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JAIIB MAY 2023 EXAM

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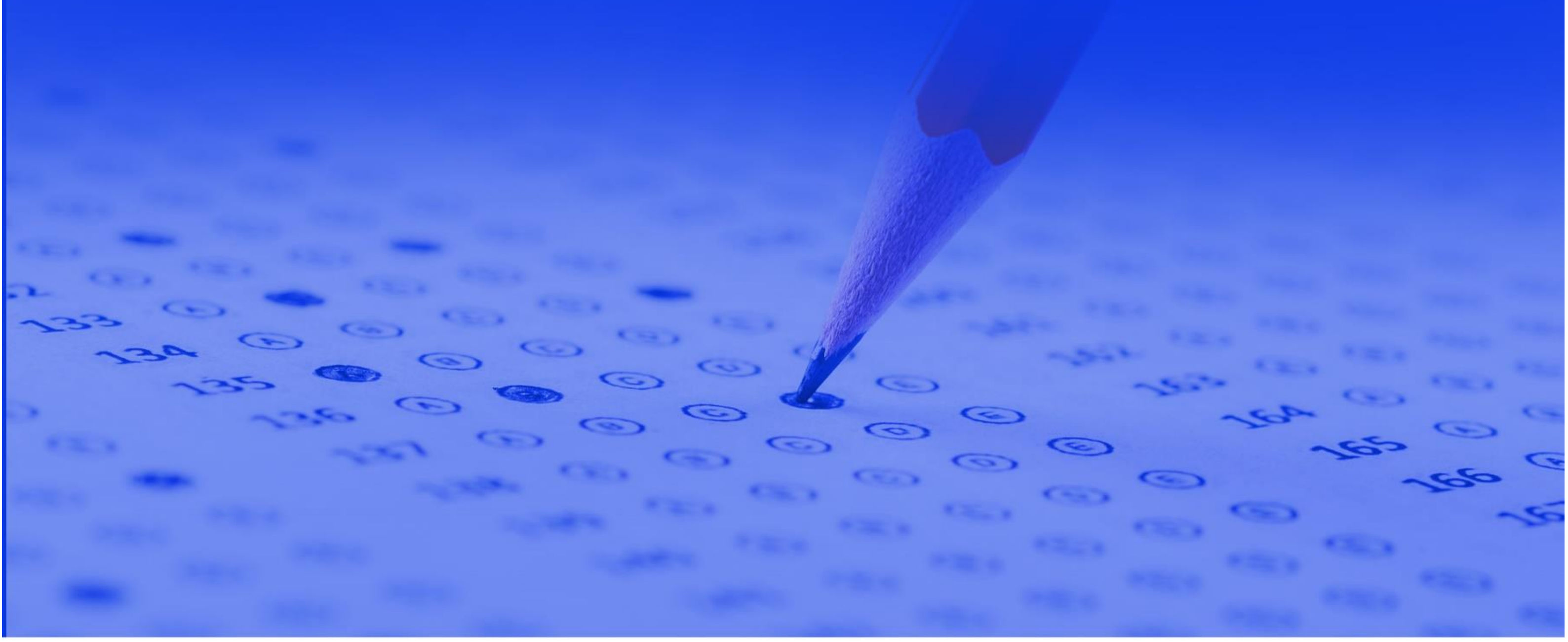
RECOLLECTED QUESTIONS

WITH

DETAILED EXPLANATION



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Preface

The document gives a fair idea of the kind of questions that were asked in JAIIB May 2023 Exam. The document also helps in identifying the most important topics and extrapolate the topics from which questions can be asked in the upcoming exams. Kindly note that the questions mentioned below are memory based and are presented to the best of our knowledge. The questions have been classified into three sections described as follows:

Section - 1

These are the questions for which the topic of the question, the type of question and the options were known to us and have been presented as they had appeared in the exam. There is also mention of the correct answer with the detailed explanation along with the reference from where the question was asked (E.g. Page number, Chapter number and the Module of the IIBF book from which the question has been set).

Section - 2

The second section consists of questions for which the exact question asked in the exam is not known to us, but the topic and the kind of question is known and we have tabulated the same. This will give an idea of the important topics and the depth to which the questions are asked in the exam.

Section - 3

The third section consists of only the topics of the remaining questions as the type of question is also not known to us. This will help in identifying important topics for the upcoming exam.

Section - 1

Q1. The term Hindu Rate of Growth was coined by __________.

A. Professor Raj Krishna

B. Amartya Sen

C. Jagdish Bhagwati

D. Kaushik Basu

Answer: A

Explanation:

Indian Economy between 1951 & 1980

- India's growth rate was slow during the first three decades after independence.
- In 1978, Professor Raj Krishna coined the phrase "Hindu rate of growth'" to describe the slow growth of the Indian economy. **Hence option A is correct.**
- The term refers to India's planned economy's low annual growth rate, which hovered around 3.5 per cent from the 1950s to the 1980s, while per capita income growth averaged 1.3 per cent.

Pg No. 9, Chapter No. 1, Module A

Q2. Which among the following statement is incorrect with respect to different sectors of the Indian Economy in relation to the COVID pandemic?

(a) The recovery has been uneven among services, with financial, real estate, and professional services, as well as public administration, defence, and other services, gaining traction and exceeding their respective pre-pandemic levels.

(b) Recovery in the trade, hotel, transportation, communication, and broadcasting-related sectors, has exceeded pre-pandemic levels.

(c) Different sectors of the economy are recovering to varying degrees

(d) Agriculture survived the pandemic's multiple waves, industry and construction are on the rebound

Answer: B

Explanation

Sectoral Impact of COVID-19

- Agriculture remained robust in terms of production during the pandemic since agriculture and allied activities were spared from the lockdown restrictions.
- Manufacturing, mining and quarrying, and electricity, gas, and water supply all saw significant drops, with manufacturing reaching a new low.
- Mining and quarrying, on the other hand, had been underperforming for some time and were declining prior to COVID.
- Manufacturing, which had led the recovery following the first wave, remained strong during the second wave.

- The recovery has been uneven among services, with financial, real estate, and professional services, as well as public administration, defence, and other services, gaining traction and exceeding their respective pre-pandemic levels. **Hence statement A is correct.**
- Recovery in the trade, hotel, transportation, communication, and broadcasting-related sectors, on the other hand, has been gradual. **Hence statement B is incorrect.**
- Different sectors of the economy are recovering to varying degrees. While agriculture survived the pandemic's multiple waves, industry and construction are on the rebound. **Hence statements C and D are correct.**

Pg No. 12, Chapter No. 1, Module A

Q3. Which among the following is the correct definition of 'Sunrise Sector'?

(a) It is the sector which includes all those activities the end purpose of which consists in exploiting natural resources

(b) It is the sector that covers all those activities consisting in varying degrees of processing of raw materials.

(c) It includes all those activities in which an industry that has existed for a long time and that is less successful and making less profit than previously

(d) It is one that is still in its infancy but has the potential for significant growth.

Answer: D

Explanation

A **sunrise sector** is one that is still in its infancy but has the potential for significant growth. **Hence option D is correct.**

- The sector is often characterised by strong growth rates, a high degree of innovation, and a high level of public awareness, with investors attracted to its long-term growth prospects.
- Existing Indian industries that may be categorised as Sunrise sectors are likely to benefit the economy in terms of job creation and business growth, in the future, Green Energy, Fintech, Information Technology, Electronics, Pharmaceuticals, Automobiles, Healthcare, Infrastructure Sector, Retail Sector, Processing Plants, and other emerging sectors of the Indian economy are part of the Sunrise Sector.
- The primary sector includes all those activities the end purpose of which consists in exploiting natural resources: agriculture, fishing, forestry, mining, deposits.
- The secondary sector covers all those activities consisting in varying degrees of processing of raw materials.
- Sunset Sector includes all those activities in which an industry that has existed for a long time and that is less successful and making less profit than previously.

Pg No. 22, Chapter No. 2, Module A

Q4. Which among the following is the correct Overall Priority Sector Lending target of Small Finance Banks?

(a) 40% of ANBC or CEOBE

(b) 25% of ANBC or CEOBE

(c) 75% of ANBC or CEOBE

(d) 50% of ANBC or CEOBE

Answer: C

Explanation

Priority Sector Lending Norms

The following are the targets for PSL for different types of banks in India:

Categories	Domestic commercial banks (excl. RRBs & SFBs) & foreign banks with 20 branches and above	Foreign banks with less than 20 branches	Regional Rural Banks	Small Finance Banks
Total Priority Sector	40 per cent of ANBC or CEOBE whichever is higher	40 per cent of ANBC or CEOBE whichever is higher; out of which up to 32 per cent can be in the form of lending to Exports and not less than 8 per cent can be to any other priority sector	75 per cent of ANBC or CEOBE whichever is higher; However, lending to Medium Enterprises, Social Infrastructure and Renewable Energy shall be reckoned for priority sector achievement only up to 15 per cent of ANBC	75 percent of ANBC or CEOBE whichever is higher.
Agriculture	18 per cent of ANBC or CEOBE, whichever is higher; out of which a target of 10 per cent is prescribed for Small and Marginal Farmers (SMFs)	Not applicable	18 per cent ANBC or CEOBE, whichever is higher; out of which a target of 10 per cent is prescribed for SMFs	18 percent of ANBC or CEOBE, whichever is higher; out of which a target of 10 per cent is prescribed for SMFs
Micro Enterprises	7.5 per cent of ANBC or CEOBE, whichever is higher	Not applicable	7.5 per cent of ANBC or CEOBE, whichever is higher	7.5 per cent of ANBC or CEOBE, whichever is higher
Advances to Weaker Sections	12 per cent of ANBC or CEOBE, whichever is higher	Not applicable	15 per cent of ANBC or CEOBE, whichever is higher	12 per cent of ANBC or CEOBE, whichever is higher

Pg No. 45, Chapter No. 4, Module A

Q5. As per the latest definition of MSMEs of the Indian Government, for a Small Enterprise, the investment in plant and machinery should not exceed Rs.______ and turnover should not exceed Rs.________

(a) 1 Crore, 5 Crores

(b) 5 Crores, 10 Crores

(c) 10 Crores, 50 Crores

(d) 100 Crores, 250 Crores

Answer: C

Explanation

MSME Classification

The following are the parameters for the classification of MSMEs:

Definition of MSMEs - Old and New			
	Old Definition		New Definition
	Manufacturing	Services	Manufacturing/Services
Micro	Investment in Plant and Machinery: Does not exceed Rs. 25 Lakh.	Investment in Equipment: Does not exceed Rs. 10 Lakh.	Investment in Plant and Machinery or Equipment and turnover: The investment in plant and machinery or equipment does not exceed Rs. 1 Crore and turnover does not exceed Rs. 5 crores.

	Old Definition		New Definition
	Manufacturing	Services	Manufacturing/Services
Small	Investment in Plant and Machinery: More than Rs. 25 lakhs but does not exceed Rs. 5 crores.	Investment in Equipment: More than Rs. 10 Lakh but does not exceed Rs. 2 crores.	Investment in Plant and Machinery or Equipment and turnover: The investment in plant and machinery or equipment does not exceed Rs. 10 crore and turnover does not exceed Rs. 50 crores.
Medium	Investment in Plant and Machinery: More than Rs. 5 crores but does not exceed Rs. 10 crores.	Investment in Equipment: More than Rs. 2 crores but does not Rs. 5 crores.	Investment in Plant and Machinery or Equipment and turnover: The investment in plant and machinery or equipment does not exceed Rs. 50 crore and turnover does not exceed Rs. 250 crores.

Pg No. 47, Chapter No. 4, Module A

Q6. Which among the following is/are the contribution(s) of the MSME Sector to India?

1. Significant export earnings
2. Low investment requirements
3. Import substitution
4. Competitiveness in domestic and export markets

(a) 1, 2 and 3 only

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

Answer: D

Explanation

MSME Sector has helped the country to achieve the following objectives:

- High contribution to domestic production
- Significant export earnings
- Low investment requirements
- Operational flexibility
- Location wise mobility
- Low intensive imports
- Capacities to develop appropriate indigenous technology
- Import substitution
- Contribution towards defence production
- Technology-oriented industries
- Competitiveness in domestic and export markets.

Pg No. 48 - 49, Chapter No. 4, Module A

Q7. Individual Micro and Small Enterprises can apply for collateral-free loans up to ________ from the Ministry of MSME and SIDBI under the Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE).

(a) 1 crore
(b) 2 crores
(c) 5 crores
(d) 10 crores

Answer: A

Explanation

Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE)

- Individual Micro and Small Enterprises can apply for collateral-free loans (up to **Rs. 1 crore**) from the Ministry of MSME and the Small Industries Development Bank of India (SIDBI). **Hence option A is correct.**
- Acknowledging that the availability of bank credit without the hassles of collaterals or third-party guarantees would be a substantial source of support to first generation entrepreneurs, in realising their dream of having established their own Micro and Small Enterprise (MSE), the Ministry of MSME launched the Credit Guarantee Scheme (CGS) to strengthen the credit delivery system and facilitate the flow of credit to the MSE sector.
- The CGTMSE supported the pandemic affected MSME sector in regaining its footing.

Pg No. 50, Chapter No. 4, Module A

Q8. Which among the following is an example of Soft Infrastructure?

(a) Ports
(b) Law-enforcement organisations
(c) Airports
(d) Pipelines
Answer: B
Explanation
Infrastructure & Economic Development
Infrastructure is the foundation for economic growth, and it encompasses the physical, natural, and organisational structures required for long-term economic development.

- Economic infrastructure facilitates labour and capital mobility, within and between economies.
- A solid infrastructure facilitates the production of high-quality goods and services, as well as the transport of finished items to marketplaces and builds essential social institutions such as schools and hospitals. Infrastructure can be either Hard or soft.
- Hard infrastructure refers to major physical networks such as roads, ports, airports, pipelines) etc., that are required for the operation of a modern industrial nation.
- Soft infrastructure refers to institutions that are essential to keep the economy running, such as financial, educational, healthcare, and law-enforcement organisations. It is also segregated as physical and social infrastructure. **Hence option B is correct.**

Pg No. 56, Chapter No. 5, Module A

Q9. Which among the following is/are the characteristic feature(s) of Foreign Institutional Investments?
1. It has long-term perspective.
2. It is generally volatile in nature.
3. It goes into Hedge Funds.
(a) 1 and 2
(b) 2 and 3
(c) 1, 2 and 3
(d) 3 only
Answer: B
Explanation
The following are the features of FDI and FII types of investments:

Difference Between FDI and FII		
Sl. No.	Foreign Direct Investment	Foreign Institutional Investment
1	It goes directly into machines, i.e., in the production of goods and services.	It goes into hedge funds, short-term equities, and securities, etc.
2	It has long-term perspective	It has short-term perspective
3	It contributes into GDP of the country by way of production of goods and services.	The FII does not go into production activities but in short-term equities and can be recalled by the investor at any time. However, the profit and losses and the taxes imposed on such investments (e.g., capital gain tax) may add or subtract from a country's GDP
4	It is stable in nature and there is hardly any threat of capital flight	It is generally volatile in nature and threat of capital flight is always there in the eventuality of economic slowdown or political instability or because of herd behaviour of short-term capital
5	It depends upon the macroeconomic profile of the host nation and economic and political stability	It depends upon the arbitrage and hedging variations across different parts of the world. It also depends upon the capital liberalisation measures adopted by a nation to attract such capital
6	It is of different types like Greenfield investment, Brownfield investment, and Joint ventures	It is also called hot money and takes the form of hedge funds

Pg No. 90, Chapter No. 8, Module A

Q10. Which among the following is/are the function(s) of International Monetary Fund (IMF)?

1. Surveillance over members' economic policies
2. Combating poverty in low-income countries
3. Strengthening the International Monetary System
4. Increasing the global supply of international reserves

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

Answer: D

Explanation

International Monetary Fund (IMF)

The IMF seeks to ensure long-term growth and prosperity for all the 190 of its member nations. The IMF was formed in July 1944, when delegates from 45 countries met in Bretton Woods, New York, to agree on a framework, for international economic cooperation, when 29 countries signed an article of agreement. India became a member of IMF on December 27, 1945.

Functions of IMF

- **Surveillance over members' economic policies**: IMF members are required to pursue economic policies that are consistent with the IMF's goals. The IMF has the legal authority to supervise member compliance and the mandate to review the economic situations of nearly every country in the worlds on a regular basis.
- **Financing temporary balance of payments needs**: During a temporary balance of payment crisis, the IMF loans to member countries to help them implement corrective measures in an orderly manner and avoid a disruptive correction of the external imbalance. The IMF also serves as a catalyst in assisting member nations, in mobilising external funding, for their balance-of-payments needs.
- **Combating poverty in low-income countries**: The IMF makes concessional loans to poor countries in order to support their efforts to reduce poverty. To achieve this goal, the IMF collaborates closely with the World Bank and other international economic institutions. The IMF raises external finance and donor support for such nations and participates in two international debt-relief initiatives: he Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDR).
- **Mobilizing external financing**: Before committing or disbursing their own resources to that nation or giving debt relief, bilateral and multilateral lenders and donors rely on an IMF endorsement of that country's economic policies or may even need a formal IMF endorsed economic programme. IMF policy assessments and recommendations also provide crucial signals to investors and financial markets about a country's economic prospects and have an influence on investor and market confidence.
- **Strengthening the International Monetary System**: The IMF is the key institution of the international monetary system. It acts as a forum for members to consult and collaborate on international monetary and financial issues, and it collaborates with other multilateral organisations to develop international standards, to promote the prevention and orderly settlement of international economic problems.
- **Increasing the global supply of international reserves**: To augment international liquidity, the IMF has established an international reserve asset, known as Special Drawing Rights (SDRs), in 1969. SDRs are hard currency assets that can be converted into convertible currency.
- **Building capacity through technical assistance and training**: The IMF offers technical support and training to member nations in order to assist them in developing economic policies and improving their economic management capabilities. It assists member countries, in reducing the risk of policy failures and increasing their resilience to shocks, as well as supporting programme design and execution.
- **Dissemination of information and research**: The IMF conducts economic analyses of its member nations, compiles statistics, and produces estimates. It disseminates such data, through a variety of economic reports and research projects, as well as academic journals

and working papers, occasional papers, and the Internet. In addition, the IMF conducts research in areas relevant to its mandate and operations, primarily to improve its economic analysis and guidance to member nations.

Pg No. 96, Chapter No. 9, Module A

Q11. In India, companies are now free to spend more than the mandated ____ per cent of their net profits on Corporate Social Responsibility (CSR) in any year.

(a) 1%

(b) 2%

(c) 3%

(d) 4%

Answer: B

Explanation

Corporate Social Responsibility

In India, companies are now free to spend more than the mandated **2 per cent** of their net profits on CSR in any year and the excess amount spent can be set off against the CSR spending obligation in future years, subject to riders. **Hence option B is correct.**

- In July 2019, the government had amended the law that treated non-compliance with CSR provisions as a criminal offence.
- The penalty, at least Rs. 1 crore for the defaulting company and at least Rs. 2 lakhs for each defaulting officer were introduced in 2020, to replace imprisonment provision of maximum three years for defaulting officers that was brought in 2019.
- In the latest development, non-compliance with CSR provisions is now "civil wrong,") not a crime and shifted such violations to a penalty regime.

Pg No. 114 – 115, Chapter No. 10, Module A

Q12. As per the latest amendment in the Companies Act 2013, non-compliance with Corporate Social Responsibility (CSR) provisions is_______________.

(a) Criminal offence

(b) Civil wrong

(c) Invites jail and penalty

(d) None of the above

Answer: B

Explanation

Corporate Social Responsibility (CSR)

In India, companies are now free to spend more than the mandated 2 per cent of their net profits on CSR In any year and the excess amount spent can be set off against the CSR spending obligation in future years, subject to riders.

- In July 2019, the government had amended the law that treated non-compliance with CSR provisions as a criminal offence.

- The penalty, at least Rs. 1 crore for the defaulting company and at least Rs. 2 lakhs for each defaulting officer were introduced in 2020, to replace imprisonment provision of maximum three years for defaulting officers that was brought in 2019.
- In the latest development, non-compliance with CSR provisions is now "civil wrong," not a crime and shifted such violations to a penalty regime. **Hence option B is correct.**

Pg No. 115, Chapter No. 10, Module A

Q13. The study aggregated indicators such as GDP, unemployment rates and price indices to understand how the whole economy functions is called ___________.

(a) Microeconomics

(b) New Economics

(c) Macroeconomics

(d) None of the above

Answer: C

Explanation

Microeconomics & Macroeconomics

Adam Smith is considered to be the father of modern Economics.

- Microeconomics, the branch of economics which today is concerned with the behaviour of individual entities such as markets, firms, and households.
- Macroeconomics is a branch of Economics that deals with the performance, structure and behaviour of a national or regional economy as a whole.
- It is the study of the behaviour and decision-making of entire economies, Macroeconomists study aggregated indicators such as GDP, unemployment rates and price indices to understand how the whole economy functions.
- Macroeconomists develop models that explain the relationship among such factors as national income, output, consumption, unemployment, inflation, savings, investment, international trade and international finance.
- In contrast, Microeconomics is primarily focused on the actions of individual agents, such as firms and consumers, and how their behaviour determines prices and quantities in specific markets. **Hence option C is correct.**

Pg No. 128 – 129, Chapter No. 12, Module B

Q14. Who among the following pioneered the principle of 'conspicuous consumption'?

(a) Thorstein Veblen

(b) Sir Robert Giffen

(c) Adam Smith

(d) Lionel Marshall

Answer: A

Explanation

Law of Demand & its exceptions

The law of demand is a fundamental principle which states that there is an inverse relationship between price and quantity demanded. There are certain exceptions to the Law of Demand. For example, even if the price of whiskey rises, demand will not fall. Exceptions to the law of demand generally apply to Giffen goods, Veblen commodities etc. These are described as follows:

- **Veblen Goods** - This is named after the economist Thorstein Veblen, who pioneered the principle of 'conspicuous consumption' Certain things, according to Veblen, become more valuable as their price rises. When a commodity is expensive, its worth and utility are thought to be greater, and hence demand for that commodity rises. **Hence option A is correct.**
- **Giffen Goods** - This concept was introduced by Sir Robert Giffen. These are commodities that are inferior in compared to luxury items. However, a distinguishing feature of Giffen goods is that when their prices rise, so does their demand. The Giffen goods notion is shown by the Irish Potato Famine. The potato is an important part of the Irish cuisine When the price of potatoes rose during the potato famine, people spent less on luxury items like meat and bought more potatoes to keep to their diet. As the price of potatoes rose, it was still affordable being a cheap good, so, demand did not fall, resulting in a complete reversal of the law of demand.

Pg No. 140, Chapter No. 13, Module B

Q15. Consider the following:

1. Net bank credit to the government.
2. Bank credit to the commercial sector.
3. Net foreign exchange assets of the banking sector.
4. Government's currency liabilities to the public.
5. Net non-monetary liabilities of the banking sector.

Which among the following is correct with respect to the sources of Money Supply (M3) in Indian economy?

(a) Sources of Money Supply (M3) in Indian economy = 1 + 2 + 3 + 4 + 5
(b) Sources of Money Supply (M3) in Indian economy = 1 + 2 + 3 + 4 - 5
(c) Sources of Money Supply (M3) in Indian economy = 1 + 2 - 3 + 4 + 5
(d) Sources of Money Supply (M3) in Indian economy = 1 - 2 - 3 - 4 - 5

Answer: B

Explanation

Sources versus components of money supply

- Money supply (M3) is derived on the basis of a balance sheet approach.
- It follows from the balance sheets of RBI and the rest of the banking sector.
- The components of the money supply are drawn from the liability side of the balance sheet of the banking sector (i.e., RBI + banks), and the various uses of the funds as obtained from the asset side constitute the sources of M3.

Money Supply (M3): Components Side	Money Supply (M3): Sources Side
Currency with the public	Net bank credit to the government
+	+
Demand deposits with banks	Bank credit to the commercial sector
+	+
Time deposits with banks	Net foreign exchange assets of the banking sector
+	+
'Other' deposits with RBI	Government's currency liabilities to the public
	–
	Net non-monetary liabilities of the banking sector

Hence option B is correct.
Pg No. 155, Chapter No. 14, Module B

Q16. The Consumer Price Index (CPI) and Wholesale Price Index (WPI) are released __________ in India.

(a) Quarterly
(b) Monthly
(c) Yearly
(d) Biennially

Answer: B

Explanation

The most important price indices are:
1. Consumer Price Index (CPI)
2. Wholesale Price Index (WPI)
3. GDP deflator

Consumer Price Index (CPI)

The CPI reflects the change in the level of prices of a basket of goods and services purchased/consumed by the households.

- It measures the prices at the retail level. This is the measure of inflation more relevant for the consumers.
- The **NSO (National Statistical Office)** releases information on the CPI, on a monthly basis. Along with the CPI, it also publishes the CFPI (consumer food price index).
- The CFPI accounts for a substantial portion of the overall CPI, making food prices quite important for retail inflation.

Wholesale Price Index (WPI)

The WPI reflects the change in the level of prices of a basket of goods, at the wholesale level, WP focuses on the price of goods traded between corporations at the wholesale stage, rather than goods bought by consumers. The Office of the Economic Advisor, Department for Promotion of Industry and Internal Trade releasee the index numbers of wholesale price in India. The Base Year is 2011-12 and represents the following three commodity groups:

- Primary Articles (Weight 22.6%)
- Fuel & Power (Weight 13.2%)
- Manufactured Products (Weight 64.2%)

GDP Deflator

GDP deflator is a measure of the level of prices of all new, domestically produced, final goods and services in an economy.

- The GDP deflator, also called implicit price deflator, is a measure of inflation.
- GDP deflator is available only on a quarterly basis along with GDP estimates, whereas the CPI and the WPI data are released every month. **Hence option B is correct.**
- GDP Deflator = (Nominal GDP/Real GDP) * 100

Pg No. 158, Chapter No. 14, Module B

Q17. The CPI value for December 2022 is 189 and the percentage rise in inflation rate is -0.1% from November 2022. The value of GDP in November 2022 was __________.

(a) 188.09

(b) 188.19

(c) 189.19

(d) 189.09

Answer: C

Explanation

The most important price indices are:

1. Consumer Price Index (CPI)
2. Wholesale Price Index (WPI)
3. GDP deflator

Consumer Price Index (CPI)

The CPI reflects the change in the level of prices of a basket of goods and services purchased/consumed by the households.

- It measures the prices at the retail level. This is the measure of inflation more relevant for the consumers.
- The NSO (National Statistical Office) releases information on the CPI, on a monthly basis. Along with the CPI, it also publishes the CFPI (consumer food price index).
- The CFPI accounts for a substantial portion of the overall CPI, making food prices quite important for retail inflation.
- The Annual Rate of Inflation during a month is calculated by using the price index for that month in the current year and comparing it with the price index during the same month of the previous year.

Given if the price index during November 2022 is not known (say x) and was 189 during December 2022, the inflation rate was - 0.1% then:

Inflation = (189 - x) x 100/x

- 0.1% = (189 - x) x 100/x

X = 189.19%

Pg No. 157, Chapter No. 14, Module B

Q18. The Liquidity Preference Theory of Interest was propounded by __________ .

(a) J.M. Keynes

(b) Sir Robert Giffen

(c) Adam Smith

(d) Alfred Marshall

Answer: A

Explanation

Keynes' Liquidity Preference Theory of Rate of Interest

In his epoch-making book, *'The General Theory of Employment, Interest and Money'*, **J.M. Keynes** gave a new view of interest.

- According to him, the rate of interest is a purely monetary phenomenon and is determined by demand for money and supply of money. The theory is known as **Liquidity Preference Theory**. **Hence option A is correct.**
- The Demand for Money in a Two-Asset Economy: In order to explain the demand for money and interest-rate determination, Keynes assumed a simplified economy, where there are two assets which people can keep in their portfolio balance.
- These two assets are: (1) money in the form of currency and current deposits in the banks, which earn no interest, (2) long-term bonds. It is important to note that the rate of interest and the bond prices are inversely related.

Pg No. 163, Chapter No. 15, Module B

Q19. Which among the following is/are the characteristic(s) of the Boom of Business Cycle?

1. An accelerated and prolonged increase in demand
2. Demand peaks to levels that exceed sustainable output/production levels
3. Economy heats up and a demand-supply lag becomes apparent

(a) 1 and 2

(b) 2 and 3

(c) 1, 2 and 3

(d) 3 only

Answer: C

Explanation

Business Cycle

The term "Business cycle" refers to the recurring pattern of expansion and contraction in the overall economy.

- These cycles typically include phases of expansion, peak, contraction, and trough, and they are influenced by various factors such as investment, consumption, government policies, and external shocks.
- The different phases of a Business Cycle include Boom, Recession, Depression & Recovery.

Boom

A boom has the following important economic characteristics:

- An accelerated and prolonged increase in demand
- Demand peaks to levels that exceed sustainable output/production levels
- Economy heats up and a demand-supply lag becomes apparent. Hence option D is correct.
- Market forces mismatch (i.e., demand and supply disequilibrium) and tend to create a situation in which inflation begins to rise
- The economy may suffer fundamental problems such as a shortage of investible capital, decreased savings, a declining standard of living, and the emergence of a sellers' market.

Pg No. 179, Chapter No. 16, Module B

Q20. The Marginal Cost of Funds Based Lending Rate (MCLR) comprise of which among the following?

1. Marginal cost of funds
2. Negative carry on the Cash Reserve Ratio (CRR)
3. Operating costs
4. Tenor premium

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

Answer: D

Explanation

Marginal Cost of Funds Based Lending Rate (MCLR)

The RBI brought a new methodology of setting lending rate in 2016 by commercial banks under the name Marginal Cost of Funds based Lending Rate (MCLR).

- It has modified the existing base rate system from April 2016 onwards.
- As per the new guidelines issued by the RBI, banks have to prepare Marginal Cost of Funds based Lending Rate (MCLR), which will be the internal benchmark lending rates Based upon this MCLR, interest rate for different types of customers should be fixed in accordance with their risk perceptions.
- The MCLR shall comprise of, Marginal cost of funds; Negative carry on the CRR; Operating costs and Tenor premium. **Hence option D is correct.**
- Where, the marginal cost of funds shall comprise of Marginal cost of borrowings and return on net worth.

- Negative carry on the mandatory CRR which arises due to return on CRR balances being nil. Under operating cost, all operating costs associated with providing the loan product including cost of raising funds are included.
- Tenor premium costs arise from loan commitments with longer tenor The change in tenor premium is not borrower specific or loan class specific.
- In other words, tenor premium is uniform for all types of loans for a given residual tenor.

Pg No. 188, Chapter No. 17, Module B

Q21. The Rate of Interest as per Liquidity Preference Theory is determined by which among the following?

1. Demand for money
2. Supply of money
3. Rate of savings

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

Answer: A

Explanation

Determination of Rate of Interest as per Liquidity Preference Theory

The rate of interest, according to J.M. Keynes, is determined by demand for money (Liquidity Preference) and supply of money. **Hence option A is correct.**

- The supply of money, at a given time, is fixed by the monetary authority of the country. In Fig. 15.2, LP is the demand curve for money at a given level of nominal income.
- MS is the money supply curve which is a vertical straight line showing that Rs. 200 crores are the money supply fixed by the monetary authority. It will be seen that quantity of money demanded equals the given money supply at 10 per cent rate of interest. So, the money market is in equilibrium, at 10 per cent rate of interest

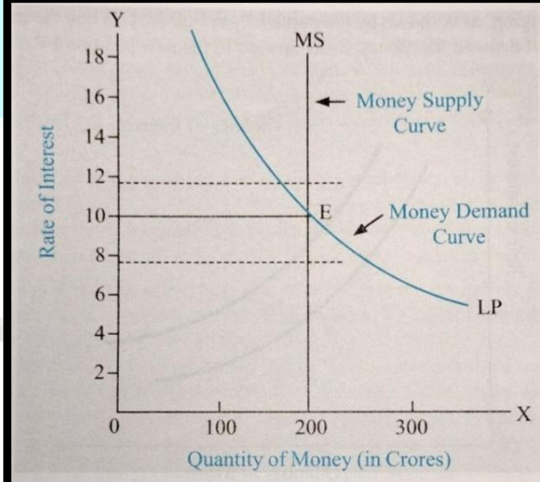


Figure 15.2 Money Demand Curve

- There will be disequilibrium, if the rate of interest is either higher or lower than 10 per cent. Suppose the rate of interest is 12 per cent, supply of money exceeds the demand for money.
- The excess supply of money reflects the fact that people do not want to hold as much money in their portfolio as the monetary authority has made it available to them.
- The people holding assets in the present two-asset economy would react to this excess money supply with them, by buying bonds and thus, replace some portion of money in their portfolios, with bonds.

- Since the total money supply at a given moment remains fixed, it cannot be reduced by buying bonds by individuals. Such bonds-buying spree would lead to the rise in prices of bonds. The rise in bond prices would mean, the fall in the rate of interest.

Pg No. 165, Chapter No. 15, Module B

Q22. Which among the following statement(s) is/are correct?

1. The Liquidity Adjustment Facility (LAF) corridor at present is determined by the MSF as the upper band
2. Standing Deposit Facility (SDF) is the lower band of LAF
3. Repo rate is the centre of the LAF corridor.

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

Answer: D

Explanation

Liquidity Adjustment Facility (LAF)

As part of the financial sector reforms in 1998, Liquidity Adjustment Facility (LAF) was introduced on the recommendations of the Committee on Banking Sector Reforms (Narasimham Committee I).

- Under LAF, the RBI conducts auctions on all working days, depending on the evolving liquidity conditions. Depending on the stance of the monetary policy, the RBI sets its repo rate, which is the policy rate.
- However, on April 08, 2022 Monetary Policy Committee announcement, RBI has introduced a new instrument called as Standing Deposit Facility (SDF), which replaced fixed rate reverse repo as the lower band of the LAF corridor.
- The SDF is also a financial stability tool in addition to its role in liquidity management. Both the standing facilities, viz., the MSF and the SDF are available on all days of the week, throughout the year.
- The LAF corridor at present is determined by the MSF (4.65 per cent) as the upper band and SDF (4.15 per cent) as the lower band with a width of 50 basis points. Repo rate (4.40 per cent) is the centre of the LAF corridor. **Hence option D is correct.**

Pg No. 190, Chapter No. 17, Module B

Q23. The funds availed by banks under Targeted Long-Term Repo Operations (TLTRO) 2.0 was supposed to be invested in investment grade bonds, commercial paper, and non-convertible debentures of NBECs, with at least _________of the total amount availed going to small and mid-sized NBFCs and MFIs.

(a) 10 per cent
(b) 50 per cent
(c) 60 per cent

(d) 80 per cent

Answer: B

Explanation

Targeted Long-Term Operations (TLTRO)

RBI conducted targeted long-term repo operations (TLTRO 2.0) for an aggregate amount of Rs. 50,000 crores.

- The funds availed by banks under TLTRO 2.0 was supposed to be invested in investment grade bonds, commercial paper, and non-convertible debentures of NBECs, with at least 50 per cent of the total amount availed going to small and mid-sized NBFCs and MFIs. **Hence option B is correct.**

Pg No. 196, Chapter No. 17, Module B

Q24. Which among the following is the best definition of Primary Deficit?

(a) It is the excess of revenue expenditure over revenue receipts.

(b) It is the excess of capital expenditure over capital receipts.

(c) It is the Revenue deficit minus Grants in Aid for creation of capital assets

(d) It is the difference between the fiscal deficit and interest payments.

Answer: D

Explanation

Deficits

Revenue deficit is the excess of revenue expenditure over revenue receipts.

- Effective Revenue deficit is the Revenue deficit minus Grants in Aid for creation of capital assets. Fiscal deficit is the excess of total expenditure including loans, net of recoveries over revenue receipts (including external grants) and non-debt receipts. In other words, Fiscal deficit = Total Expenditure Total revenue (Excluding the borrowings)
- Primary deficit is the difference between the fiscal deficit and interest payments. **Hence option D is correct.**

Pg No. 223, Chapter No. 19, Module B

Q25. Gross Domestic Product in India is mainly calculated using _________ method.

(a) Expenditure

(b) Value Added

(c) Income

(d) A mix of all the three

Answer: A

Explanation

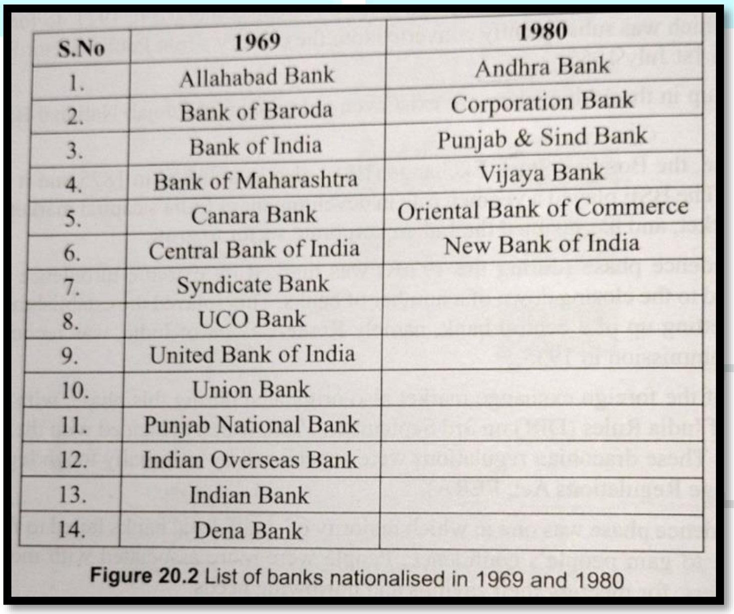
GDP Computation

A country's GDP may be calculated in three ways: (i) From a production standpoint; (ii) income generation and (iii) final utilisation.

- These three forms are circular in nature. It starts with the production stage, when productive units employ capital and labour to produce commodities and services, the sum of which i.e. the GDP.
- This production process creates a certain quantity of monetary income, which is allocated to capital and labour by the producing units.
- This method of measuring income reflects the proportion of GDP that goes to employees and businesses.
- The three ways to compute GDP as per National Income Accounting are:
    - **Expenditure Wise**: Calculating the total expenditure of all the entities. This is how GDP is calculated in India. **Hence option A is correct.**
    - **Income Wise**: Calculating the total incomes received by factors of production - land, labour, capital and entrepreneur.
    - **Product Wise**: Calculating the total production.

Pg No. 208, Chapter No. 18, Module B

Q26. Which among the following bank was not nationalised in 1969 in India?
(a) Allahabad Bank
(b) Bank of Maharashtra
(c) Andhra Bank
(d) Bank of Baroda
Answer: C
Explanation
In an attempt to bring in tight social control over the banking sector, the Government nationalised the largest 14 private banks on 19th July 1969. Each of these banks had deposits over Rs 50 crores, The socialised banking sector was enlarged with the nationalisation of 6 more banks, each with deposits exceeding Rs 200 crores, on 16th April, 1980.



S.No	1969	1980
1.	Allahabad Bank	Andhra Bank
2.	Bank of Baroda	Corporation Bank
3.	Bank of India	Punjab & Sind Bank
4.	Bank of Maharashtra	Vijaya Bank
5.	Canara Bank	Oriental Bank of Commerce
6.	Central Bank of India	New Bank of India
7.	Syndicate Bank	
8.	UCO Bank	
9.	United Bank of India	
10.	Union Bank	
11.	Punjab National Bank	
12.	Indian Overseas Bank	
13.	Indian Bank	
14.	Dena Bank	

Figure 20.2 List of banks nationalised in 1969 and 1980

Pg No. 234, Chapter No. 20, Module C

Q27. Which among the following is/are the recommendations of the Narasimham Committee - I (1991)?

1. Establishment of a 4-tier hierarchy for banking structure.
2. A phased reduction in Statutory Liquidity Ratio.
3. Phased achievement of 10% Capital Adequacy Ratio.

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

Answer: A

Explanation

Narasimham Committee - I (1991)

The recommendations of the Narasimham Committee -I were as follows:

- Establishment of a 4-tier hierarchy for banking structure with 3 to 4 large banks (including SBI) at the top and, at the bottom, rural banks engaged in agricultural activities.
- The supervisory functions over banks and financial institutions to be assigned to a quasi-autonomous body sponsored by RBI.
- A phased reduction in Statutory Liquidity Ratio.
- Phased achievement of 8% Capital Adequacy Ratio. **Hence option A is correct.**
- Abolition of branch licensing policy.
- Proper classification of assets and full disclosure of accounts of banks and financial institutions
- Deregulation of interest rates. Setting up an Asset Reconstruction Fund to take over a portion of the stressed asset loan portfolio

Pg No. 236, Chapter No. 20, Module C

Q28. Whatsapp pay is a

(a) Fintech Company
(b) Techfin Company
(c) Neo Bank
(d) Payment gateway

Answer: B

Explanation

Techfin

A big tech firm (Techfin) is a large company whose primary activity is digital services.

- Examples of big techs include online search engines, social media platforms, e-commerce platforms, ride-hailing platforms, and mobile network operators. Companies like Whatsapp, Amazon have provided payment services and are thus Techfins. Hence option B is correct.
- FinTechs like PayTM and TechFins like GooglePay together account for almost 80% of the UPI transactions in India. While Fintechs are regulated entities by the RBI, the TechFins

through own huge customer data that is generated while availing their services in unregulated areas are competing with firms which are regulated ones. Hence, there is clear lack of level playing field at present.

Pg No. 262, Chapter No. 21, Module C

Q29. As per Section 4 of the RBI Act, the paid-up capital of the Bank shall be ___________.

(a) Rs 2 crores

(b) Rs 5 crores

(c) Rs 10 crores

(d) Rs 15 crores

Answer: B

Explanation

RBI Act, Section 4-Capital of RBI

The capital of the Bank shall be Rs 5 crores. This is the paid-up capitai of RBI and it may be noted that. as per the Annual Report of RBI as on 31st March 2022, the total capital reserves of RBI stood at Rs 6,741 crores. **Hence option B is correct.**

Pg No. 277, Chapter No. 22, Module C

Q30. As per Section 13 of the RBI Act, Meetings of the Central Board shall be convened by the Governor at least ____times in each year.

(a) Two

(b) Four

(c) Six

(d) Three

Answer: C

Explanation

RBI Act, Section 13-Meetings of the Central Board

Meetings of the Central Board shall be convened by the Governor at least **six times** in each year and at least once in each quarter. **Hence option C is correct.**

- The Govenor, or if for any reason, he is unable to attend, the Deputy Governor authorised by the Governor to vote for him, shall preside at meetings of the Central Board, and, in the event of an equality of votes, shall have a second or casting vote

Pg No. 278, Chapter No. 22, Module C

Q31. The Minimum loan size for Equipment Finance under the SIDBI Make in India Soft Loan Fund for MSMEs (SIDBI SMILE) is ____________.

(a) Rs. 1 crore

(b) Rs. 10 lakhs

(c) Rs. 50 lakhs

(d) Rs. 25 lakhs

Answer: B

Explanation

Table 23.1 Types of Direct Finance Extended by SIDBI

Loan Scheme	Loan Amount	Loan Tenure
SIDBI Make in India Soft Loan Fund for MSMEs (SMILE)	Minimum loan size – Rs.10 lakh for Equipment Finance and Minimum Loan Size for Others – Rs.25 lakhs	Up to 10 years, including 3-year moratorium
Smile Equipment Finance (SEF)	Minimum loan amount is Rs.10 lakhs	Up to 72 months
Loans under partnership with OEM (Original Equipment Manufacturer)	Up to Rs.1 crore	Up to 5 years
Working Capital (Cash Credit)	Depends upon the financial appraisal	As per the terms and conditions of the facility
SIDBI – Loan for Purchase of Equipment for Enterprise's Development (SPEED)	Up to 100% of the machinery cost subject to maximum of Rs.1 crore for New to Bank (NTB) customers and up to Rs.2 crores for existing customers of SIDBI.	Up to 2-5 years including moratorium of up to 3-6 months
SIDBI-Loan for Purchase of Equipment for Enterprise's Development Plus (SPEED PLUS)	Up to 100% of the machinery cost subject to maximum of Rs.2 crores for New to SIDBI customers and up to Rs.3 crores for existing customers of SIDBI.	Up to 2-5 years including moratorium of up to 3-6 months
Top Up Loan for Immediate Purposes (TULIP)	30% of existing exposure or 20% of net sales, subject to maximum of Rs.2 crores	Up to 5 years including 6-month moratorium
SIDBI Term-Loan Assistance for Rooftop Solar PV Plants (STAR)	Rs.10 lakhs to Rs. 2.5 crores	Up to 5 years including 3-6 months moratorium
SIDBI Assistance to Facilitate Emergency Response Against Coronavirus (SAFE)	Up to Rs.50 lakhs	Up to 5 years
SIDBI Assistance to Facilitate Emergency Response Against Coronavirus Plus (SAFE PLUS)	Up to Rs.100 lakh	Repayable over 4-months
Timely Working Capital Assistance to Revitalise Industries in Times of Corona Crisis (TWARIT)	Up to 20% of total outstanding loans with SIDBI up to Rs.25 crores	Up to 4 years including 1 month moratorium

Hence option B is correct.
Pg No. 305, Chapter No. 23, Module C

Q32. Which among the following is/are the function(s) of EXIM Bank of India?
1. Financing the import and export of goods and services from countries other than India.
2. Financing the import or export of machines and machinery on lease or hire purchase basis.
3. Providing refinancing services to banks and other financial institutions for their financing of foreign trade.

4. Underwriting shares/debentures of companies, engaged in foreign trade.
(a) 1, 2 and 3 only
(b) 2, 3 and 4 only
(c) 1, 3 and 4 only
(d) 1, 2, 3 and 4
Answer: D
Explanation
Export-Import Bank of India (EXIM Bank)
The Export-Import Bank of India (Exim Bank) was established in terms of the Export-Import Bank Act, 1981, which was passed in September 1981 and it commenced its operations in March, 1982. The functions of EXIM Bank are:
- Financing the import and export of goods and services from countries other than India.
- Financing the import or export of machines and machinery on lease or hire purchase basis.
- Providing refinancing services to banks and other financial institutions for their financing of foreign trade.
- Providing financial assistance to businesses setting up joint ventures, in a foreign country.
- Providing technical and other assistance to importers and exporters. Undertaking functions of a merchant bank, for the importer or exporter in transactions of foreign trade.
- Underwriting shares/debentures of companies, engaged in foreign trade. **Hence option D is correct.**
- Extending short-term loans or lines of credit to foreign banks and governments.
- Providing business advisory services and expert knowledge to Indian exporters, in respect of multi- funded projects, in foreign countries.

Pg No. 309 - 310, Chapter No. 23, Module C

Q33. As per the Reserve Bank of India (Regulatory Framework for Micro Finance Loans) Directions 2022, a micro finance loan is defined as a collateral-free loan given to a household, having annual household income up to___________.
(a) Rs. 3.00 lakh
(b) Rs. 5.00 lakh
(c) Rs. 5.60 lakh
(d) Rs. 4.00 lakh
Answer: A
Explanation
Reserve Bank of India (Regulatory Framework for Micro Finance Loans) Directions 2022
RBI, in exercise of the powers conferred by Section 21, Section 35 A and Section 56 of the Banking Regulation Act, 1949, Chapter IIIB of the Reserve Bank of India Act, 1934 and Sections 30A ad Section 32 of the National Housing Bank Act, 1987, issued fresh directions to banks/NBFCs including and Micro finance institutions and housing finance companies in March, 2022. The salient features of the directions issued are as under:

- Definition of micro finance loans: A micro finance loan is defined as a collateral-free loan given to a household, having annual household income up to **Rs. 3.00 lakh. Hence option A is correct.**
- For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children. All collateral free loans, irrespective of end use and mode of applications/processing/disbursal (either through physical or digital channels), provided to low-income households. To ensure collateral free nature of the microfinance loans, the loan shall not be linked with a lien on the deposit account of the borrower.
- The regulated entities (REs) shall have a board-approved policy to provide the flexibility of repayment periodicity on microfinance loans as per the borrowers requirement mandatorily submit information regarding household income to the credit information companies (CICs).
- The reasons for any divergence between the already reported household income and assessed household income shall be specifically ascertained from the borrower/s before updating the assessed household income with the CICs.

Pg No. 325, Chapter No. 24, Module C

Q34. An Asset Finance Company in India is one whose income arising out of the principal business is not less than _______ of its total assets and total income.

(a) 30%
(b) 80%
(c) 60%
(d) 90%

Answer: C

Explanation

Asset Finance Company (AFC)

An AFC is a company which is a financial institution carrying on, as its principal business, the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, generator sets, earthmoving and material handling equipment, etc.

- Principal business for the purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising therefrom is not less than **60%** of its total assets and total income. **Hence option C is correct.**

Pg No. 337, Chapter No. 25, Module C

Q35. Which among the following statement(s) is/are correct with respect to National Asset Reconstruction Bank (NARCL) and India Debt Resolution Co. Ltd (IDRCL)?

1. NARCL has been set up by banks to aggregate and consolidate stressed assets for their subsequent resolution
2. IDRCL is a service company/operational entity which will manage the asset and engage market professionals and turnaround experts.
3. For NARCL, public sector banks will hold 51% of the equity capital.

4. In the case of IDRCL, public sector banks will hold 49% of the capital
(a) 1, 2 and 3 only
(b) 2, 3 and 4 only
(c) 1, 3 and 4 only
(d) 1, 2, 3 and 4

Answer: D

Explanation

National Asset Reconstruction Bank (NARCL Bad Bank)

The concept of the Bad Bank is to have an National Asset Reconstruction Company NARCL) coupled with a debt resolution company (India Debt Resolution Co. Ltd -IDRCL).

- While NARCL has been set up by banks to aggregate and consolidate stressed assets for their subsequent resolution, IDRCL is a service company/operational entity which will manage the asset and engage market professionals and turnaround experts.
- While for NARCL, public sector banks will hold 51% of the equity capital, in the case of IDRCL, public sector banks will hold 49% of the capital, the rest will be with private sector lenders. NARCL was incorporated as a Company on 7th July, 2021. **Hence option D is correct.**

Pg No. 391, Chapter No. 28, Module C

Q36. Price Discovery in the financial markets is affected by which among the following?

1. Supply and demand
2. Attitudes to risk
3. Volatility
4. Available information
5. Market mechanisms

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

Answer: D

Explanation

Price Discovery in Financial Markets

Price discovery, also referred to as the price discovery mechanism or price discovery process important aspect of all financial markets. It is a method for determining the price of an asset through interactions between buyers and sellers.

- Price discovery enables buyers and sellers to set the market of tradable assets.
- This is because the mechanisms of price discovery set out what sellers are to accept, and what buyers are willing to pay.
- As a result, price discovery is concerned with finding equilibrium price that facilitates the greatest liquidity for that asset.

Factors on which Price Discovery depends

There are a number of factors which determine the levels of price discovery. These include:

- Supply and demand
- Attitudes to risk
- Volatility
- Available information
- Market mechanisms. Hence option D is correct.

Pg No. 410, Chapter No. 29, Module C

Q37. The Prudential Limit for Scheduled Commercial Banks for transacting as part of Call and Notice Money market is _______ % of capital funds on a daily average basis in a reporting fortnight.

(a) 100%

(b) 125%

(c) 225%

(d) 150%

Answer: A

Explanation

Money markets

Table 30.1 Prudential limits for outstanding borrowing transactions in Call, Notice and Term Money Markets

Sr. No.	Participant Category	Prudential Limit
1	Scheduled Commercial Banks (including Small Finance Banks)	**Call and Notice Money:** (i) 100% of capital funds, on a daily average basis in a reporting fortnight, and (ii) 125% of capital funds on any given day. **Term Money:** (i) Internal board approved limit within the prudential limits for inter-bank liabilities.
2	Payment Banks, and Regional Rural Banks	**Call, Notice and Term Money:** (i) 100% of capital funds, on a daily average basis in a reporting fortnight, and (ii) 125% of capital funds on any given day.
3	Co-operative Banks	**Call, Notice and Term Money:** (i) 2.0% of aggregate deposits as at the end of the previous financial year.
4	Primary Dealers	**Call and Notice Money:** (i) 225% of Net Owned Fund (NOF) as at the end of the previous financial year on a daily average basis in a reporting fortnight. **Term Money:** (i) 225% of Net Owned Fund (NOF) as at the end of previous financial year.

Hence option A is correct.

Pg No. 415, Chapter No. 30, Module D

Q38. Which among the statement(s) given below is/are correct?

1. A Reverse repo transaction involves the buying of securities and lending of short-term surplus in the 1st leg and selling the security at a predetermined rate in the 2nd leg.

2. Seller promises to repurchase in a Repo transaction.
3. The seller of the security receives funds, while the buyer of the security receives collateral for the funds that has been lent in a Repo transaction.
4. Repo is a repurchase agreement, entered into between eligible counterparties for borrowing and lending of funds, on a collateralised basis.
(a) 1, 2 and 3 only
(b) 2, 3 and 4 only
(c) 1, 3 and 4 only
(d) 1, 2, 3 and 4
Answer: D
Explanation
Repo
Repo is a repurchase agreement, entered between eligible counterparties for borrowing and lending of funds, on a collateralised basis.

- A repo involves selling of a security, with an agreement to repurchase the same, at a future date, at a predetermined price.
- The seller of the security receives funds, while the buyer of the security receives collateral for the funds that has been lent.
- The rate at which the security will be repurchased in the 2nd leg of the repo, is derived from the rate of interest payable on the funds lent and is known as repo rate.

Reverse Repo
A Reverse repo transaction involves the buying of securities and lending of short-term surplus in the 1st leg and selling the security at a predetermined rate in the 2nd leg.

- Automatically, therefore, a repo transaction for one counterparty becomes a reverse repo transaction for the other counterparty.
- Repo transactions facilitate banks to invest their surplus cash for adjusting CRR positions and also for adjusting SLR positions.
- To facilitate equitable access to all market participants for trading, tri-party agents are authorised by RBI/ SEBI to provide trading platform.

Pg No. 418, Chapter No. 30, Module D

Q39. Which among the following is/are the services provided by the intermediary in a Tri-party Repo Contract?
1. Collateral selection
2. Payment and settlement
3. Custody and management
(a) 1 and 2
(b) 2 and 3
(c) 1, 2 and 3
(d) 3 only

Answer: C

Explanation

Tri-Part Repo

A repo contract where a third entity (apart from the borrower and lender), known as a Tri-Party Agent, acts as an intermediary between the two parties to the repo, to facilitate services like collateral selection, payment and settlement, custody and management during the life of the transaction is called Tri-party Repo. **Hence option C is correct.**

Pg No. 418, Chapter No. 30, Module D

Q40. The tenors of the term repos conducted by the RBI under Long Term Repo Operations (LTRO) were between ______________.

(a) 1-year and 3-year

(b) 2-year and 4-year

(c) 5-year and 10-year

(d) 3-year and 5-year

Answer: A

Explanation

Long Term Repo Operations (LTRO)

The LTRO was introduced by RBI in February 2020, with the following dual objectives:

- To encourage banks to undertake maturity transformation smoothly and seamlessly, so as to at credit flows to productive sectors, and,
- To assure banks about the availability of durable liquidity, at reasonable cost, relative to prevailing market conditions.
- Accordingly, it has been decided that, from the fortnight beginning on February 15, 2020, the RBI would conduct term repos of 1-year and 3-year tenors of appropriate sizes for up to a total amount of Rs 1,00.00 crores at the policy repo rate. **Hence option A is correct.**

Pg No. 420, Chapter No. 30, Module D

Q41. Which among the following is/are the prime objective(s) of Targeted Long Term Repo Operations (TLTRO) of RBI?

1. Providing liquidity to the corporate bond market.
2. Supporting the merchants.
3. Supporting MSME sector.

(a) 1 and 2

(b) 2 and 3

(c) 1, 2 and 3

(d) 1 only

Answer: D

Explanation

Targeted Long Term Repo Operations (TLTRO)

Targeted Long-Term Repo Operations are Long-term repo operations (LTROs) conducted by the RBI, to ensure adequate liquidity at the longer period for specific sectors.

- Under LTROS, the RBI auction funds to banks for making investments in prescribed corporate and other instruments.
- In the initial phase, the RBI instructed banks to invest funds availed from TLTRO to invest in investment-grade corporate debt.

Objectives of TLTRO

The following are the objectives of TLTRO:

- Corporate were finding it difficult to mobilise funds as there were large sell offs in the corporate bonds, in the context of the COVID-19 pandemic and the accompanying economic risks. Therefore, providing liquidity to the corporate bond market was the prime objective of the TLTROs. **Hence option D is correct.**
- On March 27, 2020, the RBI launched the first TLTRO to provide liquidity in the corporate bond market through banks. Four tranches were completed on April 17, 2020. In a similar step, the RB also conducted a TLTRO 2.0 for supporting fund injections to NBFCs through banks.

Pg No. 421, Chapter No. 30, Module D

Q42. Which among the following instrument(s) is/are traded in the Secondary Markets?

1. Equity
2. Equity Shares
3. Rights Issue
4. Bonus Shares

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

Answer: D

Explanation

Instruments dealt with in the Secondary Market:

- **Equity:** Equity is the ownership interest in a company of holders of its common and preferred stocks. The different types of equity shares are as follows:
- **Equity Shares:** An equity share is commonly referred to as an ordinary share. It represents the form of fractional ownership, in which, a shareholder, as a fractional owner, undertakes the entrepreneurial risk, associated with a business venture.
- **Rights Issue/Rights Shares:** This refers to the issue of new securities to the existing shareholders, at a ratio to those shares already held.
- **Bonus Shares:** These shares are issued by the companies to their shareholders free of cost by capitalisation of accumulated reserves from the profits earned in the earlier years or out of the share premium account.

- **Preferred Stock/Preference Shares:** These shares do not offer voting rights. Owners of these shares are entitled to a fixed dividend or a dividend calculated at a fixed rate to be paid regularly before any dividend can be paid in respect of equity share. These shareholders also enjoy priority over the equity shareholders in the payment of surplus, during the process of liquidation of the company.

Pg No. 427, Chapter No. 31, Module D

Q43. Consider that a person has bought shares of Reliance on 23rd December 2022. What is the date of settlement?

(a) 23rd December 2022
(b) 24th December 2022
(c) 25th December 2022
(d) 26th December 2022

Answer: B

Explanation

Reduction in Settlement Period from T+2 to T+1

At the request of market participants, SEBI has proposed to change trade settlement cycle from T+ 2 to T+1, which means shares will now be transferred in T+24 hours. **Hence option B is correct.**

- SEBI has taken this move in consultation with market infrastructure institutions such as stock exchanges, clearing corporations and depositors.
- A few market players have expressed their concerns on operational problems, in this arrangement of T+1 settlement.
- Reducing the settlement cycle is expected to create greater efficiencies in the market and further protect investors' interest.
- Accelerating the settlement cycle will help reduce operational risk, liquidity needs, counterparty risk which would also reduce margin requirements and collateral requirements for broker-dealers.

Pg No. 430, Chapter No. 31, Module D

Q44. State Development Loans are generally issued by auction, which is carried out by the Reserve Bank of India and pay _________ interest at the coupon rate.

(a) Quarterly
(b) Half-yearly
(c) Monthly
(d) Yearly

Answer: B

Explanation

State Development Loans

State Development Loans are securities issued by the State Governments to finance their expenditures.

- These securities are generally issued by auction, which is carried out by the Reserve Bank of India. They also pay half-yearly interest at the coupon rate. **Hence option B is correct.**
- The secondary market consists of both, a telephonic market wherein brokers provide quotes to market participants and the electronic trading system operated by the Reserve Bank of India known as Negotiated Dealing System Order Matching (NDS-OM).
- The instruments traded on the NDS- OM include G-secs, T-Bills and SDLs.
- The membership of this electronic system is open to most of the institutional players including banks, primary dealers, insurance companies and financial institutions.
- The settlement of all such trades takes place through the Clearing Corporation of India, which guarantees the settlements.
- The market trades from 9 AM to 5 PM from Monday to Friday.

Pg No. 441, Chapter No. 32, Module D

Q45. Which among the following Securitie(s) is/are eligible under the RBI Retail Direct Scheme?

1. Government of India Treasury Bills
2. Government of India dated securities
3. Sovereign Gold Bonds (SGB)
4. AAA rate Corporate Bonds.

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

Answer: A

Explanation

RBI Retail Direct Scheme (RDS)

In order to deepen the government securities market and enable retail individual investors to parties in the process of nation building by giving them access to the G-Sec market, RBI launched its Retail Direct Scheme (RDS) on 12th November, 2021.

Securities Eligible

RDS would enable retail investors to buy and sell the following types of Government securities:

- Government of India Treasury Bills
- Government of India dated securities
- Sovereign Gold Bonds (SGB)
- State Development Loans (SDLs).

Hence option A is correct as the Scheme is directed towards Government Securities.

Pg No. 446, Chapter No. 32, Module D

Q46. Which of the following bond theorems is not correct?

(a) The price of a bond is inversely related to the change in interest rate.

(b) The increase in the price of a bond when the interest rate goes down by a certain percentage, is greater than the decrease in its price when the interest rate goes up by the same percentage.
(c) Longer the term to maturity of a bond, lower will be its price sensitivity.
(d) Between two bonds of same maturity but different coupons, the bond with the lower coupon will experience more price sensitivity than the one with higher coupon.

Answer: C

Explanation

Bond Theorems

There are four important bond theorems, based on the interplay of its price and the market interest rate. The theorems can be stated as follows:

- Theorem 1: The price of a bond is inversely related to the change in interest rate.
- Theorem 2: The increase in the price of a bond when the interest rate goes down by a certain percentage, is greater than the decrease in its price when the interest rate goes up by the same percentage.
- Theorem 3: Longer the term to maturity of a bond, higher will be its price sensitivity. **Hence statement C is incorrect and the correct answer.**
- Theorem 4: Between two bonds of same maturity but different coupons, the bond with the lower coupon will experience more price sensitivity than the one with higher coupon.

Pg No. 443, Chapter No. 32, Module D

Q47. Which among the following is not an Alternate Reference Rate suggested to be used by various central Banks in substitution of LIBOR?

(a) SOFR
(b) SONIA
(c) SOFIA
(d)ESTR

Answer: C

Explanation

An Alternative Reference Rate (ARR) one which retains the desirable features of LIBOR while ensuring that it is based on transactions in liquid markets - has to satisfy several key attributes, viz.,
(a) it should provide a robust and accurate representation of interest rates in core money markets that is not susceptible to manipulation;
(b) it should offer reference rates for financial contracts that extend beyond the money market, and
(c) it should serve as a benchmark for term lending and funding.
Some of the ARRs, which may be suggested to be used by various central Banks in substitution of LIBOR are provided in Table 33.1 below.

Table 33.1 Overview of ARRs in Certain Markets

	USA	UK	EU	Switzerland	Japan
ARR	Secured Overnight Financing Rate (SOFR)	Sterling Overnight Interbank Average Rate (SONIA)	Euro Short Term Rate (ESTR)	Swiss Average Rate Overnight (SARON)	Tokyo Overnight Average Rate (TONAR[1])
Secured	Yes	No	No	Yes	No
Tenor	Overnight	Overnight	Overnight	Overnight	Overnight
Counterparties	Banks and non-banks	Banks and non-banks	Banks and non-banks	Banks only	Banks and non-banks

Hence option C is the correct answer.
Pg No. 457, Chapter No. 33, Module D

Q48. Which among the following is/are the member bank(s) of Foreign Exchange Dealers' Association of India (FEDAI)?
1. Brokers
2. Public Sector Bank
3. Private Sector Bank
4. Foreign Sector Bank
(a) 1, 2 and 3 only
(b) 2, 3 and 4 only
(c) 1, 3 and 4 only
(d) 1, 2, 3 and 4
Answer: B
Explanation
Foreign Exchange Dealers' Association of India (FEDAI)
The Foreign Exchange Dealers' Association of India (FEDA) is an association of banks that are authorised to deal in foreign exchange markets in India.

- Established in the year 1958 the body regulates the rules that determine various aspects of operations and charges that are attached to the foreign exchange business.
- In addition to rule setting, FEDAI assists member banks, by acting as an advisor and assists with the training of banks' personnel and accrediting foreign exchange brokers.
- FEDAI's member banks consist of public sector, private sector, foreign and co-operative banks and financial institutions, like IFCI and SIDBI. **Hence option B is correct.**
- The FEDAI is a self-regulating organisation (SRO) and it plays a key role in stabilising markets, through its association with RBI and the Fixed Income Money Market and Derivatives Association of India (FIMMDA).
- In March 2018, FEDAI collaborated with Financial Benchmarks India Ltd (FBIL, a company formed to administer money market benchmarks rates), FIMMDA, and the Indian Banks' Association (IBA) to set benchmarks for Indian Rupee interest rates and foreign exchange.

Pg No. 458, Chapter No. 33, Module D

Q49. Which among the following is/are the function(s) of the Foreign Exchange Dealers' Association of India (FEDAI)?

1. Training of bank personnel in the areas of foreign exchange
2. Accreditation of forex brokers
3. Announcement of daily and periodical rates to member banks.

(a) 1 and 2 only

(b) 2 and 3 only

(c) 1, 2 and 3

(d) 3 only

Answer: C

Explanation

Foreign Exchange Dealers' Association of India (FEDAI)

The Foreign Exchange Dealers' Association of India (FEDA) is an association of banks that are authorised to deal in foreign exchange markets in India.

- Established in the year 1958 the body regulates the rules that determine various aspects of operations and charges that are attached to the foreign exchange business.
- In addition to rule setting, FEDAI assists member banks, by acting as an advisor and assists with the training of banks' personnel and accrediting foreign exchange brokers.
- FEDAI's member banks consist of public sector, private sector, foreign and co-operative banks and financial institutions, like IFCI and SIDBI.

FEDAI has a number of **functions**, which are as follows:

- Issuing of guidelines and rules for handling of foreign exchange business.
- Training of bank personnel in the areas of foreign exchange
- Accreditation of forex brokers
- Advising/assisting member banks in settling issues/matters in their dealings
- Representing member banks on Government/Reserve Bank of India/Other Bodies, and
- Announcement of daily and periodical rates to member banks. **Hence option C is correct.**

Pg No. 458, Chapter No. 33, Module D

Q50. Which among the following country is not a member of Asian Clearing Union (ACU)?

(a) Bangladesh

(b) India

(c) Afghanistan

(d) Iran

Answer: C

Explanation

Asian Clearing Union

Asian Clearing Union (ACU) is a payment arrangement, whereby the participants settle payments for intra-regional transactions among the participating central banks, on a net multilateral basis.

- The main objectives of the clearing union are to facilitate payments among member countries for eligible transactions, thereby economizing on the use of foreign exchange reserves and transfer costs, as well as promoting trade and banking relations, among the participating countries.
- The members of the ACU are Bangladesh, Bhutan, India, Iran, Maldives, Myanmar, Nepal, Pakistan and Sri Lanka. **Hence option C is the correct answer**

Pg No. 471, Chapter No. 34, Module D

Q51. As per the SEBI Regulations on Merchant Banking, a Merchant Bank that can act as underwriter, advisor, consultant to an issue is _________.

(a) Category I Merchant Bank
(b) Category II Merchant Bank
(c) Category III Merchant Bank
(d) Category IV Merchant Bank

Answer: C

Explanation

SEBI Regulations on Merchant Banking

Certificate from SEBI is mandatory to commence Merchant Banking activities. Certification of Merchant Bankers is of four types, viz.,

- **Category I Merchant Bank**: can act as Issue managers - to carry on any activity of the issue management, which will, inter alia, consist of preparation of prospectus and other information relating to the issue, determining financial structure, tie up of financiers and final allotment and refund of the subscriptions; and to act as advisor, consultant, manager, underwriter, portfolio manager
- **Category II Merchant Bank**: can act only as advisor, consultant, co-manager, underwriter, portfolio manager.
- **Category III Merchant Bank**: can act as underwriter, advisor, consultant to an issue. **Hence option C is correct.**
- **Category IV Merchant Bank**: can merely act as advisor or consultant to an issue.

Pg No. 486, Chapter No. 35, Module D

Q52. As per the Key Policy Requirements for Merchant Banks as per SEBI Regulations, which among the following statement(s) is/are correct?

1. Annually audited result should be submitted to SEBI.
2. Lead Merchant Bank should not associate with a merchant banker, without registration Merchant Bank should not act as such for an associate.
3. Every merchant bank shall appoint a Compliance Officer to monitor compliance with prevailing Regulations.

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

(d) 1, 2 and 3

Answer: B

Explanation

Key Policy Requirements for Merchant Banks as per SEBI Regulations

- Every merchant bank should maintain copies of balance sheet, profit and loss account, statement of financial position
- **Half-yearly unaudited** result should be submitted to SEBI. **Hence statement 1 is incorrect.**
- Merchant Banks (including their directors and employees) are prohibited from buying/selling securities, based on the unpublished price sensitive information of their clients, during the tenor of the assignment.
- Merchant Bank should not associate with any business other than that of the securities market. The exception is granted to Banks and Financial Institutions.
- Lead Merchant Bank should not associate with a merchant banker, without registration Merchant Bank should not act as such for an associate. **Hence statement 2 is correct.**
- Every merchant bank shall appoint a Compliance Officer to monitor compliance with prevailing Regulations. **Hence statement 3 is correct.**
- SEBI has the right to send inspecting authority to inspect books of accounts, records, etc., of merchant banks.
- Inspections will be conducted by SEBI to ensure that the provisions of the regulations are properly complied with.
- An initial authorisation fee, an annual fee and renewal fee shall be collected by SEBI.

Pg No. 490, Chapter No. 35, Module D

Q53. Which among the following statement is incorrect with respect to a Derivative?

(a) It is a financial instrument whose value changes in response to the change in underlying entity.

(b) It is a financial instrument that requires high initial net investment

(c) It is a financial instrument that is settled at a future date.

(d) None of the above

Answer: B

Explanation

Derivative

In terms of guidelines issued by RBI, a Derivative is a financial instrument:

- Whose value changes in response to the change in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or similar variable (called the underlying)
- that requires **no initial net investment or little initial net investment** relative to other types of contracts that have a similar response to changes in market conditions. **Hence option B is incorrect and the correct answer.**
- that is settled at a future date.

Pg No. 494, Chapter No. 36, Module D

Q54. Which among the following statement is incorrect with respect to the Forward contracts?

(a) Forward contracts have fixed maturities

(b) Forward contracts can be traded 24x7

(c) Forward contracts are traded Over the Counter

(d) Forward contracts have counterparty in direct contact

Answer: A

Explanation

Futures and Forward Contract

A futures contract is a standardised forward contract, a legal agreement to buy or sell some asset at a predetermined price, at a specified time in the future, between parties not known to each other. The transacted is usually a financial instrument or commodity.

The differences between the Futures and Forward Contracts are:

Table 36.3 Differences between Futures and Forward Contracts

Futures	Forward Contracts
Standardised amounts	Non-standard amounts
Fixed maturities	Flexible maturities
Traded on exchanges	Traded OTC
Initial margin required, which is marked to market	No margin requirement
Traded during exchange hours	Can be traded 24x7
Counterparty unknown	Counterparty in direct contact

Hence option A is correct

Pg No. 500, Chapter No. 36, Module D

Q55. In which among the following kind of International Factoring, the import factor comes into focus only if the buyer defaults in making the payment?

(a) Single Factor System

(b) Double Factor System

(c) Direct Import Factor System

(d) Triple Factor System

Answer: A

Explanation

International Factoring

In international factoring, there are usually two factors. The export factor looks at financing the exporter and sales administration (presenting invoices at the right time and collecting payments being the key tasks).

- The import factor is interested in evaluating the buyer, collecting the money on time at the same time ensuring that the buyer is protected against default.

- International factoring encompasses all the four services, i.e., pre-payments, sales ledger administration, credit protection and collections.

Single factor system - In this type of factoring, the import factor comes into focus only if the buyer defaults in making the payment. In such case, the export factor recovers the amount from the import factor, and it is then left to the import factor to recover the factored amount from the buyer. Fig. 37.2 schematically shows this type of factoring arrangement.

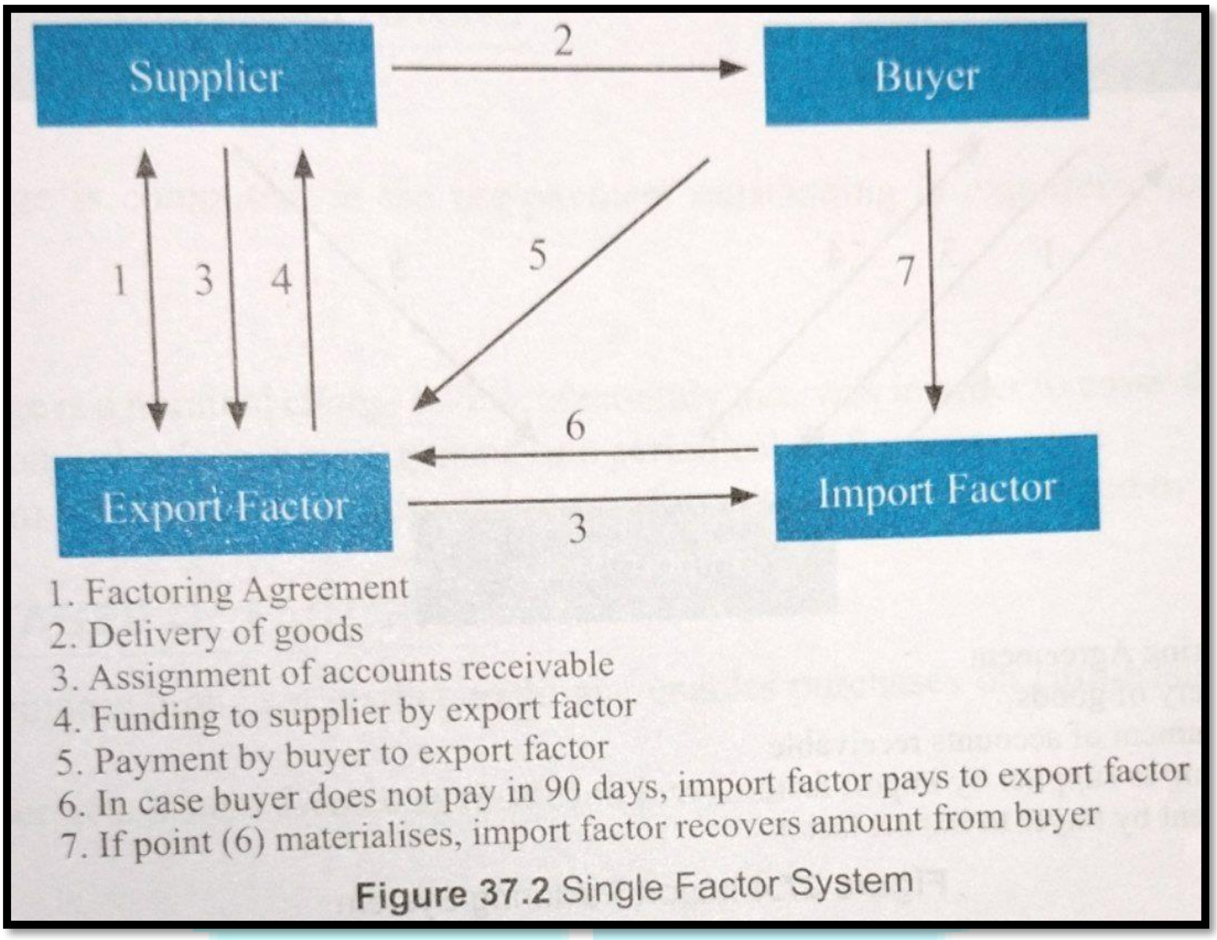


Figure 37.2 Single Factor System

Hence option A is correct

Pg No. 515, Chapter No. 36, Module D

Q56. Which among the following entities are the participants in Trade Receivables Discounting System (TReDS)?

1. MSME sellers
2. Corporate buyers
3. Government Departments
4. Public Sector Undertakings
5. NBFC factors

(a) 1, 2 and 3 only

(b) 1, 3, 4 and 5 only

(c) 1, 2, 3, 4 and 5

(d) 2, 4 and 5 only

Answer: C

Explanation

Trade Receivables Discounting System (TReDS)

TReDS is a scheme for setting up and operating the institutional mechanism, for facilitating financing of trade receivables of MSMEs from corporate and other buyers, including Government Departments and Public Sector Undertakings (PSUs), through multiple financiers. It is a form of factoring.

- One big factor which affects the ability of MSMEs to convert trade receivables into liquid funds are their difficulty to realise the payments, in the absence of any well- established system for doing so.
- To address the financing related issues faced by MSMEs in India, RBI in the year 2014, introduced the concept of TReDS, a mechanism of trade receivables financing for MSMEs on a secure digital platform.
- Further, as the underlying **entities** are the same (**MSMEs** and **corporate and other buyers**, including Government Departments and PSUs), TReDS could deal with both receivables factoring as well as reverse factoring, so that, higher transaction volumes come into the system and facilitate better pricing.
- The transactions processed under TReDS will be "**without recourse**" to the MSMEs.

Participants under TReDS

MSME sellers, **corporate and other buyers**, including the **Government Departments** and **PSUs**, and **financiers** (both **banks and NBFC factors**) are the direct participants in TReDS. **Hence option C is correct**

Page No. 522, Chapter No. 37, Module D

Q57. Which among the following is/are not the feature(s) of Venture Capital Finance?

1. They are high risk investments made with an intention of making high profits.
2. Investments are generally done in innovative projects.
3. The investments are made in brown field entities.
4. The provider of venture capital can participate in the management of the company.

(a) 1, 2 and 4 only

(b) 1 and 2 only

(c) 3 only

(d) 3 and 4 only

Answer: C

Explanation

Venture Capital

Venture Capital is a private institutional investment made to start-up companies, at early stage.

- Venture capital funds are the investments made by the investors, who seek private equity stakes, in small to medium business, which have potential to grow. These investments are generally high-risk/high-return opportunities.

- The ventures involve risk in the expectation of sizable gain. The people who invest this money become the financial partners are called venture capitalists (VCs).
- Venture capital is the most suitable option for funding capital for companies, which are start-ups, with little or no track record of performance.

Characteristics of Venture Capital Finance

Venture Capital can be distinguished from other forms of finance, on the basis of its special characteristics, which are as follows:

1. They are high risk investments made with an intention of making high profits. **Hence statement 1 is correct.**
2. The investments made are based on long-term goals;
3. The investments are made in start-ups, which have potential to grow; **Hence statement 3 is incorrect and thus option C is correct.**
4. Money is invested, generally, by buying equity shares, in the start-up company;
5. Investments are generally done in innovative projects in the fields of technology and biotechnology. **Hence statement 2 is correct.**
6. The provider of venture capital can participate in the management of the company. **Hence statement 4 is correct.**

Hence option C is correct

Page No. 529 - 530, Chapter No. 38, Module D

Q58. Which among the following is/are the exit routes for Venture Capital Finance?

1. Buy back of Shares by the Promoters
2. Liquidation of the Investee Company
3. Initial Public Offering

(a) 1 and 2 only

(b) 2 and 3 only

(c) 1 and 3 only

(d) 1, 2 and 3

Answer: D

Explanation

Exit Routes for Venture Capital Finance

The venture capital company/fund after financing a venture capital undertaking, nurtures it to make it a successful proposition, but it does not intend to retain its investment therein, for an indefinite period of time. As the venture capital undertaking starts its commercial operations and reaches the profit-earning stage, the venture capitalist endeavors to disinvest its investments in the company, at the earliest.

The primary aim of the venture capitalist happens to realize appreciation in the value of the shares held by him/her and thereafter to finance another venture capital undertaking. This is called the exit route. There are several alternatives by which the provider of venture capital finance can exit from an investee company. These are explained below:

(i) Initial Public Offering: When the shares of the investee company are listed on the stock exchange and are quoted at a premium, the venture capitalist offers his/her holdings for public sale, through public issue. **Hence statement 3 is correct.**

(ii) Buy back of Shares by the Promoters: In terms of the agreement entered 'into with the investee company, promoters of the company are given the first opportunity to buy back the shares held by the venture capitalist, at the prevailing market price. In case, they refuse to do so, other alternatives are resorted to, by the venture capitalist. **Hence statement 1 is correct.**

(iii) Sale of Enterprise to another Company: A venture capitalist can recover the investments in the investee company, by selling the holdings to an outsider, who is interested in buying the entire enterprise from the entrepreneur.

(iv) Sale to New Venture Capitalist: A venture capitalist can sell the equity holdings in the enterprise to a new venture capital company, who might be interested in buying the ownership portion of the venture capital. Such a sale may be distress sale by the venture capitalist to realize the investments and exit from the enterprise. Alternatively, such a sale may be for inducting another venture capitalist, who has the appetite to take the existing liability in the company and provide second round of funding.

(v) Self-liquidating Process: In case of debt financing by the venture capitalist, the process is self liquidating in nature, as the principal amount, along with interest is repaid in instalments, over a Specified period of time.

(vi) Liquidation of the Investee Company: If the investee company does not become profitable and Successful and incurs losses, the venture capitalist resorts to recover his/her investment, by negotiation or settlement with the entrepreneur, failing which, the recovery is resorted to by means of winding up of the enterprise through Court proceedings. **Hence statement 2 is correct.**

Hence option D is correct

Page No. 535 - 536, Chapter No. 38, Module D

Q59. An airline owner wants to use an aircraft on lease. Which among the following is the most appropriate kind of leasing?

(a) Direct Leasing

(b) Sale and Lease Back

(c) Finance Lease

(d) Operating Lease

Answer: D

Explanation

Leasing

Leasing is a method of acquiring right to use an equipment or asset for a consideration, resulting in an entrepreneur getting the right to use the asset.

Classification based on the period of Lease

In general Leasing in classified into the following types based upon the period of leasing:

(a) Finance Lease - A Finance Lease, also called a capital lease, is one which usually covers the full useful economic life of the assets or a period that is close to the economic life.

- The lessor receives lease rentals during the lease period so as to recover fully, not only the cost of the assets but also the interest cost.
- The lease payment, under financial lease, is a payment for the use of the assets only and the responsibility for the repair and maintenance of the assets generally lies with the lessee.

(b) Operating Lease - An operating lease is a lease, in which, the **period of lease is short**, when compared to the useful life of the asset or the equipment being leased.

- For instance, an **aircraft** which has an economic life of 25 years may be leased to an airline for 5 years, on an operating lease. **Hence option D is correct.**
- They are typically for assets like computers, windmills and so on. In operating lease, the lessor is responsible for all kinds of maintenance, insurance and all other expenses related to the leased asset.

Classification based on how the lessee acquires the asset

Lease Financing can be of three different types, depending upon how the lessee acquires the asset. These are as follows:

(a) Direct Lease - This is the most straight forward type of finance lease. The lessor firm itself purchases the asset and hands it over to the lessee.

- A manufacturer can also act as a lessor and can deliver the assets to the lessee, under the lease agreement (instead of delivering under the sale agreement).

(b) Leveraged Lease - A leveraged lease is an arrangement, where the lessor borrows a portion of the purchase price from some lender/financial institutions. This loan is secured by the assets and the lease rentals.

- The loan is repaid out of the lease rentals either directly by the lessee or the lessor.
- The surplus (i.e., the difference between the lease rental and the repayment portion of it) then goes to the lessor.
- Hence under the leveraged lease, the lessor acts as an equity participant, supplying only a part of the cost o the assets and the lender supplies the balance.

(c) Sale and Lease Back - Under both the direct lease and the leveraged lease, the lessee acquires the assets after the lease arrangement.

- However, in case of sale and lease back, the situation is different. The lessee is already the owner of the assets.
- The to-be lessee, under the lease agreement, sells the assets to the lessor who, in turn, leases the assets back to the owner (now the lessee).
- Under the sale and lease back, the lessee not only retains the use of the assets but also gets funds from the 'sale' of the assets to the lessor.

Page No. 541 – 542, Chapter No. 39, Module D

Q60. Which among the following is the effect of leasing on debt-equity ratio due to leasing an asset?

(a) Debt equity ratio increases

(b) Debt equity ratio decreases

(c) Debt equity ratio remains unchanged

(d) It cannot be determined

Answer: C

Explanation

Leasing

Leasing is a method of acquiring right to use an equipment or asset for a consideration, resulting in an entrepreneur getting the right to use the asset.

Impact of Leasing on Financial Ratios

When an asset is acquired on lease basis, lease rentals are shown as an expense in the firm's profit and loss account. Neither the leased asset nor the liability under the lease agreement are shown in the Balance Sheet. Hence the **debt-equity ratio remains unaffected** as compared to a firm which buys the asset with borrowed funds. The following example will make this difference clear. There are two firms in an industry with identical balance sheets as shown below:

There are two firms in an industry with identical balance sheets as shown below:

Balance Sheet

Equity Capital	100	Fixed Assets	100
Debts	100	Current Assets	100
Total	**200**	**Total**	**200**

Debt Equity Ratio = 1 : 1

Firm A

Equity Capital	100	Fixed Assets	200
Debts	200	Current Assets	100
Total	**300**	**Total**	**300**

Debt Equity Ratio = 2 : 1

Firm B

Equity Capital	100	Fixed Assets	100
Debts	100	Current Assets	100
Total	**200**	**Total**	**200**

Debt Equity Ratio = 1 : 1

The debt-equity ratio of firm A increases from 1:1 to 2:1, while that of firm B remains unaffected. In its balance sheet, the leased asset is shown as an off-balance sheet item. Higher debt-equity ratio of Firm A will adversely affect its further debt taking capacity, while firm B can take further debt easily to acquire other assets or to meet its working capital needs.
Page No. 544 - 545, Chapter No. 38, Module D

Q61. Which among the following is not a feature of Hire Purchase?
1. Hire purchaser does not become the owner of the asset even after paying the last instalment.
2. Only the interest element included in the hire-purchase instalments are in nature of revenue expenditure.
3. Hire purchaser cannot claim for depreciation.
4. Hire purchaser can claim interest payment from the taxable income.
(a) 1 and 4 only
(b) 1 and 3 only
(c) 1, 2 and 3 only
(d) 4 only
Answer: B
Explanation
Leasing and Hire Purchase Compared
In case of hire purchase, ownership of the asset passes on to the user (hirer) after payment of all the instalments, but in case of a lease, the lessee is entitled to use the asset; ownership remains vested in the lessor.

- Lease is for the full value of the equipment, while in case of hire purchase, a cash down payment is generally required.

Table 39.3 Differences between Lease Finance and Hire Purchase

	Lease Finance	Hire Purchase
Meaning	A lease transaction is a commercial arrangement, whereby, an equipment owner or a manufacturer conveys to the equipment user, the right to use the equipment in return for a rental.	Hire purchase is a type of instalment credit under which, the hire purchaser agrees to take the goods on hire, at a stated rental, which is inclusive of the repayment of the principal, as well as interest, with an option to purchase.
Option to user	Except the financial Lease, no option is provided to the lessee (user) to purchase the goods.	The hire purchaser becomes the owner of the asset after paying the last instalment.
Nature of payment	Lease rentals paid by the lessee are entirely the revenue expenditure of the lessee.	Only the interest element included in the hire-purchase instalments are in the nature of revenue expenditure.
Who can claim depreciation	Lessor can claim for depreciation.	Hire purchaser can claim for depreciation.
Tax benefit	In a Lease agreement, the Lessor can claim depreciation and the lessee can claim maintenance and rentals from taxable income as expense.	A hire purchaser can claim depreciation and interest payment from the taxable income, whereas the seller can claim for the interest on the borrowed fund for purchasing the assets.

Hence option B is correct.
Page No. 548 – 549, Chapter No. 38, Module D

Q62. Credit Rating Agencies in India classify ratings into __________ grades?

(a) Two

(b) Three

(c) Four

(d) Six

Answer: B

Explanation

Credit Rating Symbols

Presently, in India, there are seven CRAs which have been approved by SEBI. All these seven CRAs also have been accredited by RBI, for the purpose of risk weighting banks' claim for capital adequacy purposes. **Ratings are classified into three grades** viz., high investment grades, investment grades and speculative grades. **Hence option B is correct**

- Broadly speaking, ratings are divided by the CRAs into three levels, viz., investment-grade, non investment grade and default grade.
- The investment-grade is considered by CRAs to be a significantly safer grade than the rest. Rating agencies use symbols such as AAA, AA, BBB, B, C, D, to convey the credit rating to the investors for long tenor instruments of the issuers.
- In all, risk is classified into 14 or 15 categories. Signs +' or ', are used to further fine tune the rating.
- The suffix + or - is also used to indicate the comparative position of the instrument within the group covered by the symbol. Thus, BBB-lies one notch above (better) BB+.

Pg No. 556, Chapter No. 40, Module D

Q63. A _______ fund is an open-ended debt scheme investing in government securities across maturity.

(a) Gilt fund

(b) Conservative Hybrid Fund

(c) Fund of Funds

(d) Floater Fund

Answer: A

Explanation

Mutual Funds

A Mutual Fund is a mechanism for pooling resources from the public, by issuing units to them and investing the funds so collected, in securities, in accordance with objectives, as disclosed in an offer document. It can be various kinds some of which are described below:

- **Gilt Fund** – It is a fund is an open-ended debt scheme investing in government securities across maturity. **Hence option A is correct**
- **Conservative Hybrid Fund** – An open-ended hybrid scheme investing predominantly in debt instruments – Investment in equity and equity related instruments is between 10% and 25% of total assets; Investment in Debt instruments between 75% and 90% of total assets.

- **Fund of Funds** – An open-ended fund of fun scheme investing in fund – Minimum investment in the underlying fund is 95% of total assets.
- **Floater Fund** – It is an open-ended scheme predominantly investing in floating rate instruments wherein minimum investment in such instruments is 65% of total assets.

Pg No. 569 - 571, Chapter No. 41, Module D

Q64. Mr. Rajesh owns a restaurant, which he bought three year ago, for Rs. 50 lakhs. He had bought fire insurance worth Rs. 40 lakhs. His restaurant caught fire and he suffered a loss of Rs. 50 lakhs. The amount of compensation to be paid by the insurance company is _________.

(a) 35 lakhs

(b) 40 lakhs

(c) 32 lakhs

(d) None of the above

Answer: B

Explanation

Principle of Indemnity

The meaning of indemnity' is 'the protection or security against damage or loss or security against legal responsibility. Indemnity may be referred to as a mechanism by which insurers provide financial compensation in an attempt to place the insured in the same pecuniary position, after the loss, as enjoyed just before it.

- The literal meaning of the term indemnity" is making good the loss. On the happening of the insured event, for which, the insurance policy is taken up, the insured should be replenished, the amount of loss.
- Life insurance is not a contract of indemnity. However, property insurance or personnel accident insurance contracts are contracts of 'indemnity'.
- Indemnity merely means to make good any financial loss suffered by the insured and to put him or her back in the same financial position, as he or she was, before the occurrence of the loss.
- The principle of indemnity also aims to control moral hazard. It is possible that the insured may try to secure the maximum amount through dubious and unfair means. For example, he may deliberately inflict loss upon the property, in order to seek compensation Resort to exaggerating the loss Make false claims, etc.

As per the question,

Mr. Rajesh owns a restaurant, which he bought three year ago, for Rs. 50 lakhs. He had bought fire insurance worth Rs. 40 lakhs. His restaurant caught fire and he suffered a loss of Rs. 50 lakhs. The amount of compensation to be paid by the insurance company is

= Rs. (sum insured/value of insured asset) * actual loss

= Rs. (40 lakhs/50 lakhs) * 50,00,000

= **Rs.40,00,000. Hence option B is correct.**

Page 585 – 586, Chapter No. 42, Module D

Q65. The risk coverage under the Prime Minister Jeevan Jyoti Bima Yojana (PMJJBY) is for __________ in case of death of the insured, due to any reason.

(a) Rs. 1 lakh

(b) Rs. 2 lakhs

(c) Rs. 5 lakhs

(d) Rs. 10 lakhs

Answer: B

Explanation

Prime Minister Jeevan Jyoti Bima Yojana (PMJJBY)

PMJJBY is a life insurance scheme. The scheme is available to people in the age group of 18 to 50 years having a bank/post office account - who give their consent to join/enable auto-debit. Aadhaar is the primary KYC for the bank account.

- The life cover, which is for Rs. 2 lakhs, is available for a 1 – year period, stretching from 1st June to 31st May of each year and is renewable every year.
- Risk coverage under this scheme is for **Rs 2 lakhs** in case of death of the insured, due to any reason. **Hence option B is correct**
- The premium for the life cover is Rs. 436 per annum, which is to be auto-debited in one instalment from the insured's bank/post office account, as per the option given by him/her on or before 31st May of each annual coverage period, under the scheme.
- The scheme is being offered through Life Insurance Corporation of India and all other life insurers who are offering the product on similar terms, with necessary approvals and tie up with banks and Post Offices, for this purpose.

Pg No. 594, Chapter No. 42, Module D

Q66. The lock-in period for the Public Provident Fund (PPF) Scheme is _________ years.

(a) 5 years

(b) 10 years

(c) 15 years

(d) 20 years

Answer: C

Explanation

Public Provident Fund (PPF) Scheme

The Public Provident Fund scheme was launched by the National Savings Institute and is one of the post office savings schemes. PPF is one of the popular government investment instruments.

- The **lock-in period is 15 years** for a PPF, and one can extend their investment in PPF for another five year PPF contributions are eligible for a tax deduction. Investments up to Rs 1,50,000, can be claimed for tax deduction under Section 80C of the Income Tax Act. **Hence option C is correct.**
- Moreover, returns from PPF are completely tax exempted. The minimum investment into a PPF account each year is Rs 500 and the maximum investment is Rs 1,50,000.

- Investors cannot open multiple accounts. The interest is compounded annually. Public Provident Fund investments can be deposited in the form of a lump sum amount or in instalments, up to 12 instalments per financial year.
- Any Indian citizen can avail the benefits of this savings plan. However, NRIs and HUFS are not eligible to open a PPF account. Additionally, investors can avail a loan against PPF investments. and such loans can be availed between the third and the fifth year.
- As PPF has a lock-in period of 15 years, their benefits can be reaped during retirement, by the investors

Pg No. 594, Chapter No. 42, Module D

Q67. An Indian citizen resident in London wants to join Atal Pension Yojana. Which among the following statement is correct in this regard?

(a) He can join if his age is greater than 40 years.

(b) One of the eligibility conditions is that he has a valid savings bank account/post office savings account.

(c) He can join only after taking permission from EPFO.

(d) He can join only after taking permission from SEBI and RBI.

Answer: B

Explanation

Atal Pension Yojana (APY)

Atal Pension Yojana (APY) is a pension scheme launched by Government of India, which is focused on the unorganised sector workers.

- Under the APY, minimum guaranteed pension of Rs. 1,0000 or Rs. 2,000 or Rs. 3,000 or Rs. 4,000 or Rs. 5,000 per month will start after attaining the age of 60 years, depending on the contributions made by the subscribers for their chosen pension amount.
- Any citizen of India, including an NRI, is eligible to join the APY scheme. The following are the eligibility criteria:
    - The age of the subscriber should be between 18 and up to 40 years. On attaining age of 40, the person would cease to be eligible to subscribe to the APY.
    - He/ She should have a **savings bank account/ post office savings bank account**. In case, the person does not have a savings account, he/she should approach a bank branch/post office to open a savings account. **Hence option B is correct.**

Pg No. 611, Chapter No. 43, Module D

Q68. Pick the odd one out of the following

(a) Residential REITs

(b) Healthcare REITs

(c) Office REITs

(d) Industrial REITs

Answer: D

Explanation

Real Estate Investment Trust (REIT)

REITs are investment vehicles that pool investor money like mutual funds and use them to buy a portfolio of real estate assets. Based on the sectors in which they operate, there are five different types of REITs.

- **Retail REITs**: These REITs are required to invest at least 24% of their assets into commercial retail such as shopping malls and freestanding retail stores.
- **Residential REITs**: These are Real Estate Investment Trusts that own and operate manufactured housing as well as rental apartment buildings and gated communities. Considering the never-ending demand for residential property in India, this is one of the most promising areas of growth.
- **Healthcare REITs**: These trusts primarily invest in and operate healthcare-focused Real Estates such as hospitals, nursing facilities, retirement homes, and medical centres.
- **Office REITs**: These primarily invest in and operate office space. Their main source of income for this type of REIT is thus, rental received from tenants under long-term lease arrangements.
- **Mortgage REITs**: In the case of these REITs, an estimated 10% of investments are made into mortgages instead of physical real estate.

Based on the types of funding that they provide, REITs can be of three different types, viz,

- **Equity REITs**: They are owners of real estate properties and lease them to companies or individuals to make money. The income is then distributed among the REIT investors as dividends.
- **Mortgage REITs**: They are not the owners, but earn through EMIs against the property from the owners and builders. The earnings are via Net Interest Margin (difference of interest earned on mortgage and cost of funding the loan), which they distribute among the REIT investors, as a dividend.
- **Hybrid REITs**: These REITs invest in both Equity and Mortgage REITs.

Hence option D is correct as Industrial REIT is not a type of REIT.

Pg No. 639, Chapter No. 45, Module D

Q69. Which among the following is not one of the category into which World Bank classifies economies based upon Per Capita Income (PCI)?

(a) Low Income

(b) Lower Middle-Income

(c) Upper Middle-Income

(d) Upper Higher Income

Answer: D

Explanation

Classification of Economies based on Per Capita Income

World Bank classifies economies considering per capita income. There are **4 categories** namely Low Income; Lower Middle-Income; Upper Middle-Income and Higher Income. **Hence option D is correct as it is not one of the categories.**

- Indian economy falls under the category of lower-middle income economy. Countries that have Per Capita Income (PCI) between S996 and $ 3895 fall in this classification and India as on 2019 had PCI of SI891, Indian economy in terms of Purchasing Power Parity (PPP) is the 3rd largest economy in the world but in terms of PCI, India ranked very low.
- The low per capita income is mainly attributed to high levels of poverty, unemployment, illiteracy, etc. India was a backward nation at the time of its independence. The government addressed the developmental issues through five-year plans by setting targets and ensuring the allocation of funds for the development of various sectors.

Pg No. 4, Chapter No. 1, Module A

Q70. Banking belongs to which among the following sectors?
(a) Primary Sector
(b) Secondary Sector
(c) Tertiary Sector
(d) Quinary Sector
Answer: C
Explanation
Tertiary Sector
This sector includes all economic activities that produce services, such as education, healthcare, **banking**, communication, and so on. A service-based economy exists when this sector generates at least half of a country's national income and livelihood.

- Along with these 3 main sectors, the quaternary and quinary sectors have been introduced. In a broader sense, they are tertiary sector subsectors. **Hence option C is correct.**

Pg No. 16, Chapter No. 2, Module A

Q71. Which among the following is the correct match of the CAMELS initiative implemented as per recommendations of the Narasimham Committee II?
(a) C - Capital adequacy
(b) A - Asset quality
(c) M – Money
(d) E - Earnings
Answer: C
Explanation
Reforms recommended by the Narasimham Committee II - Supervisory reforms
Several steps were taken to strengthen supervisory reforms in the banking sector, including:

- Establishment of the Board for Financial Supervision, as the apex supervisory authority, for commercial banks, FIs, and non-banking financial companies
- Implementation of the **CAMELS (C-Capital adequacy, A Asset quality, M-Management, E-Earnings, L-Liquidity)** supervisory rating system, the transition to risk-based supervision, consolidated supervision of financial conglomerates. **Hence option C is incorrect and the correct answer.**

- Recasting of the role of statutory auditors, increased internal control through strengthening of internal audit.
- Strengthening corporate governance, enhanced due diligence on important shareholders, fit and proper tests for directors.

Pg No. 75, Chapter No. 7, Module A

Q72. The Foreign Direct Investment that is based on an agreement in which a foreign company and a local company join up to share investment, technology, profits, and so on is ___________.

(a) Greenfield FDI

(b) Brownfield FDIs

(c) Joint Venture

(d) None of the above

Answer: C

Explanation

Foreign Direct Investment (FDI)

Foreign Direct Investment (FDI) is an investment made in a country, by a foreign investor, often a company, to control the ownership of an entity. There are three types of FDI

- **Greenfield FDI** - It is a sort of investment in which, a parent corporation establishes a subsidiary in the destination country. It builds operations from the scratch. McDonald's, Hyundai India, Pepsi India are examples of greenfield FDIs.
- **Brownfield FDIs** - It is an investment in which a multinational corporation buys stock in an established firm in the host country. For example, Daiichi Sankyo of Japan acquired Ranbaxy India.
- **Joint Venture** - Based on an agreement, a foreign company and a local company join up to share investment, technology, profits, and so on (e.g. Hero Honda) **Hence option C is correct.**

Pg No. 89, Chapter No. 8, Module A

Q73. The Sustainable Development Goals were announced in September 2015 by which among the following?

(a) United Nations General Assembly

(b) United Nations Educational, Scientific and Cultural Organization

(c) United Nations Development Programme

(d) Indian Government

Answer: A

Explanation

Sustainable Development Goals

In September 2015, the **United Nations General Assembly** announced a set of 17 Sustainable Development Goals (SDGs) and 169 targets to spur action, over the next 15 years. Hence option A is correct.

- These goals were proposed in June 2012 at the United Nations Conference on Sustainable Development (Rio+20).
- These set of goals superseded the Millennium Development Goals (MDGs), which were slated to expire in 2015, and focused on areas that could not be fulfilled sooner. The SDGs have a time frame of 2016-2030.

Pg No. 108 - 109, Chapter No. 10, Module A

Q74. Which of the following is the correct full form of OSOWOG initiative of the Indian Government?

(a) One Sun, One World, One Grid

(b) One Sun, One World, One Goal

(c) One Source, One World, One Grid

(d) None of the above

Answer: A

Explanation

At the COP26 meeting. India also announced "**One Sun, One World, One Grid" (OSOWOG)**, with the goal of harnessing solar energy and ensuring that generated electricity gets to places that need it the most. India has also launched the "Plastic Hackathon 2021' campaign to ensure that the country is free of single-use plastic by 2022. **Hence option A is correct.**

Pg No. 111, Chapter No. 10, Module A

Q75. Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses. This definition of Economic is called __________.

(a) Wealth Definition of Economy

(b) Scarcity Definition of Economy
(c) Welfare Definition of Economy
(d) Modern Definition of Economy

Answer: B

Explanation

Scarcity Definition of Economy

According to Lionel Robbins, Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.' This definition presents Economics as a study of 'means and 'ends. **Hence option B is correct.**

The definition of Robbins can be analysed as follows:

(a) Wants are unlimited: Ends refer to wants. Human beings have wants, which are unlimited. All economic activities are undertaken to satisfy human wants. We cannot say that there will be a stage when all the wants of a person are fully satisfied.

(b) The means to satisfy human wants are limited: The multiplicity of wants alone will not create an economic problem. The resources are scarce in relation to demand. The mere shortage of supply of a commodity does not make it scarce, if there is no demand for it.

(c) Resources are not only limited but have alternative uses: The scarce means can be put to alternative uses. If a commodity could be put only to one use, no economic problem would arise in its use.

(d) We have to make a choice: We need to make use of our limited resources to satisfy our unlimited wants. We cannot satisfy all our wants with the limited resources. These limited resources can be put to alternative uses. So, every human being must decide which wants he/she will satisfy now and which wants, he/she would postpone. Thus, Economics is also called a science of choice.

Pg No. 128 - 129, Chapter No. 12, Module B

Q76. The present Marginal Standing Facility (MSF) rate is ____________.

(a) 6.25%
(b) 6.5%
(c) 6.75%
(d) 3.35%

Answer: C

Explanation

Policy Rates of Reserve Bank of India

The **Reserve Bank of India (RBI)** is the bank to all types of banks of India. It provides facilities for accepting money from the banks and also for providing money to the banks through various instruments which bear different interest rates. These are (Present rates are mentioned alongside):

- **Policy Repo Rate:** 6.50%
- **Standing Deposit Facility Rate:** 6.25%
- **Marginal Standing Facility Rate: 6.75%**

- **Bank Rate:** 6.75%
- **Fixed Reverse Repo Rate:** 3.35%

Marginal Standing Facility Rate - The Marginal Standing Facility Rates are typically 0.25% to 25 basis points higher than that of the repo rate. With the help of this facility, a financial institution can receive monetary assistance of up to 1% of their SLR securities or net demand and time liabilities (NDTL).

Source: RBI Website

Q77. Which among the following is the correct relationship between Gross Domestic Product (GDP), Net Domestic Product (NDP) and Depreciation?

(a) NDP = GDP - Depreciation

(b) NDP = GDP + Depreciation

(c) GDP = NDP - Depreciation

(d) None of the above

Answer: A

Explanation

Gross Domestic Product (GDP) and Net Domestic Product (NDP)

- **Gross Domestic Process (GDP)**: It refers to the money value of all the goods and services that are produced within the domestic territory of a country during a certain period, usually a year. The goods and services in question may be consumer goods and services or capital goods and services, they may be durable or non-durable products, they may be produced by private sector or public sector but it does not include value of intermediate goods and services.
- **Net Domestic Product (NDP)**: When depreciation on fixed capital used in production of goods and services is deducted from the GDP (gross domestic product) of a country, we get Net Domestic Product.
- NDP = GDP - Depreciation
- GDP = NDP + Depreciation

Pg No. 212, Chapter No. 18, Module B

Q78. Which among the following is correct with respect to the Capital structure of Regional Rural Banks?

(a) Out of the capital issued by a RRB, 50 per cent is to be held by the Central Government, 15 per cent by the concerned State Government and 35 per cent by the Sponsor Bank.

(b) Out of the capital issued by a RRB, 15 per cent is to be held by the Central Government, 50 per cent by the concerned State Government and 35 per cent by the Sponsor Bank.

(c) Out of the capital issued by a RRB, 50 per cent is to be held by the Central Government, 35 per cent by the concerned State Government and 15 per cent by the Sponsor Bank.

(d) Out of the capital issued by a RRB, 35 per cent is to be held by the Central Government, 15 per cent by the concerned State Government and 50 per cent by the Sponsor Bank.

Answer: A

Explanation

Regional Rural Banks

Regional Rural Banks were established with a view to developing such type of banking institutions which could function as a commercial organization in rural areas.

- The Regional Rural Banks Act, 1976, provides for incorporation and regulation of Regional Rural Banks, with a view to developing the rural economy by providing credit for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs and individuals.

Capital Structure of RRBs

As per Section 5 of the Regional Rural Banks (Amendment) Act, 2015, the authorized share capital of a Regional Rural Bank shall be Rs. 2000 crore.

- As per the Act ibid., out of the capital issued by a RRB, **50 per cent is to be held by the Central Government, 15 per cent by the concerned State Government and 35 per cent by the Sponsor Bank**.

Pg No. 255 - 256, Chapter No. 21, Module C

Q79. Which among the following statement(s) is/are correct with respect to Payment Banks in India?

1. Payment banks can accept deposits of up to Rs. 3 lakh per customer.
2. The money received as deposits can be invested in government securities which are eligible for inclusion in Statutory Liquidity Ratio (SLR).
3. They are permitted to issue debit cards, although not credit cards.
4. Payment banks cannot lend.

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

Answer: B

Explanation

Payment Banks

Their main objective is to take forward financial inclusion by offering banking and financial services to the unbanked and underbanked areas, helping the migrant labour force, low-income households, small entrepreneurs etc. They are registered under the Companies Act 2013, but are governed by a host of legislations such as Banking Regulation Act, 1949, RBI Act, 1934, Foreign Exchange Management Act, 1999, Payment and Settlement Systems Act, 2007, etc.

Features of Payment Banks

The features of Payment Banks are as under:

- They are differentiated banks and not universal banks.

- These operate on a smaller scale. It needs to have a minimum paid-up capital of Rs. 100 crores.
- The minimum initial contribution of the promoter of the Payment Bank to the paid-up equity capital is required to at least be 40% for the first 5 years from the commencement of its business.
- Payment banks can accept deposits of up to **Rs. 2 lakhs per customer**. They can accept demand deposits in the form of savings and current accounts. **Hence statement 1 is incorrect.**
- The money received as deposits can be invested in government securities which are eligible for inclusion in **Statutory Liquidity Ratio (SLR)**. This must amount to (75% Of the demand deposit balance. The remaining 25% can be placed as deposits with other scheduled commercial banks. **Hence statement 2 is correct.**
- Payments banks are permitted to make personal payments and receive cross-border remittances on individual accounts.
- They are permitted to issue debit cards, although not credit cards. **Hence statement 3 is correct.**
- They are permitted to handle third party products like distribution of insurance and mutual funds.
- Payment banks cannot lend. **Hence statement 4 is correct.**

Hence option B is correct.

Pg No. 257, Chapter No. 21, Module C

Q80. As per which Section of the Banking Regulation Act, 1949 RBI gives license to banks?

(a) Section 20

(b) Section 21

(c) Section 22

(d) Section 24

Answer: C

Explanation

Licensing of banking companies

According to **Section 22**, a banking company cannot carry on banking business in India unless it holds the issued in that behalf by the RBI. Before commencing banking business in India, every banking company shall apply in writing to the RBI for a license and RBI will grant license after being satisfied of the following:

- The banking company is or will be in a position to pay its present or future depositors in full, as their claims accrue.
- The affairs of the banking company are not being or likely to be conducted in manner detrimental to the interests of its present or future depositors.
- The general character of the proposed management of the company will not be prejudicial to the public interest or the interest of its depositors.
- The company has adequate capital structure and earning prospects.

- Public interest will be served by the grant of a license to the company to carry on banking business in India.
- Having regard to existing banking facilities and the potential scope for expansion of banks in the proposed area, the grant of license would not be prejudicial to the operation and consolidation of the banking system with monetary stability and economic growth.
- Any other condition, the fulfilment of which would be in the public interest or the interests of the depositors, in the opinion of the Reserve Bank.

Pg No. 289 - 290, Chapter No. 22, Module C

Q81. How much was the minimum deposit of banks that were Nationalisation in 1969?

(a) Rs 25 crores

(b) Rs 50 crores

(c) Rs 100 crores

(d) Rs 200 crores

Answer: B

Explanation

Nationalisation of Banks

In an attempt to bring in tight social control over the banking sector, the Government nationalized the largest 14 private banks on 19th July 1969. Each of these banks had deposits over **Rs 50 crores**. **Hence option B is correct.**

- The socialized banking sector was enlarged with the nationalization of 6 more banks, each with deposits exceeding Rs 200 crores, on 16th April, 1980.

Pg No. 234, Chapter No. 20, Module C

Q82. Which among following is the maximum period of lending for notice money?

(a) 1 day

(b) 2 days

(c) 14 days

(d) 28 days

Answer: C

Explanation

Call Money, Notice Money and Term Money

The call/notice/term money market is a market for trading very short-term liquid financial assets that are readily convertible into cash at low cost.

- The money market primarily facilitates lending and borrowing of funds between banks and entities like Primary Dealers. An institution which has surplus funds may lend them on an uncollateralised basis to an institution which is short of funds.
- The period of lending may be for a period of 1 day which is known as call money and between **2 days and 14 days**, which is known as **'notice money'**. **Hence option C is correct.**
- Term money refers to borrowing/lending of funds for a period exceeding 14 days and upto one year.

- The interest rate on such funds depends on the surplus funds available with lenders and the demand for the same, which remains volatile.

Pg No. 414, Chapter No. 30, Module D

Q83. Which among the following is not a duration of the Treasury Bills issued by the Indian Government?

(a) 91-day

(b) 182-day

(c) 364-day

(d) 271-day

Answer: D

Explanation

Treasury Bills

Treasury bills (T-Bills) are money market instruments, offered for the purpose of financing short-term debt obligation of the Government of India.

- Three types of T-Bills are issued, namely **91-day, 182-day** and **364-day** Treasury Bills, through a competitive or non-competitive bidding process of auction. **Hence option D is the correct answer.**
- The investment in the Bills may be made by any person resident in India, including State Governments, firms, companies, corporate bodies, institutions, trusts and retail investors.
- Non-Resident Indians, Overseas Citizens of India and Foreign Portfolio Investors are eligible to invest, subject to the approval of the Government and provisions of Foreign Exchange Management Act, 1999

Pg No. 415, Chapter No. 30, Module D

Q84. If a company wants to borrow USD 10 lakhs, for a period of 6 months, 3 months from now, what type of FRA should it buy?

(a) 3 x 6

(b) 6 x 3

(c) 6 x 9

(d) 3 x 9

Answer: D

Explanation

Interest Rate Futures (Forward Rate Agreement FRA)

An FRA is like a forward contract on the interest rate. It is a financial contract to exchange interest payments, based on a fixed interest rate at a future date.

- Consider a company which has an expected requirement for a loan after 3 months. It is concerned that the interest rates will increase from the current levels, and hence it may have to pay higher interest rate on the loan.
- The company can enter into an FRA with its banker, where it pays fixed interest rate to hedge or fix its borrowing cost today for a requirement after 3 months.

- The fixed rate agreed via the FRA will be compared to the benchmark rate at the settlement date to determine the settlement amount.
- If a corporate has to borrow, for a period of **6 months, 3 months from now, it is referred to as a 3 x 9 FRA**, meaning beginning THREE months from now and ending NINE months from now. If the corporate buys an FRA, then it undertakes to pay a particular fixed rate and receives a floating rate, hence, it hedges against any rise in the interest rates. **Hence option D is correct.**

Pg No. 501, Chapter No. 36, Module D

Q85. The exclusive section of the Income Tax Act which provides tax benefits for health insurance is _____________.

(a) Section 80D

(b) Section 80A

(c) Section 88C

(d) Section 80C

Answer: A

Explanation

Health Insurance

The term Health Insurance' relates to a type of insurance that essentially covers medical expenses.

- A health insurance policy, like other types of policies, is a contract between an insurer and an individual/group in which, the insurer agrees to provide specified health insurance cover at a particular "premium", subject to terms and conditions specified in the policy.
- Coverage of Health Insurance Policy: Expenses reasonably and necessarily incurred under the following heads in respect of the insured person, subject to the overall ceiling of sum insured (for all claims during one policy period) are covered.
- (a) Room, Boarding expenses (b) Nursing expenses (c) Fees of surgeon, anesthetist, physician, consultants, specialists (d) Anesthesia, blood, oxygen, operation theatre charges, surgical appliances, medicines, drugs, diagnostic materials, X-ray, Dialysis, chemotherapy, Radio therapy, cost of pace maker, Artificial limbs, cost or organs and similar expenses.
- Health insurance comes with attractive tax benefits as added incentive. There is an exclusive section of the Income Tax Act, which provides tax benefits for health insurance, which is **Section 80D**, and which is unlike the section 80C applicable to Life Insurance, wherein, other form of investments/expenditure also qualify for the deduction. **Hence option A is correct.**

Pg No. 590, Chapter No. 42, Module D

Section - 2

Sno.	Topic	Type of Question
1.	GDP Contribution of different sectors	What has been the trend? Increase in contribution of which sector and decrease in which sector?
2.	NITI Aayog's Strategy for New India @ 75	Question related to Drivers component
3.	RBI Act	Banks allowed how much percent to invest in subsidiary
4.	Balance of Payment	Balance of Payment Committee Headed by whom?

Section - 3

1. PSL Certificate
2. GATI Shakti initiative
3. Money Supply(M1, M2)
4. Narasimham Committee I & II recommendations
5. Self Help Groups
6. GDP Deflator
7. Questions from Business Cycle
8. Fiscal deficit related question
9. RBI Act, 1934 and Banking Regulation Act, 1949
10. NaBFID related
11. Microfinance related
12. Malegam Committee related
13. Money market instruments
14. Management of Forex Market
15. Hire Purchase Contract
16. Credit Rating and Credit Scoring
17. NITI Aayog 2022 23 Framework
18. Multimodal Connectivity Plan
19. Capital Market Characteristics
20. Budget Day
21. RBI Section 17