a) 1 and 2 only
b) 2 and 3 only
c) 1 and 3 only
d) 1, 2 and 3

Correct Answer: a) 1 and 2 only
Explanation:

- **Statement 1 – Not correct:** When shares are purchased **directly from the issuing company**, the transaction occurs in the **primary market**, not the secondary market.
- **Statement 2 – Not correct:** Buying and selling of shares **among investors** takes place in the **secondary market**, not the primary market.
- **Statement 3 – Correct:** Both markets operate through **institutional mechanisms**—the primary market via regulated issuance processes (IPO, FPO) and the secondary market via stock exchanges.

👉 Therefore, **statements 1 and 2 are not correct**.

100. What is a Certificate of Deposit (CD) in the Indian financial system?

a) A long-term loan given by the Reserve Bank of India to commercial banks
b) A type of savings account with a fixed interest rate offered by all banks
c) A government bond issued for financing infrastructure projects
d) A short-term negotiable money market instrument issued by banks to raise funds

Correct Answer: D (A short-term negotiable money market instrument issued by banks to raise funds)

Explanation: CDs are short-term instruments issued by banks and financial institutions to mobilize funds from investors.
Option A (Incorrect): RBI does not provide long-term loans through CDs.
Option C (Incorrect): CDs are not government bonds; they are issued by banks.
Option D (Incorrect): CDs are not savings accounts but tradable money market instruments.