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JAIIB EXAM

2023 CYCLE

RECOLLECTED QUESTIONS

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JAIIB MAY 2023 EXAM

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RECOLLECTED QUESTIONS

WITH

DETAILED EXPLANATION

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 expvzort 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.

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- 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.

- The 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

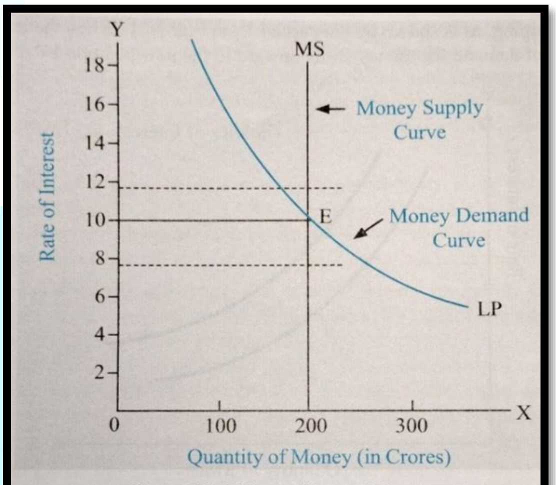


Figure 15.2 Money Demand Curve

- 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

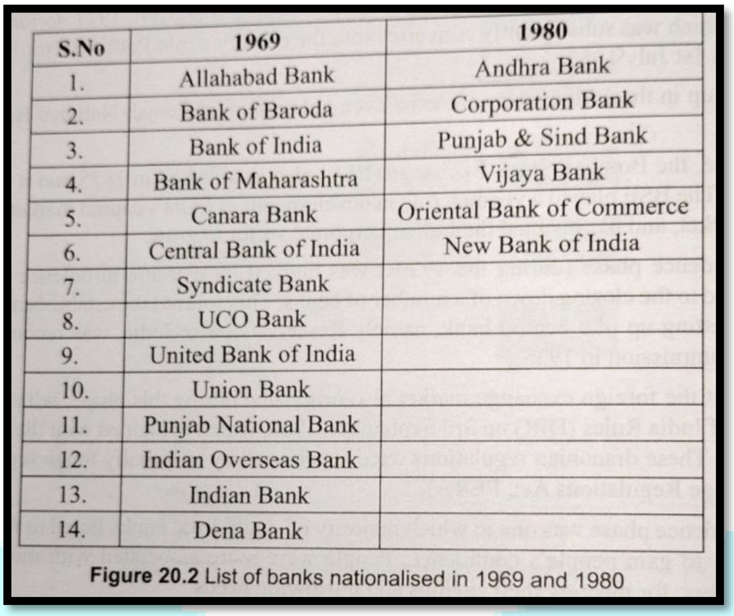
(c) Andhra Bank

(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 Governor, 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

(Contd.)

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. **The 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 between eligible counterparties for borrowing and lending of funds, on a collateralized 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-Party 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 the 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

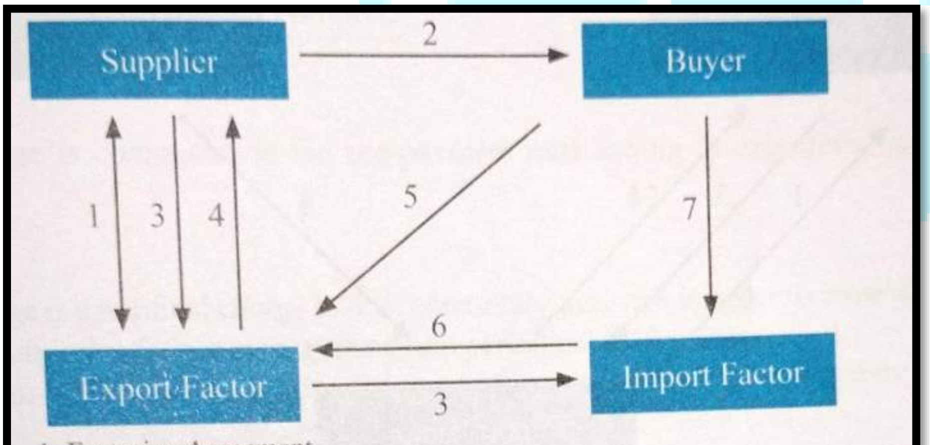
Futures	Forward Contracts
Standardised amounts	Non-standard amounts
Fixed maturities	Flexible maturities
Traded on exchanges	Traded OTC
Initial margin required, which is marked to market	No margin requirement
Traded during exchange hours	Can be traded 24x7
Counterparty unknown	Counterparty in direct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



1. Factoring Agreement
2. Delivery of goods
3. Assignment of accounts receivable
4. Funding to supplier by export factor
5. Payment by buyer to export factor
6. In case buyer does not pay in 90 days, import factor pays to export factor
7. If point (6) materialises, import factor recovers amount from buyer

Figure 37.2 Single Factor System

Hence option A is correct
Pg No. 515, Chapter No. 37, 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. 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.

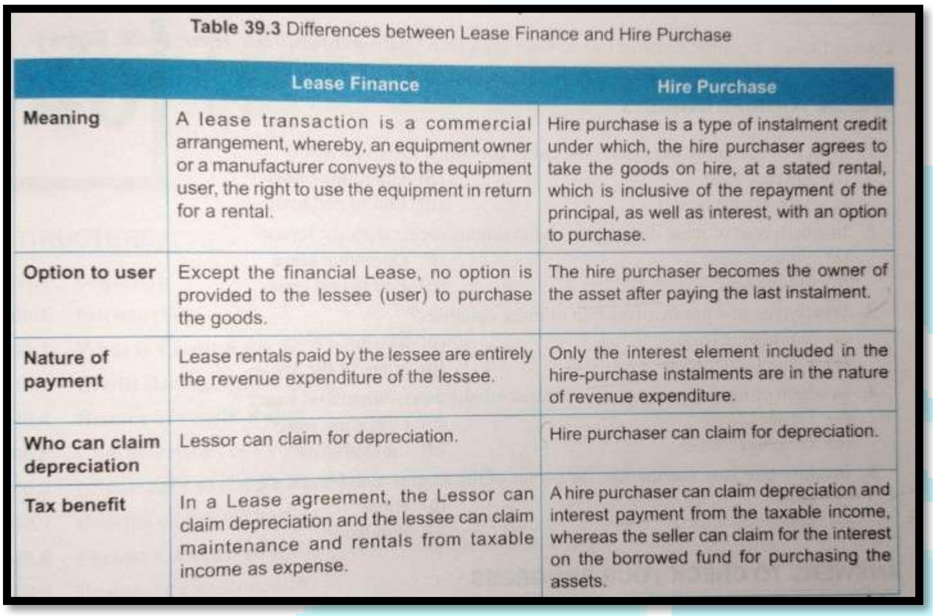


Table 39.3 Differences between Lease Finance and Hire Purchase

	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. 43, 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% 0f 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

JAIIB MAY 2023 EXAM

PPB

RECOLLECTED QUESTIONS

WITH

DETAILED EXPLANATION

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. In which of the following Network Topology each computer is connected to every other computer?

(a) Mesh

(b) Ring

(c) Star

(d) Series

Answer: A

Explanation

Mesh topology is a type of network topology in which all devices in the network are interconnected. In a mesh topology, data can be transmitted by routing (sent the shortest distance) and flooding (sent to all devices).

Hence, A is the correct answer.

Page No. 713 - Ch-42- Module-C

Q2. Which of the following is not an Internet Protocol?

(a) TCP

(b) BPP

(c) SMTP

(d) HTTP

Answer: B

Explanation

Internet Protocols are of different types having different uses. These are mentioned below:

- TCP/IP (Transmission Control Protocol/ Internet Protocol)
- SMTP (Simple Mail Transfer Protocol)
- PPP (Point-to-Point Protocol)
- FTP (File Transfer Protocol)
- SFTP (Secure File Transfer Protocol)
- HTTP (Hyper Text Transfer Protocol)
- HTTPS (Hypertext Transfer Protocol Secure)
- TELNET (Terminal Network)
- POP3 (Post Office Protocol 3)
- IPv4
- IPv6
- ICMP
- UDP
- IMAP
- SSH
- Gopher

Hence, B is the correct answer.

Page No. 714 - Ch-42- Module-C

Q3. In which of the following cases the Bank doesn't need to follow the full Customer Identification Process?

(a) NEFT to Delhi by Walk-in-customer of Rs 50,000

(b) Using Locker Facility

(c) Small Savings A/c

(d) Letter of Credit

Answer: C

Explanation

- Those persons who do not have any of the 'officially valid documents' can open 'small accounts' with banks.
- A 'small account' can be opened on the basis of a self-attested photograph and putting her/his signature or thumb print in the presence of an official of the bank.
- For transactions of ₹50,000 and above, customer identification is required.

Hence, C is the correct answer.

Page No. 31 - Ch-3- Module-A

Q4. How can the Banker-customer relationship be terminated?

1. **By the customer only**
2. **By the bank only**
3. **After completion of contract**
4. **By Bank as well as the customer**

Choose the correct code-

(a) 1 and 2

(b) 2 and 3

(c) 3 and 4

(d) All of the above

Answer: C

Explanation

- Banker-customer relationship be terminated after Completion of Contract. For e.g., if the loan taken by the bank customer is repaid or the bank guarantee has been completed, then the relationship is terminated.
- Customers may choose to close their accounts with a bank for a variety of reasons, such as moving to a different area, dissatisfaction with the bank's services, or finding a better deal elsewhere.
- Banks may choose to close a customer's account if they suspect fraud or illegal activity, if the customer has violated the terms of their account agreement, or if the customer has not maintained the minimum balance required by the bank.

Hence, C is the correct answer.

Page No. 250 - Ch-18- Module-A

Q5. For providing education loan which of the following norms can be ignored?

1. **Repaying capacity**

2. **Service Area Norms**
3. **Recognition of institution**

Choose the correct code-

(a) 1 only

(b) 2 and 3

(c) 1 and 3

(d) All of the above

Answer: A

Explanation

In Educational Loans, Service Area Norms are not to be followed in case of educational loans. Admission should have been secured admission to a higher education course in recognized institutions in India or abroad. Need based finance provided subject to repaying capacity of the parents/students with suitable margin.

Hence, A is the correct answer.

Page No. 391 - Ch-24- Module-B

Q6. Which of the following can't be used for Bank Transaction through a Mobile?

(a) UPI

(b) IMPS

(c) NEFT

(d) NACH

Answer: D

Explanation

National Automated Clearing House (NACH) is a system developed by the National Payments Corporation of India (NPCI) for banks. This system can be used to make bulk transactions towards distribution of subsidies, dividends, salaries, pension, etc.

Hence, D is the correct answer.

Page No. 791 - Ch-46- Module-C

Q7. The targets set under priority sector lending for Domestic scheduled commercial banks in India for Micro Enterprises is ______ per cent of ANBC or CEOBE, whichever is higher and ________ per cent for Advances to weaker sections.

(a) 7.5, 12

(b) 40,18

(c) 12,18

(d) 18,7.5

Answer: A

Explanation

The targets set under priority sector lending for Domestic scheduled commercial banks in India for Micro Enterprises is 7.5 per cent of ANBC or CEOBE, whichever is higher and 12 per cent of ANBC or CEOBE, whichever is higher for Advances to weaker sections.

Hence, A is the correct answer.

Page No. 628 - Ch-36- Module-B

Q8. Kisan Credit Card is not applicable for_____?

1. **Sharecroppers**
2. **Tenant Farmers**
3. **Farmer SHGs**
4. **Farmer Joint Liability Groups**

Choose the correct code-

(a) 1 and 2

(b) 2 and 3

(c) 1,2 and 3

(d) All of the above

Answer: D

Explanation

Eligibility for Kisan Credit Card

I. Farmers - individual/joint borrowers who are owner cultivators.

II. Tenant farmers, oral lessees & sharecroppers

III. Self Help Groups (SHGs) or Joint Liability Groups (JLGs) of farmers including tenant farmers, sharecroppers etc.

Hence, D is the correct answer.

Page No. 640 - Ch-37- Module-B

Q9. Foreign Currency Non-Resident (FCNR) accounts can be opened as______

(a) Savings Account

(b) Recurring Deposit

(c) Fixed Deposit

(d) All of the above

Answer: C

Explanation

FCNR(B) is a fixed deposit held in foreign currency. It is an investment option for NRI/ PIO/ OCIs looking to retain their money in foreign currency for good returns.

Hence, C is the correct option.

Page No. 147 - Ch-9- Module-A

Q10. Which of the following transactions is prohibited under Schedule-I of the Foreign Exchange Management Act, 2000?

1. **Remittance out of lottery winnings.**

2. **Multi-modal transport operators making remittance to their agents abroad.**
3. **Remittance of income from racing/riding, etc., or any other hobby.**

Choose the correct code-

(a) 1 and 2

(b) 2 and 3

(c) 1 and 3

(d) All of the above

Answer: C

Explanation

The following transactions are prohibited under Schedule-I of the Foreign Exchange Management Act, 2000-

- Remittance out of lottery winnings.
- Remittance of income from racing/riding, etc., or any other hobby.
- Remittance for purchase of lottery tickets, banned/prescribed magazines, football pools, sweepstakes etc.
- Payment of commission on exports made towards equity investment in Joint Ventures/Wholly Owned Subsidiaries abroad of Indian companies.

Multi-modal transport operators making remittance to their agents abroad is allowed with prior approval of the Central Government.

Hence, C is the correct answer.

Page No. 130 - Ch-42- Module-A

Q11. Which of the following credit facility is not available to Individual customers?

(a) Vehicle Loan

(b) Cash credit

(c) Home Equity Loan

(d) Working capital Loan

Answer: D

Explanation

Working Capital loan is a business loan taken to cover operational needs of the business in the short term, typically 3 to 12 months. The loan can be used for different needs such as buying stock or raw materials, paying salaries, maintaining essential services, paying rent and logistics providers, and increasing capacity in the short term.

Hence, D is the correct answer.

Page No. 323 - Ch-22- Module-B

Q12. Memorandum of Association contains which of the following?

1. **Address of Head office**
2. **Liabilities of members**
3. **Share capital**
4. **Name of people in management**
5. **Name first subscribers**

Choose the correct code-

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

Answer: D

Explanation

A company's MOU contains-

- The registered head office clause- In this clause, the name of the State where the Company's registered office is located should be mentioned.
- Liability Clause- This clause states the liability of the members of the company. The liability may be limited by shares or by guarantee. This clause may be omitted in case of unlimited liability.
- Capital Clause of Memorandum of Association- This clause mentions the maximum amount of capital that can be raised by the company. The division of capital into shares is also mentioned in this clause.
- Subscription Clause- It contains the names and addresses of the first subscribers. The subscribers to the Memorandum must take at least one share. The minimum number of members is two for a private company and seven for a public company.
- The names of people in management is not mentioned in MoA.

Hence, D is the correct answer.

Page No. 320 - Ch-22- Module-B

Q13. A specially crossed cheque is payable to________.

(a) banker whose name appears in the crossing
(b) Endorsee
(c) Payee
(d) Customer across the counter

Answer: A

Explanation

In special crossing, the cheque bears across its face an addition of the banker's name, with or without the words 'not negotiable'. In this case, the paying banker will pay the amount of cheque only to the banker whose name appears in the crossing or to his collecting agent.

Hence, A is the correct answer.

Page No. 186 - Ch-12- Module-A

Q14. Under the Protected Disclosure Scheme any whistleblower can raise complaints to ______ regarding corruption, misuse of office, criminal offences.

(a) Compliance Officer
(b) Banking Ombudsman
(c) Chief Vigilance Officer
(d) RBI

Answer: D

Explanation

The complaints under the Protected Disclosure Scheme would cover the areas such as corruption, misuse of office, criminal offences, suspected / actual fraud, failure to comply with existing rules and regulations such as RBI Act, 1934, Banking Regulation Act 1949, etc. and acts resulting in financial loss / operational risk, loss of reputation, etc. detrimental to depositors' interest / public interest.
Under the Scheme, employees of the bank concerned (private sector and foreign banks operating in India), customers, stake holders, NGOs and members of public can lodge complaints. Reserve Bank of India (RBI) will be the Nodal Agency to receive complaints under the Scheme.

Hence, D is the correct answer

Page No. 935 - Ch-54- Module-D

Q15. When does the liability of Indemnifier starts?

(a) When loss becomes absolute
(b) On grant of notice
(c) When indemnity is contingent
(d) None of the above

Answer: A

Explanation

In a contract of indemnity, the liability commences as soon as the loss of indemnified becomes absolute, certain or imminent

Hence, A is the correct answer.

Page No. 570 - Ch-30- Module-B

Q16. Which of the following statements is incorrect regarding Small Prepaid Payment Instruments?

(a) The amount loaded during any month shall not exceed ₹60,000.
(b) The total amount loaded during the financial year shall not exceed ₹1,20,000.
(c) These PPIs shall be converted into full-KYC PPIs within 24 months
(d) Loading / Reloading can be by cash or electronic means.

Answer: A

Explanation

Small PPIs (or minimum-detail PPIs) are issued by banks and non-banks after obtaining minimum details of the PPI holder. The amount loaded during any month shall not exceed ₹10,000.

Hence, A is the correct answer.

Page No. 754 - Ch-44- Module-B

Q17. Ethical dilemma arises when__________.

(a) There is a conflict between organizational and individual ethics.
(b) Individual ethics dominate organizational ethics.
(c) Ethical issues are frequently discussed in organisation forums.
(d) Individuals are encouraged to discuss ethical issues.

Answer: A

Explanation

An ethical dilemma (ethical paradox or moral dilemma) is a problem in the decision-making process between two possible options, neither of which is absolutely acceptable from an ethical perspective.

Hence, A is the correct answer.

Page No. 915 - Ch-22- Module-D

Q18. Which of the following factors are to be considered while creating an efficient Portfolio?

(a) Risk

(b) Return

(c) Liquidity

(d) All of the above

Answer: D

Explanation

Portfolio means a basket of investments or securities having a mix of Debt and equity securities. Portfolio management deals with management of a combination of securities to get the most efficient portfolio in terms of risk, return and liquidity.

Hence, D is the correct answer.

Page No. 217- Ch-15- Module-A

Q19. Under the DAY-NRLM uniform interest subvention scheme, women SHGs will be eligible for loans up to Rs 3 lakhs at an interest rate of ____ per annum.

(a) 7

(b) 8

(c) 9

(d) 10

Answer: A

Explanation

Under the DAY-NRLM interest subvention is provided on loans taken by women Self Help Groups from Banks. In backward districts, referred to as Category-I districts, all women SHGs are eligible to get bank loans up to Rs. 3.00 lakh at an interest rate of 7% per annum.

Hence, A is the correct answer.

Page No. 684 - Ch-40- Module-B

Q20. Consider the following statements regarding Cheque Truncation System (CTS)-

1. **It helps with inter-bank clearance of cheques without their physical movement.**
2. **The paper cheque after truncation is kept in the custody of the clearing house that truncated the cheque.**
3. **Positive Pay System has been introduced which involves a process of reconfirming key details of large value cheques.**

Which of the above statements is/are correct?

(a) 1 and 2

(b) 2 and 3

(c) 1 and 3
(d) All of the above
Answer: D
Explanation
Cheque Truncation System (CTS) helps with inter-bank clearance of cheques without their physical movement. The paper cheque after truncation is kept in the custody of the clearing house that truncated the cheque. Positive Pay System has been introduced which involves a process of reconfirming key details of large value cheques.
Hence, D is the correct answer.
Page No. 100 - Ch-6- Module-A

Q21. The Letter of credit is opened on the request of _____.
(a) Applicant
(b) Issuing Bank
(c) Beneficiary
(d) Confirming Bank
Answer: A
Explanation
A Letter of Credit is an arrangement whereby Bank acting at the request of a customer (Importer / Buyer/Applicant), undertakes to pay for the goods / services, to a third party (Exporter / Beneficiary) by a given date, on documents being presented in compliance with the conditions laid down.
Hence, A is the correct answer.
Page No. 392 - Ch-32- Module-B

Q22. Which of the following is not a physical security measure installed at Data Banks?
(a) Scanning Device
(b) Camera
(c) Network Firewall
(d) Recorders
Answer: C
Explanation
A firewall is a computer network security system that restricts internet traffic in to, out of, or within a private network.
Hence, C is the correct answer.

Q23. Data Integrity in Data center means data is-
(a) Accurate & Consistent
(b) Non-redundant
(c) Data is shared
(d) Data is secure
Answer: A

Explanation

Data integrity is a concept and process that ensures the accuracy, completeness, consistency, and validity of an organization's data. By following the process, organizations not only ensure the integrity of the data but guarantee they have accurate and correct data in their database.

Hence, A is the correct answer.

Q24. ______is a unique global identifier for legal entities participating in financial transactions which helps in identifying legal entities on a globally accessible database.

(a) Legal Entity Identifier

(b) Unique Customer Identification Code

(c) Legal Enterprise Identification Code

(d) Unique Entity Financial Code

Answer: A

Explanation

The Legal Entity Identifier (LEI) is a unique global identifier for legal entities participating in financial transactions. Also known as an LEI code or LEI number, its purpose is to help identify legal entities on a globally accessible database. Legal entities are organisations such as companies or government entities that participate in financial transactions.

Hence, A is the correct answer.

Page No. 64 - Ch-4- Module-A

Q25. As per the MSME rules, the buyer is required to make the payment to the supplier for the goods or services rendered within a maximum period of 45 days from the date of acceptance or the deemed acceptance of the goods or services. In case of delay in payment, the buyer is liable to pay interest at a rate which is ______the bank rate notified by the Reserve Bank of India.

(a) 2 times

(b) 3 times

(c) 4 times

(d) 5 times

Answer: B

Explanation

- As per the MSME rules, the buyer is required to make the payment to the supplier for the goods or services rendered within a maximum period of 45 days from the date of acceptance or the deemed acceptance of the goods or services.
- In case of delay in payment, the buyer is liable to pay interest at a rate which is three times the bank rate notified by the Reserve Bank of India.
- The MSME supplier can also file an application before the Micro and Small Enterprises Facilitation Council (MSEFC) in case of non-payment or delayed payment by the buyer.

Hence, B is the correct answer.

Q26. Which of the following statements is incorrect regarding the Karta of HUF?

(a) The Karta has implied authority to avail loan and execute the necessary documents.
(b) Withdrawal of one of the coparceners put the existence of the firm in jeopardy.
(c) As there is no formal procedure for designating a Karta, it is advisable to obtain a declaration from all the adult members of HUF specifying the Karta.
(d) All are correct.

Answer: B

Explanation

Withdrawal of one of the coparceners does not put the existence of the firm in jeopardy.

Hence, B is the correct answer.

Page No. 53 - Ch-4- Module-A

Q27. Which of the following statements is incorrect regarding Non-Performing Assets-

(a) An asset is classified as a sub-standard asset if it remains as an NPA for a period less than or equal to 6 months.
(b) An asset is classified as a doubtful asset if it remains as an NPA for more than 12 months.
(c) An asset is considered a loss asset when it is "uncollectible" or has such little value that its continuance as a bankable asset is not suggested.
(d) Non-Performing Assets (NPAs) are loans or advances issued by banks or financial institutions that no longer bring in money for the lender since the borrower has failed to make payments on the principal and interest of the loan for at least 90 days.

Answer: A

Explanation

An asset is classified as a sub-standard asset if it remains as an NPA for a period less than or equal to 12 months.

Hence, A is the correct answer.

Page No. 494 - Ch-28- Module-B

Q28. SHGs are informal groups of 10-20 individuals, but in hilly tracts and predominantly tribal areas where communities are dispersed smaller groups of minimum ____ members can form a SHG.

(a) 4
(b) 5
(c) 6
(d) 7

Answer: B

Explanation

SHGs are informal groups of 10-20 individuals, but in hilly tracts and predominantly tribal areas where communities are dispersed smaller groups of minimum 5 members can form a SHG.

Hence, B is the correct answer.

Page No. 702 - Ch-41- Module-B

Q29. What is RuPay?

(a) Payment Gateway
(b) Crypto Currency
(c) Card Payment Network
(d) Online payment portal

Answer: C

Explanation

RuPay is a card payment network, which means that it is a system that allows banks to issue RuPay cards and merchants to accept RuPay card payments.

RuPay does offer a payment gateway called RuPay E-com, but this is just one of the many payment gateways that merchants can use to accept RuPay card payments. Other popular payment gateways that support RuPay cards include PayU, Razorpay, and CCAvenue.

Hence, C is the correct answer.

Page No. 797 - Ch-46- Module-C

Q30. Under LLP structure, liability of the partner is______.

(a) Unlimited
(b) limited to his agreed contribution
(c) Proportionate to income
(d) Limited to guarantee provided by the partners

Answer: B

Explanation

An LLP has a separate legal entity in the eyes of the law, and it is liable for the full extent of its assets. Partner's liability is limited to their contribution to the LLP. Partners of an LLP are responsible only for their own actions.

Hence, B is the correct answer.

Q31. Consider the following statements regarding central bank digital currency (CBDC):

1. **The CBDC is aimed to complement, rather than replace, current forms of money.**
2. **It is a digital form of legal tender issued by the Reserve Bank**
3. **CBDC offers central banks direct control over the money supply, making it easier to distribute government benefits to citizens.**

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

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

Answer: D

Explanation

- The Reserve Bank of India (RBI) has launched a pilot project on central bank digital currency (CBDC). The platform is called NDS-OM CBDC.
- The CBDC is aimed to complement, rather than replace, current forms of money and is envisaged to provide an additional payment avenue to users, not to replace the existing payment systems.

- Central Bank Digital Currency (CBDC) is a digital form of legal tender issued by the Reserve Bank, which is a form of fiat currency, that is, the Indian National Rupee.
- CBDC offers central banks direct control over the money supply, making it easier to distribute government benefits to citizens and to better monitor transactions to enforce tax laws.

Hence, D is the correct answer.

RBI report- Date: 07 Oct 2022

Q32. Which of the following statements is incorrect regarding co-lending?

(a) Co-lending is a set-up where banks and non-banks enter into an arrangement for the joint contribution of credit for priority sector lending.

(b) Under this arrangement, both banks and NBFCs share the risk in a ratio of 50:50.

(c) The primary focus of co-lending is to improve the credit flow to the unserved and underserved segments of the economy.

(d) Banks are normally short on the PSL mandate of RBI, and they depend on NBFCs to sell them their loans.

Answer: B

Explanation

Co-lending or co-origination is a set-up where banks and non-banks enter into an arrangement for the joint contribution of credit for priority sector lending. To put it simply, under this arrangement, both banks and NBFCs share the risk in a ratio of 80:20 (80 percent of the loan with the bank and a minimum of 20 percent with the non-banks).

Hence, B is the correct answer.

Page No. 660 - Ch-38- Module-B

Q33. Which of the following risks are not covered Under Pradhan Mantri Fasal Bima Yojana?

1. **War and related perils**
2. **Nuclear risks, riots**
3. **Theft**
4. **Natural fire and lightning**
5. **Pests or diseases**

Choose the correct code-

(a) 1,2 and 4

(b) 1,2 and 3

(c) 3,4 and 5

(d) All of the above

Answer: B

Explanation

Exclusions of the PMFBY scheme in India. Any risks or losses arising out of the below-mentioned risks remain uncovered under PMFBY:

- War and related perils
- Nuclear risks, riots
- Theft

- Malicious damage
- Act of enmity/hatred
- Destroyed or grazed by domestic/wild animals
- In the case of post-harvest losses wherein the harvested crop was kept at an unsafe place leading to preventable damage

Hence, B is the correct answer.

Page No. 651 - Ch-37- Module-B

Q34. It is buying or selling a publicly traded company's stock by someone with non-public, material information about that company.

(a) Share Trading
(b) Initial Public Offer
(c) Insider Trading
(d) Share Buy-back

Answer: C

Explanation

Insider trading is buying or selling a publicly traded company's stock by someone with non-public, material information about that company. Non-public, material information is any information that could substantially impact an investor's decision to buy or sell a security that has not been made available to the public.

Hence, C is the correct answer.

Page No. 922 - Ch-53- Module-D

Q35. Payment through UPI gets settled in ______ working days.

(a) T+0
(b) T+1
(c) T+2
(d) T+3

Answer: A

Explanation

The National Payments Corporation of India (NPCI) developed the Unified Payment Interface (UPI). UPI allows real-time transfers between personnel accounts, banks and merchant accounts through mobile devices.

Hence, A is the correct answer.

Page No. 793 - Ch-46- Module-C

Q36. e-RUPI has been launched in India by________.

(a) RBI
(b) SEBI
(c) NPCI
(d) IMPS

Answer: C

Explanation

National Payments Corporation of India (NPCI) in association with Department of Financial Services (DFS), National Health Authority (NHA), Ministry of Health and Family Welfare (MoHFW), and partner banks, has launched an innovative digital solution – 'e-RUPI'.

Hence, C is the correct answer.

Page No. 882 - Ch-50- Module-C

Q37. Which of the following is not an Officially Valid document (OVDs)?

(a) Aadhar Card
(b) The Passport
(c) The Driving License
(d) PAN Card

Answer: D

Explanation

Officially Valid documents (OVDs):

- The Passport
- The Driving License
- The voter identity card issued by the Election Commission of India
- Job card issued NREGA duly signed by an officer of the State Government
- Letter issued by the National Population Registrar containing details of name and address
- PAN Card is not an OVD

Hence, D is the correct answer

Page No. 32 - Ch-3- Module-A

Q38. A Garnishee order was received by bank on 5th April, 2023, 1:30 PM. The balance in the account was ₹150,000. At 3:30 PM ₹20,000 was deposited in the account. What will be the amount attached?

(a) 1,50,000
(b) 1,30,000
(c) 20,000
(d) 1,80,000

Answer: A

Explanation

The amount received in the account after the garnishee order is passed is not attached no matter the amount. In this case no amount has been mentioned in the Garnishee order so the whole of the amount i.e., ₹ 150,000 will be attached.

Hence, A is the correct answer.

Q39. How many characters are there in UTR for IMPS?

(a) 10
(b) 12

(c) 14
(d) 16
Answer: B
Explanation
UTR Number (Unique Transaction Reference Number) This is a number that is unique to every IMPS/ UPI/ NEFT or RTGS transaction you do and helps us match that particular transaction to your deposit order. UTR number is 22 characters long for RTGS,12 characters for IMPS and 16 characters long for NEFT.
Hence, B is the correct answer.

Q40. ATMs set up, owned, and operated by non-banks are called_________
(a) Pink Label ATM
(b) Grey Label ATM
(c) White Label ATM
(d) Brown Label ATM
Answer: C
Explanation
ATMs set up, owned, and operated by non-banks are called White Label ATMs. Non-bank ATM operators are authorised under the Payment & Settlement Systems Act, 2007 by the Reserve Bank of India (RBI).
Hence, C is the correct answer.
Page No. 740 - Ch-44- Module-B

Q41. The Drawee Bank makes payment in CTS when_________
(a) When he receives the physical cheque
(b) When Clearing House receives the cheque
(c) When he receives the cheque image and MICR data
(d) Any of the above
Answer: C
Explanation
In Cheque Truncation System (CTS) the customer presents cheque with his bank who sends the MICR data and cheque image to the Drawee bank. There is no need to send the physical cheque.
Hence, C is the correct answer.
Page No. 102 - Ch-6- Module-A

Q42. Which is the most common network topology used by Banks?
(a) Star
(b) Bus
(c) Ring
(d) Mesh
Answer: A
Explanation

The most common network topology used by banks is the star topology. In a star topology, each node is connected to a central hub or switch. This makes the network very reliable, as if one node fails, the others will still be able to communicate with the hub. Star topologies are also easy to manage, as all of the nodes are connected to a single point.

Hence, A is the correct answer.

Page No. 714 - Ch-42- Module-C

Q43. Which of the following correctly explains the difference between a router and hub?

(a) Hub send the data packets to all the connected devices while a router is a networking device that forwards data packets between computer networks.

(b) A hub is a more sophisticated device that can connect multiple networks together, while a router is a simpler device that can only connect devices within a single network.

(c) A hub creates separate broadcast domains for each connected network, while a router creates a single broadcast domain for all connected devices.

(d) All are correct

Answer: A

Explanation

- A router and a hub are both networking devices that connect computers together, but they work in different ways. A router is a more sophisticated device that can connect multiple networks together, while a hub is a simpler device that can only connect devices within a single network.
- A router creates separate broadcast domains for each connected network, while a hub creates a single broadcast domain for all connected devices. This means that a router can prevent broadcast traffic from one network from flooding another network.
- Hub send the data packets to all the connected devices while a router is a networking device that forwards data packets between computer networks.

Hence, A is the correct answer.

Q44. If a Demand Draft is lost, then a duplicate Demand Draft is to be issued by the bank within________.

(a) 7 days

(b) 10 days

(c) 15 days

(d) 21 days

Answer: C

Explanation

A duplicate DD/BC in lieu of lost instrument can be issued subject to payment not already having been made and furnishing of indemnity by the purchaser/payee. RBI has advised that duplicate is to be issued within a fortnight.

Hence, C is the correct answer.

Page No. 210- Ch-15- Module-A

Q45. What is the daily POS transaction limit for withdrawal in tier-I and II cities?

(a) ₹ 500

(b) ₹ 1000

(c) ₹ 1500

(d) ₹ 2000

Answer: B

Explanation

Cardholders withdrawing money in Tier I and II centres can only withdraw up to ₹1000 per day, per card. The Limit for Tier III and Tier IV centres in ₹2000 per day, per card.

Hence, B is the correct answer.

Q46. How many characters are there in UTR for RTGS?

(a) 10

(b) 12

(c) 14

(d) 22

Answer: D

Explanation

UTR Number (Unique Transaction Reference Number) This is a number that is unique to every IMPS/ UPI/ NEFT or RTGS transaction you do and helps us match that particular transaction to your deposit order. UTR number is 22 characters long for RTGS,12 characters for IMPS and 16 characters long for NEFT.

Hence, D is the correct answer.

Page No. 782 - Ch-45- Module-C

Q47. The exclusive rights granted to a patent applicant are for a limited period of time. What is the duration of these exclusive rights?

(a) 10 years

(b) 15 years

(c) 20 years

(d) 25 years

Answer: C

Explanation

The exclusive rights granted to a patent applicant are for a limited period of time, which is 20 years. The patentee will have the exclusive rights to exclude others from making, using, selling, importing, or distributing the patented invention for a period of those 20 years.

Hence, C is the correct answer

Section - 2

S. No.	Topic	Type of Question
1.	Garnishee Order	Case Study
2.	Fixed & Working capital	Numerical
3.	Bank Credit	Numerical- Given- Credit balance, IT Attachment amount, Set-off amount, cheque deposit and cheque issued
4.	Transfer of Property Act	Security charge in moveable property
5.	Business Ethics	Business Ethics includes which of the following
6.	Death of A/c holder	Numerical – Amount received by legal successor
7.	NRE A/c	NRE A/c can't invest in____
8.	Consumer Loan	Margin on Consumer loan- up to 20%
9.	Consumer Identification Procedure	CIP not required for- NEFT, investment in Mutual fund, Opening FD A/c
10.	Self Help Groups	Decisions regarding SHG- District council, Collector
11.	Fixed Deposit	Death of one of Joint FD holders, survivor rights
12.	Patent	For how many years
13.	Cheque Truncation System	Data read by bank in CTS- MICR, images
14.	MSME	Micro Enterprise Investment & Turnover
15.	NBFC	Tier-1 Capital % of NBFC
16.	Factoring	Case study
17.	Locker Facility	It can be availed by whom. Not available to minor
18.	Core Banking Solutions	Which of the following not a part of CBS?
19.	NI Act, 1881	Section-131 of NI Act,1881
20.	Agricultural Loan	Numerical

Section - 3

1. B2B
2. Partnership Firm
3. Investment & Turnover
4. NPA
5. Star Topology
6. Crypto Currency
7. Forged signature on cheque
8. FEMA
9. Drawer in Joint A/c
10. Insolvency & Bankruptcy Code
11. Banker's cheque
12. Capital Conservation Buffer
13. INFINET

14. Debt Recovery Tribunal
15. Principal Agent Relation
16. Limited Liability Partnership
17. Credit Card
18. Ethical values
19. Certificate of Deposit
20. Bharat Bill Payment System
21. Unique Customer Identification Code (UCIC)
22. Co- Branded Credit Card
23. Blockchain technology
24. Artificial Intelligence
25. NRI Loan conditions
26. Bharat QR Code
27. Benchmark lending rates of banks
28. Social Engineering
29. Priority Sector Lending
30. Bankwire

EduTap

JAIIB MAY 2023 EXAM

AFM

RECOLLECTED QUESTIONS

WITH

DETAILED EXPLANATION

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:

1. Complete Questions

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).

2. Topic of questions and type of questions

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.

3. Topic of questions

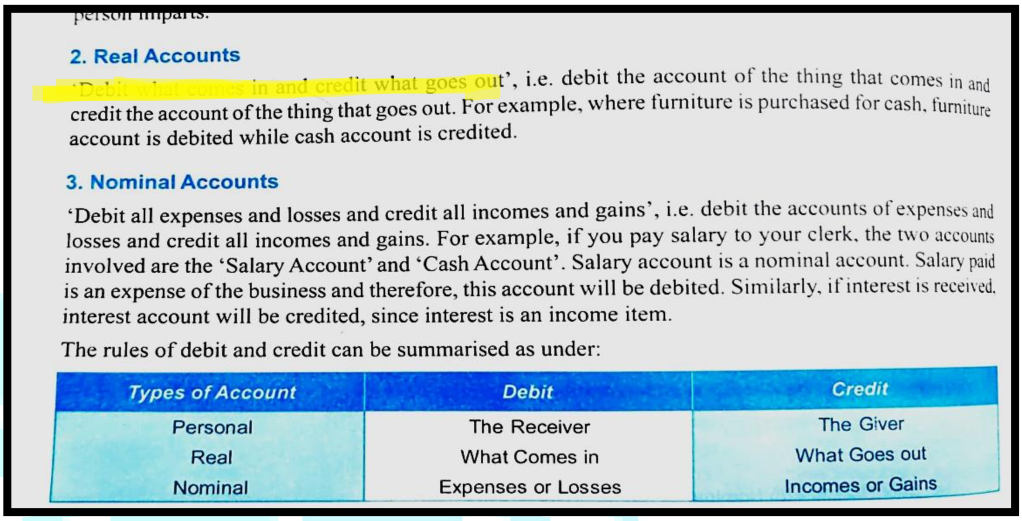
The third section consists of only the topics of the remaining questions as the type of question is also not known to us. This will help in identifying important topics for the upcoming exam.

Section- 1

Q1. Which of the following statements is true about the golden rule of accounting for real accounts?

(a) Debit all increases, and credit all decreases.
(b) Credit all increases and debit all decreases.
(c) Debit all assets and credit all expenses.
(d) Credit all assets and debit all expenses.

Solution: A
Explanation:
Module A – Chapter 3 – Page 102



person imparts.

2. Real Accounts

'Debit what comes in and credit what goes out', i.e. debit the account of the thing that comes in and credit the account of the thing that goes out. For example, where furniture is purchased for cash, furniture account is debited while cash account is credited.

3. Nominal Accounts

'Debit all expenses and losses and credit all incomes and gains', i.e. debit the accounts of expenses and losses and credit all incomes and gains. For example, if you pay salary to your clerk, the two accounts involved are the 'Salary Account' and 'Cash Account'. Salary account is a nominal account. Salary paid is an expense of the business and therefore, this account will be debited. Similarly, if interest is received, interest account will be credited, since interest is an income item.

The rules of debit and credit can be summarised as under:

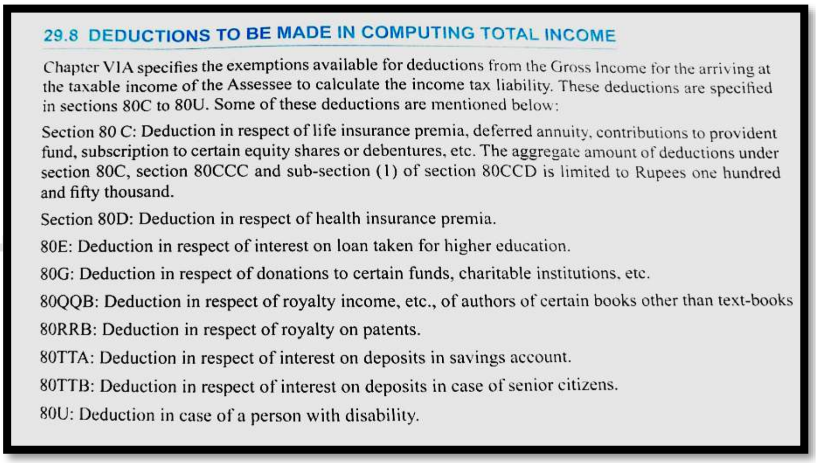
Types of Account	Debit	Credit
Personal	The Receiver	The Giver
Real	What Comes in	What Goes out
Nominal	Expenses or Losses	Incomes or Gains

Here is a brief explanation of each of the answer choices:
(A) is the correct answer. This is the golden rule of accounting for real accounts.
(B) is incorrect. This is the opposite of the golden rule of accounting for real accounts.
(C) is incorrect. This is the golden rule of accounting for nominal accounts, which are income and expense accounts.
(D) is incorrect. This is the opposite of the golden rule of accounting for nominal accounts.

Q2. The Section 80U of the Income Tax Act in India is related to

(a) Deductions in respect of royalty of income of authors of certain books.
(b) Deductions in respect of royalty on patents.
(c) Deductions in respect of interest on deposits by senior citizens.
(d) Deductions in respect of a person with disability.

Solution: D
Explanation:
Module D – Chapter 29 – Page 541



29.8 DEDUCTIONS TO BE MADE IN COMPUTING TOTAL INCOME

Chapter VIA specifies the exemptions available for deductions from the Gross Income for the arriving at the taxable income of the Assessee to calculate the income tax liability. These deductions are specified in sections 80C to 80U. Some of these deductions are mentioned below:

Section 80 C: Deduction in respect of life insurance premia, deferred annuity, contributions to provident fund, subscription to certain equity shares or debentures, etc. The aggregate amount of deductions under section 80C, section 80CCC and sub-section (1) of section 80CCD is limited to Rupees one hundred and fifty thousand.

Section 80D: Deduction in respect of health insurance premia.

80E: Deduction in respect of interest on loan taken for higher education.

80G: Deduction in respect of donations to certain funds, charitable institutions, etc.

80QQB: Deduction in respect of royalty income, etc., of authors of certain books other than text-books

80RRB: Deduction in respect of royalty on patents.

80TTA: Deduction in respect of interest on deposits in savings account.

80TTB: Deduction in respect of interest on deposits in case of senior citizens.

80U: Deduction in case of a person with disability.

Here is a brief explanation of each of the answer choices:

a) Deductions in respect of royalty of income of authors of certain books: Section 80QQB
b) Deductions in respect of royalty on patents: Section 80 RB
c) Deductions in respect of interest on deposits by senior citizens: Section 80 TTB
d) Deductions in respect of a person with disability: Section 80 U

Q3. The accounting standard - 'AS18' – is related to

(a) Accounting for earnings per share.
(b) Related party disclosures.
(c) recognition, measurement, presentation, and disclosure of leases.
(d) Preparation of consolidated financial statements.

Solution: B

Explanation:

Module A – Chapter 1 – Page 11

AS 18: Related Party Disclosures deals with the disclosures that are required to be made in the financial statements of an enterprise in respect of its related party transactions.

AS 19: Leases deals with the recognition, measurement, presentation, and disclosure of leases in the financial statements of lessors and lessees.

AS 20: Earnings Per Share requires enterprises to calculate and present EPS in a way that is consistent with the requirements of the standard. The standard also requires disclosures about EPS, such as the number of shares used in the calculation, the weighted average number of shares outstanding, and the basic and diluted EPS.

TABLE: 1.1: Accountancy Standards

Number of the Accounting Standard (AS)	Title of the Accounting Standard	Date from which Mandatory (accounting periods commencing on or after)
AS 1	Disclosure of Accounting Policies	1-4-1991/1-4-1993
AS 2 (Revised)	Valuation of Inventories	1-4-1999
AS 3 (Revised)	Cash Flow Statements	1-4-2001 *
AS 4 (Revised)	Contingencies and Events Occurring after the Balance Sheet Date	1-4-1995
AS 5 (Revised)	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	1-4-1996
AS 7 (Revised)	Construction Contracts	1-4-2003
AS 9	Revenue Recognition	1-4-1991/1-4-1993
AS 10 (Revised)	Property, Plant and Equipment	1-4-1991/1-4-1993
AS 11 (Revised)	The Effects of Changes in Foreign Exchange Rates	1-4-2004
AS 12	Accounting for Government Grants	1-4-1994
AS 13	Accounting for Investments	1-4-1995
AS 14	Accounting for Amalgamations	1-4-1995
AS 15	Employee Benefits	1-4-1995
AS 16	Borrowing Costs	1-4-2000
AS 17	Segment Reporting	1-4-2001 *
AS 18	Related Party Disclosures	1-4-2001

AS 21: Consolidated Financial Statements deals with the preparation and presentation of consolidated financial statements by a parent or holding company and its subsidiaries.

Q4. For the core banking system of a large bank, which one of the following statements is true?

(a) Each branch has its own server connected directly to servers of other branches.
(b) There is only one powerful server at centralised data centre.
(c) Each branch has a server connected to the server at centralised data centre.
(d) None of the above.

Solution: C

Explanation:

Module B – Chapter 18 – Page 381

Under the Core Banking System of banks, a powerful server is installed at the centralised data center (hub).

> **The Technical Architecture of Core Banking Solutions in General**
>
> A powerful server will be installed at the centralised data centre (Hub). Every branch will have a branch server. Each user at each branch will have a terminal; these terminals will be connected to the branch server, and the branch servers will be connected to the central server (Hub). The branches and the 'Host' will be connected through a dedicated line.

Every branch will have a branch server. These branch servers will be connected to the central server (hub).

The branches and Hub will be connected through a dedicated line.

Q5. Process costing is ideal for which among the following types of industries?

I. Chemical Industry

II. Oil Refinery

III. Paper Industry

(a) I & II

(b) II & III

(c) I & III

(d) I, II & III

Solution: D

Process Costing

When crude oil is processed in a refinery, it passes through distinct stages of processing. The output of one stage of processing becomes the input of the next stage of processing. The company would like to know the cost of each stage of processing involved in the production. The method adopted for this is known as process costing.

Apart from oil refineries, the method of process costing is generally used in chemical industries, soap manufacturing, paper manufacturing, textile industries, tanneries, etc.

Module D – Chapter 31 – Page 560

Q6. Which of the following inventory valuation methods is permitted under Ind AS-2 ?

(a) First In First Out (FIFO)

(b) Absorption Costing Method

(c) Weighted Average Cost Method

(d) All of the above

Solution: D

Explanation:

Ind AS-2

The standard deals with the determination of the values at which inventories are carried in the financial statements until the related revenues are recognised. The standard also deals with determination of such value, including the ascertainment of cost of inventories and any write-down thereof to net realisable value. It states that inventories are to be valued at a lower of cost or net realisable value. The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Weighted average cost or First in First Out (FIFO) methods is permitted in cases where goods are ordinarily interchangeable. Specific identification method is permitted only when goods are not ordinarily interchangeable. The standard does not permit the use of the direct costing method and states that absorption-costing method is to be applied to manufactured goods.

Module A – Chapter 1 – Page 60

Q7. Consider the following statements and choose the correct ones:

I. When the market interest rate is equal to the coupon rate, the value of the bond is equal to its par value.

II. When the market interest rate is greater than the coupon rate, the discount on the bond declines as maturity approaches.

III. A bond price is inversely related to it yield to maturity.

IV. When the market interest rate is less than the coupon rate, the premium on the bond declines as maturity approaches.

(a) I. II & III
(b) II & III
(c) II, III & IV
(d) I, II, III & IV

Solution: D

Module C – Chapter 22 – Page 449

22.10 THEOREMS FOR BOND VALUE

1. When the required rate of return (market interest rate) is equal to the coupon rate, the value of the bond is equal to its par value.
2. When the required rate of return (kd) is greater than the coupon rate, the value of the bond is less than its par value.
3. When the required rate of return is less than the coupon rate, the value of the bond is greater than its par value.
4. When the required rate of return (kd) is greater than the coupon rate, the discount on the bond declines as maturity approaches.
5. When the required rate of return (kd) is less than the coupon rate, the premium on the bond declines as maturity approaches.
6. A bond price is inversely related to its yield to maturity.
7. For a given difference between YTM and coupon rate of the bonds, the longer the term to maturity, the greater will be the change in price with a change in YTM. It is because, in the case of long maturity bonds, a change in YTM is cumulatively applied to the entire series of coupon payments and the principal payment is discounted at the new rate for the entire number of years to maturity.
8. Given the maturity, the change in bond price will be greater with a decrease in the bond's YTM than the change in bond price with an equal increase in the bond's YTM. That is, for equal sized increases and decreases in the YTM, price movements are not symmetrical.
9. For any given change in YTM, the percentage price changes, in case of bonds of a high coupon rate, will be smaller than in the case of bonds of a low coupon rate, other things remaining the same.
10. A change in the YTM affects the bonds with a higher YTM more than it does bonds with a lower YTM.

As explained above, all the statements given in the question are correct.

Q8. A Capital Expenditure budget is a type of ________.

(a) Master Budget
(b) Functional Budget
(c) Production Budget
(d) Performance Budget

Solution: B

Explanation:

35.4 PREPARATION AND MONITORING OF BUDGETS

The highlights about the characteristics and preparation and monitoring of various types of budgets are given below:

35.4.1 Functional budgets

Budgets are prepared for each of the various interrelated activities in the organisation. These budgets are then consolidated to show the combined budget for all the activities. This consolidated budget is called the "Master Budget". Approved budgets for individual functions are called "functional budgets". The main functional budgets are:

1. **Sales Budget:** Sales budget is the key functional budget which forms the basis for preparing other functional budgets. It is the estimate of total sales, expressed in money terms as also in terms of quantity. The sales during the budget period (normally one year) , are estimated taking into account various internal and external factors. The internal factors relate to the present production capacity of the company, expansion plans, development of new products, pricing policy etc. The external factors relate to competition in the market, growth of economy, Consumer preference, Government policies, etc.
2. **Production Budget:** It contains the estimated production quantities of various products during the budget period. This is an offshoot of the sales budget and depends on the decision taken by the management regarding the sales estimates of various products.
3. **Production Cost Budget:** Once the production budget is prepared specifying the quantities of various products, the costs of production are calculated. As per the components of cost of products, this budget may be a combination of three budgets, viz., Materials, Labour and Overhead costs budgets.
4. **Cash Budget:** This budget contains the detailed estimates of cash inflows (receipts) and cash outflows (payments) periodically. For this, the budget period is further sub-divided on quarterly, monthly or even weekly basis. Cash budgets have been discussed in detail in Module C of this book.
5. **Capital Expenditure Budget:** The Capital expenditure budget details the plan of the proposed expenditure on fixed assets to enhance the capacity and efficiency of production process of the organisation. Capital expenditure is a continuous process in any organisation and is planned through a long-term budget. Capital forecasts should be made for a number of years. As the capital budget

Module D – Chapter 35 – Page 611

Q9. If the estimated sales of a company during the year are ₹110 lakh and its break even sales level is ₹70 lakh, the margin of safety is______.

(a) 24.24%
(b) 32.32%
(c) 36.36%
(d) 39.39%

Solution: C

Explanation:

Module D – Chapter 34 – Page 604

Marginal Safety = $\left[\frac{Estimated\ Sales - Break\ Even\ Sales}{Estimated\ Sales}\right]$ x 100

So,

Marginal Safety in this case = [(110 – 70)/110] x 100 = (40/110) x 100 = 36.36%

Q10. Consider the following statements and choose the correct ones:

I. **In marginal costing, the fixed overhead costs are not allocated to the product whereas, it is allocated in case of absorption costing.**
II. **Cost-Volume-Profit relationship is used in absorption costing while in marginal costing, it is not used.**

III. Costs are classified into fixed costs and variable costs under absorption costing. In marginal costing, there is no such classification.

IV. Due to allocation of fixed overhead costs to the product, the valuation is higher under absorption costing as compared to that under marginal costing.

(a) I & IV
(b) II & III
(c) I & III
(d) II & III

Solution: A

Explanation:

34.12 DIFFERENCE BETWEEN ABSORPTION COSTING AND MARGINAL COSTING

The differences between the marginal costing and absorption costing can be summarised as under:

1. In marginal costing, the fixed overhead costs are not allocated to the product whereas, it is allocated in case of absorption costing.
2. Cost-volume-profit relationship is used in marginal costing while in absorption costing, it is not used.
3. Costs are classified into fixed costs and variable costs under marginal costing. In absorption costing, There is no such classification.
4. The valuation of finished goods inventory is different in both the methods. Due to allocation of fixed overhead costs to the product, under absorption costing, the valuation is higher under this, compared to that under marginal costing.

Module D – Chapter 34 – Page 605 & 606

Q11. (Numerical on Break Even Sales – Actual Data Given in the Question may be different as we are only using the data recollected from memory):

A company manufacturing Staplers has the following financial information:

A. Total fixed costs : ₹ 2 lakh
B. Sales price per stapler : ₹60
C. Cost of all direct inputs like material, labour etc. : ₹40

Calculate the break-even sales volume in terms of sales value.

(a) ₹ 5 lakh
(b) ₹ 6 lakh
(c) ₹ 8 lakh
(d) ₹ 10 lakh

Solution: B

Explanation:

As the sales price of one stapler is ₹60 and its variable cost is ₹40, the contribution is ₹20 (60 – 40). So, sale of each stapler contributes ₹20 towards meeting the fixed cost.

34.7 BREAK-EVEN ANALYSIS

The break-even analysis, which is a part of Cost–volume– profit (CVP) analysis, also involves finding correlation between the fixed costs, variable costs, sales revenue and profit. Whenever one unit of the product is sold, its sales value minus its variable cost provides a surplus which goes towards meeting the fixed expenses. This sales value of one unit minus its variable cost is called "Contribution" as this is what one unit of the product contributes towards recovering the fixed expenses. Break-even level is that activity level at which all relevant fixed costs are recovered and there is no profit or no loss. For activity level below the breakeven level, the company will make losses, while above this level it will make profit.

Now, total fixed costs = ₹2,00,000

For meeting this cost, we have to sell 200000/20 = 10,000 staplers

After selling 10 thousand staplers, the fixed costs are fully met and there is no profit or loss. The next stapler we sell, will result in profit of ₹20. So, the break even sales volume is 10,000 staplers.

So, the break-even sales value would be = Sales volume x Sales price of one stapler

= 10,000 x ₹60 = **₹6 Lakh**

Module D – Chapter 34 – Page 603

Q12. Variance in material costs is due to _________.

(a) Variance in price of materials consumed.

(b) Variance in the quantity of materials consumed.

(c) theft or pilferage of the material during the production process.

(d) All of the above

Solution: D

Explanation:

Possible causes of Material usage variance:

Some of the possible causes of variance in material usage can be as under:

a. Inferior quality of material purchased

b. Theft, pilferage

c. Increased wastage due to careless handling during manufacturing

d. Not following the standard production procedures

e. Changes in quality of the finished goods compared to that envisaged in standard costing

Module D – Chapter 33 – Page 594

Q13. Which among the following statements is incorrect regarding Contract Costing?

(a) A separate contract account is maintained for each contract.

(b) All the direct costs related to execution of contract, are allocated to the contract.

(c) In a contract, most of the costs are of indirect nature, unlike in job costing.

(d) Work in progress is an important aspect of contract costing.

Solution: C

Explanation:

32.4.1 Features of Contract Costing

The important features of Contract Costing are as under:

1. Under Contract Costing, a separate contract account is maintained for each contract.
2. All the direct costs related to execution of contract, are allocated to the contract.
3. The overheads for a contract are allocated in the same way as under the job costing. A contract usually involves a lower amount of overheads but these require appropriate allocation.
4. Work-in-progress is an important aspect in contract costing.

32.4.2 Distinction Between Job and Contract Costing

Even though contract costing is a form of job costing only, there are some distinguishing features, as mentioned below:

1. The work is usually carried out at a site different from contractor's workplace, in a contract. In execution of a job, the job is usually carried out at the contractor's workplace.
2. A contract and a job are differentiated on the basis of size and time taken also. Contracts are usually larger and take longer time compared to jobs.
3. In a contract, most of the costs are of direct nature, unlike in a job.
4. In costing a contract, each contract is treated as a cost unit while in job costing, there can be more than one cost units.

Module D – Chapter 32 – Page 574

Q14. What is the rate of taxation under the GST regime for banking services such as fund transfer, loan processing fees etc.

(a) 5%

(b) 12%

(c) 18%

(d) 28%

Solution: C

Explanation:

4. GST on banking Transaction fees in financial services such as credit card payments, fund transfer, ATM transactions, processing fees on loans etc. is increased to 18% tax bracket in the GST regime. The hike in the tax rate means, individuals will have to pay more charges/fees for banking transactions. Bank branches provide services to each other, which is taxable under GST. They can later claim input tax credit, but that increases the paperwork and the operating cost.

Module D – Chapter 30 – Page 552

Q15. (Numerical on Cost Volume Profit Analysis – Actual Data Given in the Question may be different as we are only using the data recollected from memory):

A company manufacturing plastic bottles has the following financial information:

A. Total fixed costs : ₹ 1 lakh

B. Variable cost per unit : ₹120

C. Sales price per unit : ₹160

D. Total units sold : 3500

Calculate the profit/loss earned by the company.

(a) ₹ 40000

(b) ₹ 60000

(c) ₹ 90000

(d) ₹ 120000

Solution: B

Explanation:

The basic formula of CVP analysis, when profit, sales volume and costs, all are expressed in money terms, is:

Profit = Sales Volume – Costs

Who invented this formula may be debatable but, it is certain the first person of the mankind, who started a business, knew it. The concept of marginal costing has refined this formula as under:

Profit = Sales Volume – (Fixed Costs + Variable Costs) or,

P = (S × N) – [F + (V× N)]

where,

P = Profit,

S = Sales value per unit

N = Number of units sold

F = Fixed Costs

V = Variable Cost per unit

Module D – Chapter 34 – Page 602

In the formula,

S = ₹160

N = 3500

F = ₹100000

V = ₹120

So, Profit = (160 x 3500) – [100000 + (120 x 3500)]

= 560000 – [100000 + 420000]

= 560000 – 520000 = 40000

So, the gross profit earned is ₹40000.

Q16. If GST returns are not filed within time, one is liable to pay interest at the rate of ____% on delayed payment. It has to be calculated on the amount of tax liability from the _______ of due date of return till date of payment.

(a) 12% ; next day

(b) 18% ; next day

(c) 12% ; next month

(d) 18% ; next month

Solution: B

Explanation:

> If GST Returns are not filed within time, you will be liable to pay interest and a late fee. At present, interest on delayed payment of tax is payable @ 18% per annum. It has to be calculated on the amount of tax liability from the next day of due date of return till the date of payment.

Module D – Chapter 30 – Page 551

Q17. Consider the following statements regarding Derivative instruments and choose the correct ones:

I. Derivatives shift the risk from the seller of the derivative product to the buyer and therefore are very effective risk management tools.

II. Derivatives improve the liquidity of the underlying asset.

III. Derivatives provide better avenues for raising funds.

IV. Derivatives contribute to increasing depth and complexity of the markets.

(a) I, II & III

(b) II & III

(c) II, III & IV

(d) I, III & IV

Solution: C

Explanation:

> **28.1.1 Characteristics of Derivatives**
>
> A Derivative has the following 3 main characteristics:
>
> (a) Their value changes in response to the change in a specified 'underlying' asset
>
> (b) Derivatives have the characteristics of high leverage and of being complex in their pricing and trading mechanism. They require no or little initial net investment when compared to other types of contracts having a similar response to changes
>
> (c) It is settled at a future date
>
> **28.1.2 Functions of Derivatives**
>
> (a) Derivatives shift the risk from the buyer of the derivative product to the seller and as such are very effective risk management tools.
>
> (b) Derivatives improve the liquidity of the underlying instrument. Derivatives perform an important economic function viz. price discovery.
>
> (c) They provide better avenues for raising money.
>
> (d) They contribute substantially to increasing the depth of the markets.

Module C – Chapter 28 – Page 526

Q18. Which among the following is not an essential component of the price of any futures contract?

(a) Spot price of underlying asset.
(b) Cost of financing, storing, insuring, and transporting the asset.
(c) Taxes levied on market transactions.
(d) Income earned from the underlying asset.

Solution: C
Explanation:

28.4.2 Futures

Futures contract is an agreement to buy or sell an asset for a certain price at a certain time in future. It is similar to forward contract. While a forward contract is traded over the counter, a futures contract is traded on an exchange. It has standardized contract parameters. While markets for Forward contracts are not very liquid, Futures contracts are highly liquid and can be closed out easily. In India, futures contracts are available and traded on the Stock Exchanges and commodity exchanges. Futures are available on currencies, bonds, interest rates, stock indices, commodities etc.

Pricing Futures: The price of any futures contract has three essential components. These are:

(a) the spot price of the underlying asset
(b) the cost of financing, storing, insuring and transporting the asset
(c) the income if any, earned from the asset

Taking all these three factors into account futures price(FP) will be equal to the spot price(SP) + financing and other costs – income if any.

F.P = S.P + Costs – Income.

Module C – Chapter 28 – Page 528

Q19. Which among the following is not a correct statement about the derivates?

(a) Derivatives have the characteristics of high leverage.
(b) Derivatives are simpler in pricing and their trading mechanism.
(c) RBI is empowered to regulate the interest rate derivatives, foreign currency derivatives and credit derivatives.
(d) Derivates perform a very important economic function of price discovery in the market.

Solution: B
Explanation:

LET US SUM UP

A derivative is a financial instrument whose value is derived from an underlying asset. Derivatives are often used as instruments to hedge risks. Derivatives have the characteristics of high leverage and of

DERIVATIVES 533

being complex in their pricing and trading mechanism. Derivatives perform an important economic function viz. price discovery. The derivatives market can be either Over-the-counter (OTC) derivatives market where they are traded directly between two eligible parties or the Derivatives Exchange where standardised derivative contracts are traded. The main users of derivatives include hedgers, speculators and traders. RBI is empowered to regulate the interest rate derivatives, foreign currency derivatives and credit derivatives. The derivatives broadly consist of forwards, futures, swaps and options. Forwards are definitive purchases and/or sales of a currency or commodity for a future date. Futures contract is also an agreement to buy or sell an asset for a certain price at a certain time in future. It is similar to forward contract. While a forward contract is traded over the counter, a futures contract is a standardised product, traded on an exchange. A swap is a custom tailored bilateral agreement in which cash flows are determined by applying a prearranged formula on a notional principal. An option is a contract, which gives the buyer (holder) the right, but not the obligation, to buy or sell specified quantity of the underlying assets, at a specific (strike) price on or before a specified time (expiration date). Some of the important derivatives in Indian market are: Forward Rate Agreements, Interest Rate Swaps and Interest Rate Options. Credit Default Swaps (CDS) is a bilateral contract in which the risk seller (lending bank) pays a premium to the buyer for protection against credit default or any other specified credit event resulting in loss in the value of an underlying debt instrument.

Module C – Chapter 28 – Page 532 & 533

Q20. Cash budget method of assessment is more suitable for those business enterprises which have ______.

(a) Uniform level of operations
(b) High level of operations
(c) Low level of operations
(d) Seasonal operations

Solution: D
Explanation:

27.5.3 Turnover Method of Assessment

Under this method of working capital assessment, it is assumed that the enterprise needs 25% of its annual turnover as gross working capital, out of which 20% will be provided by the bank and 5% will be brought in as margin by the enterprise. For loans and advances to Micro and Small Enterprises (MSEs), RBI guidelines are as under: 'Banks are advised to grant working capital credit limits to Micro and Small Enterprises(MSEs) computed on the basis of minimum 20% of their estimated annual turnover whose credit limit in individual cases is up to ₹ 5 crore'. The RBI guidelines may result in under-financing for those units where the working capital cycle is more than 3 months. Therefore, the banks, normally, also assess the requirement on the basis of holding norms also and sanction the limit whichever is higher.

Module C – Chapter 27 – Page 522

Q21. For loans and advances to Micro and Small Enterprises (MSEs), RBI guidelines are as under: 'Banks are advised to grant working capital credit limits to MSEs computed on the basis of minimum _____ of their estimated annual turnover whose credit limit in individual cases is up to ______.'

(a) 5% , ₹ 1 crore
(b) 7% . ₹2 crore
(c) 10% . ₹3 crore
(d) 20% ' ₹5 crore

Solution: D
Explanation:

Customers enjoying working capital limits in excess of ₹ 5.00 crore can be given option to adopt the Cash Budgeting Method at the discretion of the Bank. In case such borrowers choose the Cash Budget System of lending, they have to satisfy the Bank that they have necessary infrastructure in place to submit the required information periodically in time. The scope of internal MIS should be satisfactory and commensurate with the level of operations. The borrower must have a finance professional and computerised environment. Cash Flow Based Lending is more customer- friendly. Here, bank finance is sanctioned in the form of a short term loan which may be repaid in suitable instalments. This is well suited to units dealing in seasonal products, construction activities and order based activities. Cash Flow based lending method is popular in developed countries. Under this method the peak level cash deficit will be the level of total working capital finance to be provided to the borrower by the Bank. The peak level cash deficit will be ascertained from the Projected Cash Budget Statement submitted by the borrower. Deficit is worked out and financed subject to availability of chargeable assets. The required contribution (NWC), which should be at least 25% of peak deficit, is also worked out based on the Current Assets & Current Liabilities as at the peak period. Drawings are allowed to the extent of monthly deficit.

Module C – Chapter 27 – Page 522

Q22. Which of the following statements is incorrect regarding Inter-Corporate Deposits?

(a) Procurement procedure is simple as the regulation for such deposits are not very strict.

(b) Rate of interest on such deposits is not fixed and is dependent on amount involved and tenure of lending.
(c) The market for inter-corporate deposits is not structured.
(d) These deposits are secured deposits.

Solution: D
Explanation:

6. Inter-Corporate Deposits

Short term deposits of up to six months, accepted by a company from another company, are called inter-corporate deposits. In Inter-corporate deposits, Call deposit is a type of deposit can be withdrawn by the lender by giving a notice of one day. Apart from this, there are 3 month and 6 month inter-corporate deposits. The important features of an inter-corporate deposit are:

(a) Procurement procedure is simple as the regulations regarding such deposits are not strict.
(b) The rate of interest on such deposits is not fixed. It depends upon the amount involved and the tenure of lending.
(c) The market for inter-corporate deposits is not structured.
(d) These deposits are unsecured deposits.

Module C – Chapter 27 – Page 516

Q23. _______ is similar to factoring but is used only in case of exports and where the sale is supported by bills of exchange/promissory notes?

(a) Forfaiting
(b) Featuring
(c) Fostering
(d) All of the above

Solution: A
Explanation:

10. Forfaiting

This is similar to factoring but is used only in case of exports and where the sale is supported by bills of exchange/promissory notes. The financier discounts the bills and collects the amount of the bill from the buyer on due dates. Forfaiting is always without recourse to the client. Therefore, the exporter does not carry the risk of default by the buyerImporters often raise trade credit (buyers' credit/suppliers' credit) from overseas supplier, bank and financial institution for import of capital and non-capital goods into India. With a view to providing greater Working Capital Finance flexibility for structuring of trade credit arrangements, RBI has decided that the resident importer can raise trade credit in Rupees (INR) within the following framework after entering into a loan agreement with the overseas lender:

i. Trade credit can be raised for import of all items (except gold) permissible under the extant Foreign Trade Policy
ii. Trade credit period for import of non-capital goods can be up to one year from the date of shipment or up to the operating cycle whichever is lower
iii. Trade credit period for import of capital goods can be up to five years from the date of shipment
iv. No roll-over/extension can be permitted by the AD Category-I bank beyond the permissible period
v. AD Category-I banks can permit trade credit up to USD 20 mn equivalent per import transaction (vi) AD Category-I banks are permitted to give guarantee, Letter of Undertaking or Letter of Comfort in respect of trade credit for a maximum period of three years from the date of shipment
vi. The all-in-cost of such Rupee (INR) denominated trade credit should be commensurate with prevailing market conditions

Module C – Chapter 27 – Page 518

Q24. Consider the following statements regarding lease transactions and choose the correct ones:

I. In a lease transaction, the lessor is eligible for depreciation on the asset.

II. The lessee will be eligible to claim any depreciation of the leased asset.

III. The entire lease rentals are taxed as income of the lessor.

IV. The lessor is entitled to treat the rentals as expenses.

(a) I, II & III

(b) I & III

(c) II, III & IV

(d) I, III & IV

Solution: B

Explanation:

> In a lease transaction, the lessor is eligible for depreciation on the asset, as he owns the assets. The lessee, therefore, will not be eligible to claim any depreciation. In sale and leaseback transactions, income Tax rules permit depreciation on the sold asset's depreciated value rather than the actual value of the sales transaction.
>
> The entire lease rentals are taxed as income of the lessor.
>
> The lessee is entitled to treat the rentals as expenses.

Module C – Chapter 26 – Page 565

Q25. Which of the following statements is not true for an infrastructure project?

(a) It has a long gestation period.

(b) It reduces the risk for the lender as his funds get assured deployment for a long time.

(c) Normally, the debt equity ratio is high for an infrastructure project.

(d) The implementation period is usually long.

Solution: B

Explanation:

Infrastructure projects involve some distinct features like exceptionally long implementation, gestation and pay back periods, high debt equity ratio etc. It increases the risk of the lender due to:

1. Economic Uncertainty
2. Cost Overruns
3. Funding Challenges
4. External Factors

Module C – Chapter 26 – Page 495

Q26. What is the minimum paid-up capital that is required to set up a Joint Stock Company?

(a) ₹20 lakh

(b) ₹10 lakh

(c) ₹5 lakh

(d) None of the above

Solution: D

Explanation:

Module B – Chapter 14 – Page 253

Initially, he minimum paid-up capital that is required to set up a Joint Stock Company in India was Rs. 1 lakh. This was the minimum capital requirement under the Companies Act, 2013. However, the

Companies Amendment Act, 2015 relaxed the minimum requirement for paid-up capital. **Therefore, there is now no requirement for any minimum capital to be invested to start a private limited company**.

Q27. The aggregate amount of deduction under Section 80C, Section 80CCC and Sub-section 1 of Section 80CCD is limited to ________.

(a) ₹2 lakh
(b) ₹1.5 lakh
(c) ₹1 lakh
(d) None of the above

Solution: B
Explanation:
Module D – Chapter 29 – Page 541.

The aggregate amount of deduction under Section 80C, Section 80CCC and Sub-section 1 of Section 80CCD is limited to ₹1.5 lakh.

Q28. Consider the following statements and choose which ones are correct:

I. Authorised capital is the amount up to which the company can raise the capital.
II. Issued capital is issued directly to the public or be issued partly to vendors.
III. The part of issued capital that is actually subscribed to the public is known as scheduled capital.
IV. The amount of capital that is actually paid for by the shareholders is known as paid up capital.

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

Solution: C
Explanation:
Module B – Chapter 14 – Page 256

- Authorised capital is the amount up to which the company can raise the capital.
- Issued capital is issued directly to the public or be issued partly to vendors.
- The part of issued capital that is actually subscribed to the public is known as scheduled capital.
- The amount of capital that is actually paid for by the shareholders is known as paid up capital.

Q29. Which among the following statement is incorrect?

(a) When the drawee of the bill is unable to make payment on the due date, the bill is said to be dishonoured.
(b) Transfer of bill to some other person be the holder is called endorsement of the bill.
(c) When one party accepts the bill drawn on him for the purpose of mutual help, it is called as mutual bill.
(d) All of the above statements is correct

Solution: C
Explanation:
Module A – Chapter 8 – Page 179 & 180

- When the drawee of the bill is unable to make payment on the due date, the bill is said to be dishonoured.
- Transfer of bill to some other person be the holder is called endorsement of the bill.
- When one party accepts the bill drawn on him for the purpose of mutual help, it is called as accomodation bill. Therefore, statement C is incorrect.

Q30. ______ mainly looks at the loans and advances, compliance with Priority Sector Lending (PSL) requirements, CRR, SLR, CRAR etc. and other norms compliance as per latest RBI guidelines/Master Directions/Master Circulars?

(a) Concurrent audit
(b) Statutory audit
(c) Information Systems audit
(d) None of the above

Solution: B
Explanation:

Salient Features of Statutory Audit:

Salient Features

(a) It is conducted by a 'Statutory Auditor' - the word 'Statute' means - mandated or compulsorily required by any law or Act.
(b) In case of Banks, sub-section (1) of Section 30 of the Banking Regulation Act, 1949 requires that the Balance Sheet and Profit and Loss account of a banking company should be audited.
(c) Independent audit of financial statements of Banks is important for a healthy, safe and sound banking system.
(d) Statutory audit does not look at the intricacies of the banking transactions (which are looked into by concurrent and Internal audits); instead they rely on the concurrent audit & internal Audit Reports and test checking to form their opinion.
(e) Statutory audit mainly looks at the loans and advances, Compliance with Priority Sector Lending (PSL) requirements, CRR, SLR, CRAR etc. and other Statutory norms compliance as per latest RBI guidelines/Master Directions/Master Circulars.

Module A – Chapter 11 – Page 223

Q31. Under Section 129(5) of the Companies Act 2013, where the financial statements do not comply with the accounting standards, such companies shall disclose the following:

I. The deviation from the accounting standards
II. Reasons for such deviation
III. Financial effects, if any, arising out of such a deviation.

a) I & II
b) I, II & III
c) Only II
d) II & III

Solution: B
Explanation:

Under the Section 129(5) of the Companies Act 2013, where the financial statements do not comply with the accounting standards, such companies shall disclose the following:

(a) the deviation from the accounting standards;
(b) the reasons for such a deviation; and
(c) the financial effects, if any, arising out of such a deviation.

Module A – Chapter 1 – Page 11

Q32. At the end of an accounting period, the balances of _______ are transferred to the Profit & Loss Account.

(a) all the ledger accounts
(b) all the income and expenditure accounts
(c) only the tangible real accounts and some income and expenditure accounts
(d) some intangible real accounts and some income and expenditure accounts

Solution: B

Explanation:

Module B – Chapter 13 – Page 240

At the end of an accounting period, the balances of revenue accounts and expense accounts are transferred to the Profit & Loss Account.

Q33. The liability of the members of the joint stock company is limited to the ________ of shares held by them.

(a) Face value
(b) Exchange value
(c) Market value
(d) All of the above

Solution: A

Explanation:

Module B – Chapter 14 – Page 253

passed by the Board. Companies Act 2013 required common seal to be affixed on certain documents like share certificates, bill of exchange etc. **CA Amendment 2015 has made the use of common seal optional**. Such documents may now instead be signed by two directors or one director and a company secretary of the company.

5. *Limited liability:* The liability of the members of the joint stock company is limited to the face value of shares held by them.
6. *Separation of management from ownership:* Even though the shareholders are true owners, they do not participate in the management of the company. They elect their representatives known as the Board of Directors.
7. *Transferability of shares:* The shares of a company are freely transferable subject to restrictions placed on transfer of private limited company's shares.
8. *Separate legal status:* A company has an independent legal status and as such, the shareholders or the owners are not liable for the acts of the company.
9. *Large membership:* A company is owned by a large number of members. In the case of private limited company, the minimum number of members is two and the maximum is **two hundred**. In the case of public limited company, the minimum number of members is seven and there is no maximum limit on the number of members.
10. *Minimum paid up capital:* It was ₹ one lac for a Private Ltd. company and ₹ Five lacs for a Public Ltd company, as per Companies Act 2013. However, the amendment of 2015 has done away with this requirement and it is at the company's discretion to set its paid-up capital.

Q34. A liability shall be classified as current when it satisfies which of the following criteria?

I. It is expected to be settled in the company's normal operating cycle.

II. It is held primarily for the purpose of being traded.

III. It is due to be settled within 12 months after the reporting date

(a) I, II and III

(b) II and III

(c) I and II

(d) I and III

Solution: A

Explanation:

Module B – Chapter 15 – Page 259

3. A liability shall be classified as current when it satisfies any of the following criteria:

(a) it is expected to be settled in the company's normal operating cycle;

(b) it is held primarily for the purpose of being traded;

(c) it is due to be settled within twelve months after the reporting date; or

(d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification. All other liabilities shall be classified as non-current.

4. A receivable shall be classified as a "trade receivable" if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business.

5. A payable shall be classified as a "trade payable" if it is in respect of the amount due on account of goods purchased or services received in the normal course of business.

6. A company shall disclose the following in the notes to accounts.

Q35. Which of the following cash flows from investing activities?

(a) Cash payments to suppliers for goods and services

(b) Cash payment to income taxes

(c) Cash receipts from sales of property, plant and equipment

(d) Cash proceeds from issuing debentures and loans.

Solution: C

Explanation:

Module B – Chapter 16 – Page 315

Examples of cash flows arising from investing activities are:

(a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment;

(b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;

(c) cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);

(d) cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);

(e) cash advances and loans made to other parties (other than advances and loans made by a financial institution);

(f) cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);

(g) cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and

(h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

When a contract is accounted for as a hedge of an identifiable position the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

Q36. Which among the following statements is true regarding the disclosure of accounting policies as per AS 1?

(a) All significant accounting policies adopted in preparation of financial statements should be disclosed.

(b) All such policies should be disclosed in one place as a part of the financial statement itself.

(c) If any change in accounting policy is expected to have a material effect in the future periods, they need not be disclosed in the financial statement for the current period.

(d) If fundamental accounting assumptions are followed in the financial statements, their specific disclosure is not required.

Solution: C

Explanation:

Module A – Chapter 1 – Page 13

<u>**Disclosure of Accounting Policies according to AS 1:**</u>

1. **All significant accounting policies** adopted in the preparation of financial statements should be disclosed.
2. The disclosures should be in **one place as part of the financial statement itself**.
3. Any **change** in accounting policies that have a **material effect in the current accounting period** should be disclosed. In this case, the amount by which any item in the financial statement is affected by such a change should also be disclosed to the extent ascertainable.
4. Any **change** in accounting policies that is expected to have a material effect in the **future accounting periods** should be disclosed.
5. If the **fundamental accounting assumptions are followed** in the financial statements, specific **disclosure is not required**.
6. If any fundamental accounting assumption is **not followed**, then this fact **should be disclosed**.

Q37. Which among the following statements is correct?

(a) A Credit Note is a document evidencing a debit to be raised against a party for reasons other than sale on credit.

(b) Debit Note is a document evidencing that the credit has been granted to the named person for the reason stated therein.

(c) A voucher showing a transaction that contains multiple debits, but one credit is called Credit Voucher.

(d) When cash or cheque is received from the customer, a receipt for the amount received is issued.

Solution: D

Explanation:

Module A – Chapter 9 – Page 197

- **Debit Note:** A Debit note is a document evidencing a debit to be raised against a party for reasons other than sale on credit. **Hence, Option A is incorrect**.
  - On finding that goods supplied are not as per the terms of the order placed, the defective goods are returned to the supplier of the goods and a note is prepared to debit the supplier; or when an additional sum is recoverable from a customer such a note is prepared to debit the customer with the additional dues.
  - It details the **reason for the debit**.
  - **For example**, a seller of goods will make a debit note if he finds that his goods have been undervalued.
  - Similarly, a purchaser of goods will make a debit note if the goods have been overvalued or he has returned the goods or the seller has allowed a lower discount, etc.
- **Credit Note:** It is a document evidencing that the credit has been granted to the named person for the reason stated therein. Hence, Option B is incorrect.

- **Compound Voucher:** It is a voucher that records a transaction that entails multiple debits/credits and one debit/credit is called Compound Voucher. A voucher showing a transaction that contains multiple debits but one credit is called Debit Voucher. Hence, Option C is incorrect.

A voucher showing a transaction that contains multiple credits but one debit is called Credit Voucher. Receipt: When cash or cheque is received from the customer, a receipt for the amount received is issued. Hence, Option D is correct. It is prepared in duplicate. The original copy is handed over to the party tendering the payment and the duplicate is kept for record.

Q38. Which of the following is NOT a contra entry?

(a) Cash withdrawn from bank for office use
(b) Cash deposited into bank
(c) Cash withdrawn from bank for personal use by owner.
(d) Bank overdraft

Solution: C
Explanation:
Module A – Chapter 3 – Page 109

- A contra entry is a transaction that is recorded between two accounts that are opposite in nature. In the case of cash and bank accounts, they are both assets, but one is a current asset (cash) and the other is a non-current asset (bank). When a transaction involves both cash and bank accounts, it is called a contra entry.
- The other three options are all contra entries because they involve both cash and bank accounts. For example, when cash is withdrawn from bank for office use, it is recorded as a debit to the cash account and a credit to the bank account. This is a contra entry because it reduces the balance of the cash account and increases the balance of the bank account.
- The option that is not a contra entry is cash withdrawn from bank for personal use. This is because it does not involve the bank account and cash account. Instead, it is recorded as a debit to the drawings account and a credit to the cash account. This is not a contra entry because it does not reduce the balance of the cash account and increase the balance of the bank account.

Q39. If you have a strong gut feeling that Interest rates will decrease in coming times and you want to make maximum profits by selling Bonds, then which of the following Bonds will give you maximum appreciation ?

(a) Low Coupon and Low Maturity
(b) High Coupon and High Maturity
(c) Low Coupon and High Maturity
(d) High Coupon and Low Maturity

Solution: C
Explanation:
Module C – Chapter 22 – Page 445

Prices fluctuate more for Long Maturity Period and Low Coupon bonds. So if a person is expecting a decrease in interest rate resulting in increase in the of price of bonds, then the person should buy long term and low coupon rate bonds. These Long term and low coupon rate bonds will have more increase in price when interest rate decreases.

Hence C is the answer.

Q40. A prepayment of insurance premium will appear in the Balance Sheet and in the Insurance Account respectively as _____________.

(a) a liability and a debit balance
(b) an asset and a debit balance
(c) an asset and a credit balance
(d) a liability and a credit balance

Solution: C
Explanation:
Module B – Chapter 13 – Page 245

- There are several items of expense which are paid in advance in the normal course of business operations.
- At the end of the accounting year, it is found that the benefits of such expense have not yet been fully received; a portion of its benefit would be received in the next accounting year.
- This portion of expense is carried forward to the next year and is termed as **prepaid expenses.**
- The necessary adjustment in respect of prepaid expenses is made by recording he following journal entry:
    - Prepaid Expense A/c Dr.
    - To Concerned Expense A/c
- The effect of the above adjustment entry is that the amount of the prepaid part is deducted from the total of the particular expense, and the **prepaid expense is shown on the assets side of the balance sheet.**
- A credit is an entry made on the right side of an account. It either increases equity, liability, or revenue accounts or decreases an asset or expense account.
- Since, Insurance Account is an Expense A/c and normally shows debit balance but the premium has been paid before the due date, Hence it is a prepaid insurance and **would appear in the credit side indicating the reduction in expenses on due date.**

Therefore, Option C is the correct answer. All other options are incorrect.

Section- 2

Sno.	Topic	Type of Question
1.	Depreciation numerical	1 – 2 questions related to straight line method were asked in every shift.
2.	Bank Reconciliation Statement	2 numerical were asked in third shift. Cashbook balance was given and pass book balance was asked. One question was related to the need of Bank reconciliation statement.
3.	Share Allotment	A numerical on calculating the refund value when no. of shares, application fees are given.

4.	Rules of debit and credit	4 – 5 case study based questions asking which account will be debited or credited.
5.	Computerised Accounting	One multi statement question related to disadvantages of computerized accounting.
6.	Ratio analysis	Questions related to various solvency, operating and liquidity ratios were asked in every shift.

Section- 3

1. Bullet payment
2. NPV and IRR where applicable
3. Debt/asset ratio
4. Social responsibility
5. Going concern concept
6. Accrual concept
7. Net worth
8. Networking capital
9. Quick ratio, current ratio
10. Debtor creditor concept
11. Rectification of errors
12. Suspense account
13. Fund flow statement
14. Cash flow statement
15. NPV IRR ARR concept
16. Corporate social responsibility
17. Nominal rate
18. Why bank Reconciliation required
19. Negotiable Instruments
20. Statuary Audits (2 Questions Statement based)
21. Swap agreement
22. Sweat Based Equity
23. New capital investment
24. Stock turnover ratio

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JAIIB MAY 2023 EXAM

RBWM

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. Who coined the term Artificial Intelligence?

(a) John McCarthy
(b) David Bradley
(c) Charles Babbage
(d) Alan Turing

Solution: A
Explanation:
Module B – Chapter 13 – Page 281
Here is a brief explanation of each of the answer choices:

- **John McCarthy** (1927 – 2011), an American computer scientist and cognitive scientist, coined the term 'Artificial Intelligence'. He was one of the founders of the discipline of AI.

Q2. Within which time period, the possession notice should be published in two leading newspaper one of which should be in vernacular language under the SARFAESI Act, 2002?

(a) 1 Month
(b) 15 Days
(c) 7 Days
(d) No time period mentioned

Solution: C
Explanation:
Module B – Chapter 14 – Page 310
Authorised Officer shall take possession or cause possession of the mortgaged immovable property to be taken in the following manner:

1. By delivering a 'possession notice' to the mortgagor (borrower/guarantor)
2. By affixing the possession notice on the outer door or at such conspicuous place of the property
3. **Within Seven days of taking possession**, the Possession notice should also be published in 2 leading newspapers one of which should be in the vernacular language, having sufficient circulation in that locality where the property is situated.

Q3. Which among the following is the target year under the Pradhan Mantri Awaas Yojana (Rural)?

(a) 2025
(b) 2022
(c) 2024
(d) 2030

Solution: C
Explanation:
Module B – Chapter 9 – Page 170
Pradhan Mantri Awaas Yojana (PMAY) Urban Mission was launched on 25th June 2015 which intends to provide housing facility for all in Urban areas by year 2022.

- The Union Cabinet has also approved the extension of the Pradhan Mantri Awaas Yojana – Gramin (PMAY – G) beyond March 2021 **till March 2024** to achieve the total target of 2.95 crore rural houses.

Q4. What is the Loan To Value (LTV) ration on Home loans up to Rs. 30 lakh?

(a) 90%
(b) 80%
(c) 75%
(d) None of the above.

Solution: A
Explanation:
Module B – Chapter 9 – Page 167

Loan to Value Ratio as per the RBI guidelines is as follows:

- For loans up to Rs. 30 Lakh – Maximum 90%
- For loans above Rs. 30 Lakh and up to Rs. 75 Lakh – Maximum 80%
- For loans above Rs. 75 Lakh – Maximum 75%

Q5. Which of the following has the least role in Investment?

(a) Hedging
(b) Return
(c) Liquidity
(d) Risk

Solution: A
Module D – Chapter 24 – Page 474

The characteristics or elements of investment can be understood in terms of **Return, Risk, Safety and Liquidity**. The basic objectives of any investment is to maximize the return and minimize the risk.

- **Return:** This is the prime objective of any type of investment. The return can be regular income or increase in the value of investment.
- **Risk:** This means variability in return because of loss of capital or non – payment of Income. The more the risk, generally the more the expected return.
- **Safety:** It states that investors get back their original principal on maturity with no loss in value and hindrance.
- **Liquidity:** It means an investor can sell his investment in the market as need arise without incurring much transaction costs, less time and energy.

Q6. What is the cash limit for Demand Draft transactions as per RBI Guidelines ?

(a) One lakh rupees
(b) Fifty thousand rupees
(c) Two lakh rupees
(d) Twenty thousand rupees

Solution: B
Explanation:
Module B – Chapter 8 – Page 132

The limit for DD transaction in cash form is only Rs.50000 as per RBI guidelines.

Q7. Which among the following bank issued the 1st Credit Card in India?

(a) Canara Bank
(b) State Bank of India
(c) Punjab National Bank

(d) Central Bank of India

Solution: D

Module B – Chapter 10 – Page 190

The **Central Bank of India** launched the **first bank credit card** in 1980, which was followed by Andhra Bank in the same year – both were of the Visa brand.

Q8. Consider the following stages of Product Life Cycle:

1. **Growth Stage**
2. **Maturity Stage**
3. **Introduction Stage**
4. **Decline Stage**

Which among the following represents the correct sequence of above stages in Product life cycle?

(a) 1 – 2 – 3 – 4
(b) 3 – 1 – 2 – 4
(c) 1 – 3 – 4 – 2
(d) 3 – 2 – 1 – 4

Solution: B
Explanation:
Module B – Chapter 6 – Page 90

There are various stages in the life of the Product. The product after development goes through following 4 stages in its journey and in each stage, the impact on sales will be different.

a. **Introduction Stage**: In this stage the product is introduced. Here the sales volume will be low and revenue from the products will not be sufficient to cover the cost of producing, marketing, and servicing it.
b. **Growth Stage**: In this stage, the sales volume of the product picks up and the product is likely to break even and start generating profits for the organization.
c. **Maturity Stage**: In this stage, there will be more growth . Here product will reach its wide customer base which will result in maximization of sales with inflow of business and profits. Saturation stage comes at the end of maturity stage.
d. **Decline Stage**: In this stage the product becomes less attractive for the customers due to various reasons and results in drop in sales volume and profits.

Q9. What is the cash with drawl limit in the contact less cards?

(a) Rs. 10,000/-
(b) Rs. 2000/-
(c) Rs. 1000/-
(d) Rs. 5000/-

Solution: D
Explanation:
Module B – Chapter 10 – Page 207

A contactless card is a faster way to pay with a credit or debit card for purchases **under Rs. 5000/-** at participating stores. Instead of swiping the card at the billing counter, pay by simply waving or tapping the card on contactless terminal without entering the PIN.

- Contactless cards work on **Near – Field Communication (NFC) technology**, which uses radio transmission to ascertain contact when the cards are tapped or waved.

Q10. Which of the following is a non – fund-based advance?

(a) Credit Card receivables
(b) Home Loan
(c) Bank Guarantee
(d) Auto Loan

Solution: C
Explanation:
Module B – Chapter 9 – Page 166

In banking language, the non-funding advances are called **Contingent Liability** of the banks. The Fund based lending is **direct form of loans** on which actual cash is given to the borrower by the bank. Home loan, Auto loan and Credit Card receivables are fund-based advances.

Q11. What is the rate of tax – deduction at source (TDS) in case of term deposit, if the depositor has submitted the PAN card?

(a) 5%
(b) 20%
(c) 10%
(d) 15%

Solution: C
Explanation:
Module B – Chapter 8 – Page 152

TDS is to be deducted in cases where the total interest paid or credited on all time deposits in the name of a depositor, whether singly or jointly exceeds Rs. 50,000/- in a financial year in case off Senior Citizen or Rs. 40000/- in case of depositors below the age of 60 years.

- TDS rate is **10% in case, the depositor has furnished the PAN Card** or else 20% in case the depositor has not submitted the PAN Card.

Q12. What is the PoS cash withdrawal limit on Debit Cards in Tier I and II centres?

(a) Rs. 2000/-
(b) Rs. 1000/-
(c) Rs. 5000/-
(d) Rs. 10000/-

Solution: B
Explanation:
Module C – Chapter 18 – Page 366

Point of Sale terminals are the **enablers of payment of credit and debit cards** in merchant establishments. Whenever a customer makes a purchase in a merchant establishment, point of sale terminal facilitates the payment of amount of purchase by accessing the account and effecting payment.

There is a daily POS limit for cash withdrawals since they are not the primary source of cash withdrawal. In Tier III to VI centres, you can withdraw up to ₹2000 per day.

- The withdrawal limit **is ₹1,000 per day per card at Tier I and II centres**.
- The banks may also levy a charge for the transaction.

However, according to the **Reserve Bank of India** (RBI), it must not exceed 1% of the total transaction amount.

Q13. National Payment Corporation of India is an initiative of

(a) Reserve Bank of India
(b) Indian Banks' Association
(c) Both a and b
(d) Neither a nor b

Solution: C
Explanation:
Module B – Chapter 11 – Page 216

National Payments Corporation of India (NPCI), an umbrella organisation for operating retail payments and settlement systems in India, is an initiative of **Reserve Bank of India (RBI) and Indian Banks' Association** (IBA) under the provisions of the **Payment and Settlement Systems Act, 2007**, for creating a robust Payment & Settlement Infrastructure in India.

- Considering the utility nature of the objects of NPCI, it has been incorporated as a **"Not for Profit"** Company under the provisions of **Section 25 of Companies Act 1956** (now Section 8 of Companies Act 2013), with an intention to provide infrastructure to the entire Banking system in India for physical as well as electronic payment and settlement systems.
- The Company is focused on bringing innovations in the retail payment systems through the use of technology for achieving greater efficiency in operations and widening the reach of payment systems.
- The **ten core promoter banks** are State Bank of India, Punjab National Bank, Canara Bank, Bank of Baroda, Union Bank of India, Bank of India, ICICI Bank Limited, HDFC Bank Limited, Citibank N. A. and HSBC.

Q14. Up to what amount limit Recovery of Non-Performing Assets through Lok Adalat can be done.

(a) Rs. 1 Lakh
(b) Rs. 10 Lakh
(c) Rs. 20 Lakh
(d) Rs. 25 Lakh

Solution: C
Explanation:
Module B – Chapter 14 – Page 315

Recovery of NPAs through award of Lok Adalat is the easiest, cheapest, and fastest mode. Every award made by a Lok Adalat shall be final and binding on all the parties to the dispute, and no appeal shall lie to any court against the award.

- Pre – litigative cases relating to recovery/accounts with outstanding up to **Rs. 20 lakh** and suit filed cases/accounts where the plaint amount **does not exceed Rs. 20 lakh** can be referred to Lok Adalat.

- However, if the Lok Adalat is conducted by Debt Recovery Tribunal (DRT), then there is no limit.

Q15. Which among the following foreign banks entered the retail banking activities but when not able to achieve the business objectives moved out of the business.

1. **BNP Paribas**
2. **City Bank**
3. **ABN Amro (Now RSB) Bank**

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

Solution: C
Explanation:
Module B – Chapter 14 – Page 315

Section - 2

Sno.	Topic	Type of Question
1.	Securitization	They have asked about the Minimum Retention Requirement (MRR) in security Assets.
2.	Pradhan Mantri Awaas Yojana	They have asked question about the target year under the scheme.
3.	Integrated Ombudsman Scheme	Question are asked about 2021 Amendments
4.	IT Act 80 D	What is the maximum limit for health checkup under the Act.
5.	SWIFT, NEFT, FOIR and CERSAI	Question was related to full form
6.	Return on Asset, Leverage ratio, Branch profitability and Net Interest Income	Numerical Questions have been asked
7.	Joint Account Fixed	They have asked question pertaining to the case that can we close FD in pre – maturity while one person has died
8.	BHIM and UPI	Transaction limit has been asked
9.	Short Term Capital Gain (STCG) and LTCG	Formula for STCG, LTCG has been asked
10.	Asset Product	Question was to choose asset product from various options given
11.	Sovereign Gold Bond Scheme	Who can take loan against SGB
12.	NEFT and RTGS Transactions	There was a question having 4 statements on RTGS and NEFT and student has to choose the correct answer.
13.	Gold Bond	Question asked about objective and use of Gold bond

14.	Bank fraud	There was a case study related to 70 lakh bank fraud happened in Internet banking, what actions should be taken by the bank.
15.	Loan and EMI	2 lakh salary with 95,000 EMI and 1 lakh salary with 45000 EMI – which one is better
16.	Future Value	Formula for calculating the future value has been asked
17.	Chatbot	Match type questions where chatbot name with the Company name was to be matched
18.	Profit Margin Ratio	Formula to calculate Profit Margin Ratio has been asked

Section - 3

1. Artificial Intelligence is coined by
2. Blockchain Technology
3. Institute for Development and Research on Banking Technologies
4. FIRO
5. Customer Relationship Management
6. Return on Equity (ROE) for Banks
7. Form 15G/ 15H
8. White Label ATM
9. Reason for Success of Retail Banking
10. Sovereign Gold Bond Scheme
11. Vertical Horizontal Model
12. Strategic Model
13. Multiple Questions on KYC guidelines
14. Mutual fund-based question
15. beyond which amt is taxable if it gifted by anyone else other than close relatives
16. Objectives of Retail banking
17. Surface act hub
18. Fire Insurance Time Deposits
19. Convertible bond
20. Overdraft facility available in Minor Account
21. Event based Insurance
22. Benefits of Marketing Information System
23. Suraksha Bima Yojana
24. Atal Pension Yojana
25. Right to Privacy
26. Portfolio Management Trade Off

EduTap

JAIIB OCTOBER 2023 EXAM

IE & IFS

RECOLLECTED QUESTIONS

WITH

DETAILED EXPLANATION

Preface

The document gives a fair idea of the kind of questions that were asked in JAIIB October 2023 Indian Economy and Indian Financial System (IE&IFS) 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. Which among the following is an example of activity of Quinary Sector?

(a) Corporate decision making

(b) Knowledge Center

(c) Health sector

(d) Green Energy

Answer: A

Explanation:

ROLE & IMPORTANCE OF PRIMARY, SECONDARY, TERTIARY SECTOR, QUATERNARY & QUINARY SECTORS

Primary Sector

This sector includes all those economic activities where there is the direct use of natural resources as agriculture, forestry, fishing, fuels, metals, minerals, etc. An agrarian economy exists when the agriculture sector (one of the key sectors) provides at least 50 per cent of a country's national revenue and livelihood Primary sector constitutes:

(a) agriculture,

(b) forestry, and

(c) fishing

Secondary Sector

It includes all economic activities that involve the processing of raw materials extracted from the primary sector also called industrial sector.

- Manufacturing one of its sub-sectors, has proven to be the largest employer in the Western developed economies.
- An industrial economy is one, in which, the secondary sector generates at least half of a country's national GDP and employment.
- This sector includes all economic activities that produce services, such as education, healthcare, banking, communication, and so on.

Tertiary Sector

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.

Quaternary Sector

Also known as the "knowledge' sector. This category includes activities such as teaching, research, and development.

- The sector is by far the most important in assessing the strength of an economy's human resources. The intellectual aspect of the economy is represented by the quaternary sector.
- This group includes employees in office buildings, elementary schools and university classrooms, hospitals and physicians' offices, theatres, accountancy and brokerage businesses, and so on.

Quinary Sector

It includes activities in which key choices are made. It includes the **highest level of decision makers** in governments (including their bureaucracy) and the **private corporate sector**. **Hence option A is correct.**

- The number of people participating in this sector is quite small, yet they are regarded the "brain" behind an economy's socioeconomic performance.
- This group includes occupations such as senior company executives, government officials, research scientists, financial and legal advisors, and others.

Pg No. 17, Chapter No. 2, Module A

Q2. In a broader sense, Quaternary sector is a sub-sector of_____

(a) Primary sector

(b) Secondary sector

(c) Tertiary sector

(d) None of the above

Answer: C

Explanation:

ROLE & IMPORTANCE OF PRIMARY, SECONDARY, TERTIARY SECTOR, QUATERNARY & QUINARY SECTORS

Primary Sector

This sector includes all those economic activities where there is the direct use of natural resources as agriculture, forestry, fishing, fuels, metals, minerals, etc. An agrarian economy exists when the agriculture sector (one of the key sectors) provides at least 50 per cent of a country's national revenue and livelihood

Primary sector constitutes:

(a) agriculture,

(b) forestry, and

(c) fishing

Secondary Sector

It includes all economic activities that involve the processing of raw materials extracted from the primary sector also called industrial sector.

- Manufacturing one of its sub-sectors, has proven to be the largest employer in the Western developed economies.
- An industrial economy is one, in which, the secondary sector generates at least half of a country's national GDP and employment.
- This sector includes all economic activities that produce services, such as education, healthcare, banking, communication, and so on.

Tertiary Sector

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.**

Quaternary Sector

Also known as the "knowledge' sector. This category includes activities such as teaching, research, and development.

- The sector is by far the most important in assessing the strength of an economy's human resources. The intellectual aspect of the economy is represented by the quaternary sector.
- This group includes employees in office buildings, elementary schools and university classrooms, hospitals and physicians' offices, theatres, accountancy and brokerage businesses, and so on.

Quinary Sector

It includes activities in which key choices are made. It includes the **highest level of decision makers** in governments (including their bureaucracy) and the **private corporate sector**.

- The number of people participating in this sector is quite small, yet they are regarded the "brain" behind an economy's socioeconomic performance.
- This group includes occupations such as senior company executives, government officials, research scientists, financial and legal advisors, and others.

Pg No. 17, Chapter No. 2, Module A

Q3. Which among the following is not a method of Deficit Financing in India?

(a) Borrowing from Public and Foreign Governments

(b) Borrowing from the Reserve Bank of India (RBI)

(c) Withdrawing Cash Balances held with the Reserve Bank of India

(d) Direct borrowing from Private Sector

Answer: D

Explanation

FINANCIAL RESOURCES FOR ECONOMIC PLANS

In India, there are three key sources of funds available for funding Economic Plans:

i. Domestic Budgetary Sources

ii. Deficit Financing and

iii. Foreign Assistance

Domestic Budgetary Sources

Domestic budgetary resources contributed the most to plan financing among the three primary sources.

- Taxation is among the most significant domestic budgetary resources for channelizing funds for planning.
- Aside from revenue, additional domestic fiscal resources such as public borrowing, small savings, and public enterprise surplus also contribute significantly to supporting our programmes.
- This is the amount allocated from the federal and state budgets to fund the programmes involving investments during the plan period.
- It is the central share in the five-year plan, as well as assistance

Deficit Financing

Deficit Financing can happen when the total income of the government (revenue account + capital account) falls below its total expenditure.

- The government resorts to withdrawing money from its cash deposited in the RBI or orders the RBI to print new currency notes or borrows money from the public in the form of bonds and securities.
- The deficit is financed by borrowing loans from the central bank, commercial banks, and even state governments through Ad-hoc Treasury Bills.
- The deficit financing is the second most important source of plan financing. Since revenue and borrowing have limits, deficit financing has been viewed as an important source of funding, for planning in our country.
- In deficit financing surplus money of the taxpayer is lent to the government and hence it does not bother the taxpayer.

The different types of deficit financing are :

- Borrowing from Public and Foreign Governments
- Borrowing from the Reserve Bank of India (RBI)
- Withdrawing Cash Balances held with the Reserve Bank of India. **Hence option D is the correct answer.**

<u>Foreign Assistance</u>

External or foreign assistance contributes greatly to India's financing strategies. The five sectors receiving highest Foreign Direct Investment (EDI) equity inflow during FY 2021 22 are computer software and hardware, services sector (finance and banking, insurance, non-finance/business, etc.). automobile industry, trading, and construction activities.

- India has been accessing funds from the World Bank mainly through IBRD and IDA for various development projects.
- IBRD loans though non-concessional are offered relatively on favorable terms compared to commercial sources.
- As India is developing and modernizing, the Indian government is also lending a helping hand to poorer nations across the world, both towards ending poverty and improving living standards.
- India has emerged as a benevolent donor for her immediate neighbours with total foreign assistance, including technical and economic cooperation, and loans to foreign governments, increasing dramatically over the past years.

Pg No. 39, Chapter No. 3, Module A

Q4. Which among the following initiatives has been launched by SIDBI to improve accessibility of credit and handholding services to MSMEs?

(a) Udyami Mitra Portal

(b) MSME Sambandh

(c) Scheme of Fund for Regeneration of Traditional Industries (SFURTI)

(d) A Scheme for Promotion of Innovation, Rural Industries & Entrepreneurship (ASPIRE)

Answer: A

Explanation

Initiatives for MSMEs in India

- **Udyami Mitra Portal**: Launched by SIDBI to improve accessibility of credit and handholding services to MSMEs. **Hence option A is correct.**
- **MSME Sambandh**: To monitor the implementation of the public procurement from MSMEs by Central Public Sector Enterprises.

- **MSME Delayed Payment Portal**: This will empower Micro and Small entrepreneurs across the country to directly register their cases relating to delayed payments by Central Ministries/Departments CPSE State Governments.
- **Digital MSME Scheme**: It involves usage of Cloud Computing, where MSMEs use the internet to access common as well as tailor-made IT infrastructure
- **Prime Minister Employment Generation Programme**: A credit linked subsidy programme under Ministry of MSME
- **Scheme of Fund for Regeneration of Traditional Industries (SFURTI)**: Organises traditional industries and artisans into clusters and make them competitive by enhancing their marketability & equipping them with improved skills.
- **A Scheme for Promotion of Innovation, Rural Industries & Entrepreneurship (ASPIRE)**: It creates new jobs & reduce unemployment, promotes entrepreneurship culture, facilitates innovative business solution, etc.
- **National Manufacturing Competitiveness Programme (NMCP)**: To develop global competitiveness among Indian MSMEs, by improving their processes, designs, technology, and market access.
- **Micro & Small Enterprises Cluster Development Programme (MSE-CDP)**: Adopts cluster development approach, for enhancing the productivity and competitiveness as well as capacity building of MSEs
- **Credit Linked Capital Subsidy Scheme (CLCSS)**: It is operational for upgradation of technology for MSMEs

Pg No. 51, Chapter No. 4, Module A

Q5. 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

Q6. The Bharatmala Pariyojana of the Government of India has been launched to develop __________.

(a) Roads

(b) Rivers

(c) Railways

(d) Ropeways

Answer: A

Explanation

Bharatmala Pariyojana

India's largest infrastructure investment program with more than $100 billion presents the most attractive investment opportunity in **roads. Hence option A is correct.**

- Govt. of India is developing various Industrial Corridor Projects as part of National Industrial Corridor programme which is aimed at development of futuristic industrial cities in India which can compete with the best manufacturing and investment destinations in the world.
- The same will create employment opportunities and economic growth leading to overall socio-economic development.

56, Pg No. 58, Chapter No. 5, Module A

Q7. Which of the following is correct regarding Government of India's initiatives to boost communication infrastructure in India?

1. National Optical Fibre Network for connectivity to Metros & Urban Areas

2. PLI schemes for Large Scale Electronics Manufacturing

3. Tarang Scheme

4. Increase the FDI ceiling on Telecom Sector

(a) 1, 2 and 3 only

(b) 2, 3 and 4 only

(c) 1 and 2 only

(d) 1, 2 and 4

Answer: B

Explanation

Communications Infrastructure

Communication infrastructure includes postal services, telephone networks, including mobile phone networks, television and radio broadcast stations, the internet, communication satellites, and so on. Few of the initiatives taken by Government to boost Communication Infrastructure in India are:

- FDI cap in the telecom sector has been increased to 100% from 74%
- In 2020, the government approved the Production Incentive Scheme (PLI) for Large-scale
- Electronics Manufacturing Department of Telecommunication launched 'Tarang Sanchar - a web portal sharing information on mobile towers and EMF Emission Compliances.
- The government has approved a project at a cost of 20,000 crores for creating a **National Optical Fiber Network (NOFN) which will provide broadband connectivity to 2.5 lakh gram panchayats** for various applications like e-Health, e-education, and e-governance. **Hence statement 1 is incorrect while others are correct. Hence option B is the correct answer.**

Pg No. 57, Chapter No. 5, Module A

Q8. Which of the following is the National Plan for Multi-Modal Connectivity launched in 2022-23?

(a) PM Gati Shakti

(b) Bharat Mala

(c) Sagar Mala

(d) PM Gati Saathi

Answer: A

Explanation

PM Gati Shakti

PM Gati Shakti is a National Master Plan for **Multi-modal Connectivity** launched by the Prime Minister in the Union Budget 2022-23, essentially a digital platform to bring 16 Ministries including Railways and Roadways together for integrated planning and coordinated implementation of infrastructure connectivity projects. **Hence option A is correct.**

- The multi-modal connectivity will provide integrated and seamless connectivity for movement of people, goods and services from one mode of transport to another.
- It will facilitate the last mile connectivity of infrastructure and also reduce travel time for people.

Pg No. 57, Chapter No. 5, Module A

Q9. Which among the following is/are part of Fair Globalisation?

1. Economic Development
2. Liberalisation
3. Social development
4. Environmental conservation
5. Privatisation
6. Inclusion

(a) 1, 2, 3 and 4 only
(b) 1, 2, 5 and 6 only
(c) 1, 2, 3, 4 and 6 only
(d) All of the above

Answer: C

Explanation

FAIR GLOBALISATION & THE NEED FOR POLICY FRAMEWORK

The importance of mutual understanding and dialogue among governments, organisations within and across borders to promote **social cohesion** is a key proposition of fair Globalisation.

- Fair globalisation creates opportunities for all, while also ensuring that the advantages of globalisation are shared equally.
- Government measures must safeguard the **interests of all citizens**, including workers.
- Their **rights must be effectively protected**, and they must be given their entitlements.
- At the local, national, regional, and global levels, fair globalisation must be supported by the interdependent and mutually reinforcing pillars of **economic development, social development, and environmental protection**.
- It must be fair, inclusive, democratically governed, and provide opportunities and tangible **benefits to all countries and people**.
- **Sound institutions** are required to promote opportunity and enterprise, in a market economy.
- It must provide equal opportunity and access to all nations, while also acknowledging the diversity of national strengths and developmental requirements.
- Addressing the wants and needs of all people is the cornerstone of a more equitable globalisation.

Hence option C is correct as Privatisation is not a compulsory element of Fair Globalisation

Pg No. 67, Chapter No. 6, Module A

Q10. Which of the following is not a form of protectionism?

1. Custom Duty on export of Basmati Rice

2. Tax barrier

3. Non-tax barriers

4. Import Quotas

(Select the most appropriate answer from the options given below)

(a) 1, 2 and 3 only

(b) 2, 3 and 4 only

(c) 1 only

(d) 3 only

Answer: B

Explanation

GLOBALISATION IN REVERSE GEAR- THE THREATENED RE-EMERGENCE OF PROTECTIONISM

During economic and geopolitical crises, globalisation has always taken a hit as WTO regulations allow governments to practise trade protection measures to preserve national interests within specific limits.

- The process of reducing dependency and integration amongst particular units throughout the world is known as deglobalisation. It is commonly used to characterise historical eras, in which, economic trade and investment between countries collapse.
- When a government enacts laws that **restrict or prohibit international trade**, it is participating in protectionism, and protectionist measures frequently attempt to protect home producers and workers from foreign competition.
- **Protectionism takes three main forms: tariffs, import quotas, and non-tariff barriers**. The protectionism results in decline in trade, price rise, and the necessity for provision of subsidy for protected industries. **Hence option B is the correct answer as export duties are not included in protectionist measures**.
- Some jobs in these industries may be saved, but jobs in other industries are likely to be lost.
- Despite its importance in building a better world for millions of underprivileged, currently a gradual shift in viewpoint towards embracing of globalisation is taking place, primarily supported by a number of unprecedented events, in the recent years, such as Brexit, withdrawal of the US from the Trans-Pacific Partnership, the US-China Trade Disputes, recent COVID-19 Pandemic and the Russia-Ukraine conflict.
- Limited role of the World Trade Organization 'Dispute Settlement Mechanism' also plays a critical role behind this. There has been a rise in populism principle that, it would be better off pursuing inward- rather than outward-looking policies, in both economic and foreign policies.

Pg No. 67-68, Chapter No. 6, Module A

Q11. Which among the following is one of the categories of India's economic failure into three categories as underlined by Economist Jagdish Bhagwati?

1. Increased international trade

2. Strong bureaucratic controls over production, investment, and trade

3. Inward-looking trade and foreign investment policies

4. Inefficient public-sector enterprise functioning

(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
Reforms in India have a history and reflect the Indian economy's poor upbringing over decades, which finally culminated to the 1990s economic catastrophe.

- The causes that underlie India's economic disaster have been clearly outlined by Jagdish Bhagwati.
- He categorises India's economic failure into three categories:
  (1) strong bureaucratic controls over production, investment, and trade;
  (2) inward-looking trade and foreign investment policies; and
  (3) inefficient public-sector enterprise functioning. **Hence option B is correct.**
- Such policies have been in place for years, eroding the economy's ability to deal with any external or internal shock By 1990, the economy had grown so weak that the modest oil shock of 1990 (due to Iraq's invasion of Kuwait) had a disproportionately larger impact, and the country experienced one of the worst periods in its history.

Pg No. 79, Chapter No. 7, Module A

Q12. Which of the following represents LPG era?
(a) 1992-2008
(b) 2008-2013
(c) Year 2014 onwards
(d) 1988-90
Answer: A
Explanation
Reforms in India have a history and reflect the Indian economy's poor upbringing over decades, which finally culminated to the 1990s economic catastrophe.

- The causes that underlie India's economic disaster have been clearly outlined by Jagdish Bhagwati He categorises India's economic failure into three categories (1) strong bureaucratic controls over production, investment, and trade; (2) inward-looking trade and foreign investment policies; and (3) inefficient public-sector enterprise functioning. Such policies have been in place for years, eroding the economy's ability to deal with any external or internal shock.
- By 1990, the economy had grown so weak that the modest oil shock of 1990 (due to Iraq's invasion of Kuwait) had a disproportionately larger impact, and the country experienced one of the worst periods in its history.
- As part of its big-bang economic reforms that began in 1991, India entered the globalisation phase through a series of reform measures. In response to a fiscal and balance-of-payment (BOP) crisis, India began an economic reform process on July 23, 1991.
- The governments took their initial efforts towards economic reform in the mid-1980s. While the changes of the 1980s have very limited impact, the reforms that began in the early 1990s in the domains of industry, trade, investments, and, subsequently, agriculture, were much wider and deeper.

- The reform period continued till 2008 as in 2008 a global economic crisis hit the world including India. Thus **1991-2008** is considered reform period. **Hence option A is correct.**

Pg No. 79, Chapter No. 7, Module A

Q13. Which among the following were not one of the reforms taken up by the Indian Government after 1991?

(a) Strengthening Supervisory System

(b) Banking sector reforms

(c) Financial sector reforms

(d) None of the above

Answer: D

Explanation

First Phase of Reforms - The Narasimham Committee I (February 1992)

To rebuild the financial health of commercial banks and to make their functioning efficient and profitable, the Government of India appointed a High-Level Committee; "The Committee on **Financial System**" (CFS) under the Chairmanship of M. Narasimham Based on the committee's recommendation, the RBI, in February 1992, issued the new guidelines on Income Recognition, asset classification and provisioning requirements.

- The new standards put the banking sector's attention to credit risk and recovery management.

Few of the important reforms that took place in 1992 were:

- Capital adequacy norms
- Progressive reduction of Cash Reserve Ratio and Statutory Liquidity Ratio
- Deregulation of Lending rates
- Credit delivery
- Debt Recovery Tribunal (DRT)
- **Strong Supervisory System**
- Entry of New Private Banks
- Mergers and Amalgamation

Second Phase of Reforms - Narasimham Committee-II

- In 1998, the Government set up Committee on Banking Sector Reforms in India under the chairmanship of M. Narasimham in order to review the progress of **banking sector reforms** to date and chart a programme of financial sector reforms necessary to strengthen the Indian Financial System and make it internationally competitive.

The benefits of the Second Phase of Banking Sector Reforms were:

- Deregulation of Branch Licensing
- Prudential Norms and Disclosure Requirements
- Capital Adequacy

Hence option D is correct

Pg No. 74, Chapter No. 7, Module A

Q14. Which among the following is correct with respect to Economic Development? (Select the most appropriate answer from the options given)

(a) Increase in National Income
(b) It refers to reduction in poverty & unemployment
(c) It is single dimensional in nature
(d) GDP, GNI & PCI are the indicators of Economic Development

Answer: B

Explanation

Economic Growth vs. Economic Development

Difference Between Economic Growth and Economic Development

Sl. No.	Economic Growth	Economic Development
1	Economic Growth refers to the increment in amount of goods and services produced in an economy	Economic development refers to the reduction and elimination of poverty, unemployment and inequality with the context of growing economy
2	Economic growth means an increase in real national income/national output	Economic development means an improvement in the quality of life and living standards, e.g., measures of literacy, life-expectancy, and healthcare
3	Economic growth focuses on production of goods and services	Economic development focuses on distribution of resources
4	Economic growth is single dimensional in nature as it only focuses on income of the people	Economic development is multi-dimensional in nature as it focuses on both income and improvement of living standards of the people
5	Economic Growth is the precursor and prerequisite for economic development. It is the subset of economic development	Economic development comes after economic growth. It is a positive impact of economic growth
6	Indicators of economic growth are: • GDP • GNI • Per capita income	Indicators of economic development are: • Human Development Index (HDI) • Human Poverty Index (HPI) • Gini Coefficient • Gender Development Index (GDI) • Balance of trade • Physical Quality of Life Index (PQLI)
7	Economic growth only looks at the quantitative aspect. It brings quantitative changes in the economy	Economic development brings quantitative and qualitative change in the economy
8	It refers to increase in production	It refers to increase in productivity
9	Economic growth is relatively narrow concept as compared to economic development	It is a broader concept than economic development
10	Economic growth is more relevant metric for assessing progress in developed countries	More relevant to measure progress and quality of life in developing countries

- **Hence option B is correct.**

Pg No. 91-92, Chapter No. 8, Module A

Q15. Which among the following is the type of FDI which is a sort of investment in which, a parent corporation establishes a subsidiary in the destination country and builds operations from scratch?

(a) Brownfield FDI
(b) Greenfield FDI
(c) Whitefield FDI
(d) Joint Venture

Answer: B

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 FDI is a key engine of economic growth, assisting in maintaining high growth rates, enhancing productivity, and generate employment.

- A favourable policy framework and a stable business environment promote FDI inflows. The Indian government has been implementing a series of changes intended at liberalising and simplifying FDI policy, in its attempt to optimise the case of doing business in the nation, which would culminate in increased FDI inflows.
- Defence, construction, broadcasting, civil aviation, plantation, trade, private sector banking, satellite installation and operation and credit information companies are among the sectors that have been liberalised.
- Net FDI has increased from $ 3.7 billion in 2004-05 to $ 36.6 billion by 2021-22 However, in 2021-22 the Net Foreign Direct Investment in India reached $ 36.6 billion, 16.7 per cent lower compared to year earlier.

Types of FDI

There are three types of FDI-

1. 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. **Hence option B is correct.**

2. Brownfield FDI

It is an investment in which a multinational corporation buys stock in an established firm in the host country For example, Danchi Sankyo of Japan acquired Ranbaxy India

3. 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)

Pg No. 87-89, Chapter No. 8, Module A

Q16. Match the following correctly and select the most appropriate answer from the options given below:

Category of Mutual Fund	MF Characteristic
A. Savings/Gross Fixed Capital Formation	**i. Performance of the economy**
B. Gross Fixed Capital Formation/GDP	**ii. Income shares of capital in GDP**
C. GDP Growth Rate	**iii. Domestic Funding of investment**
D. Operating Surplus/GVA	**iv. Share of investment in capital goods in GDP**

(a) A – i, B – ii, C – iii, D – iv

(b) A – iii, B - iv, C - i, D - ii

(c) A - iv, B - ii, C - iii, D – i

(d) A - ii, B - i, C - iii, D - iv

Answer: B

Explanation

Economic performance indicators	
Indicators	**Interpretation**
GDP growth rate	The performance of the economy
GDP per capita	The level of economic development in comparison to other countries
Compensation of employees per work hour	Labour cost

Indicators	Interpretation
Compensation of employees/gross value added	Income shares of employees in GDP
Operating surplus/ gross value added	Income shares of capital in GDP
Gross fixed capital formation/GDP	Share of investment in capital goods in GDP
Saving/GDP	Saving rate of the nation
Saving/gross fixed capital formation	Domestic funding of investment
Saving of an institutional sector/ total saving	Contribution of each sector to total saving
Saving of households/ disposable income of households	Saving rate of households

Pg No. 91, Chapter No. 8, Module A

Q17. Which among the following is/are the function(s) of Multilateral Investment Guarantee Agency (MIGA)?

1. Encouraging foreign direct investment into developing countries

2. Protecting investors against non-commercial and political risk

3. Advising governments on how to attract investment

4. Sanctioning long-term infrastructure loans

(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

Multilateral Investment Guarantee Agency (MIGA)

MIGA **encourages foreign direct investment into developing countries, by protecting investors, against non-commercial and political risk**, **advising governments on how to attract investment**, and so on. **Hence option A is correct.**

- The agency was established to supplement both public and private investment insurance sources, in developing nations, against non-commercial risks.
- Its international nature and sponsorship by advanced and developing countries were perceived as boosting trust among those, who were willing to invest across boundaries.

- Through foreign direct investment in developing nations, the organisation aspires to stimulate economic growth, eliminate poverty, and enhance people's lives.

Pg No. 99, Chapter No. 9, Module A

Q18. India has signed which among the following accords with the World Trade Organisation (WTO)?
1. Reduction of Tariff and Non-Tariff Barriers
2. Trade-Related Investment Measures (TRIMS)
3. Trade-Related Intellectual Property Rights (TRIPS)
4. Agreement on Sanitary and Phytosanitary Measures (SPM)
5. Multi-Fibre Agreement (MFA)
(a) 1, 2, 3 and 4 only
(b) 2, 3, 4 and 5 only
(c) 1, 3 and 5 only
(d) All of the above
Answer: D
Explanation
WORLD TRADE ORGANIZATION (WTO)-INDIA AND WTO
The international trading system had been undermined by the World War I, the Great Depression, and the World War II. Several nations gathered in the post-World War II period, to discuss methods to strengthen global economic relations.

- The General Agreement on Tariffs and Trade (GATT) was signed by 23 nations, on October 30, 1947, in Geneva, GATT went into effect on January 1, 1948. India was founding member of the GATT.
- From 1948 to 1994, the GATT set the rules for much of international trade and presided over periods of rapid development, in international trade.
- From 1948 through 1994, eight rounds of GATT were completed, and on January 1, 1995) the WTO was formed.
- The establishment of the World Trade Organization was the most significant reform of international trade since the World War II. It also brought back to life in an upgraded version, the failed attempt to establish an International Trade Organization (ITO), in 1948.
- WTO was conceived during the eighth GATT cycle (1986-1994), which commenced in Uruguay and finished in Geneva (popularly called as Uruguay round).
- Essentially, the WTO is a forum where member countries' governments try to resolve trade disputes with one another. As of June 16, 2022, the WTO has 164 members) Geneva is the headquarters of the World Trade organization.
- The WTO's top decision- making body, the ministerial conference of trade/commerce ministers, meets roughly every two years.
- The World Trade organization (WTO) is seen as a watchdog of international trade, facilitating the smooth and rapid movement of goods across borders and promoting multilateralism.

The numerous accords signed as part of the WTO have several implications for the Indian economy.

- **Reduction of Tariff and Non-Tariff Barriers, Trade-Related Investment Measures (TRIMS), Trade-Related Intellectual Property Rights (TRIPS), Agreement on Agriculture (AOA), Agreement on Sanitary and Phytosanitary Measures (SPM), Multi-Fibre Agreement (MFA)**, and others are among the important agreements. India emerged as the most outspoken proponent for the developing world at the 2001 World Trade Organization session, in Doha.

- The summit was declared a success, after 142 nation delegates agreed to a new round of trade negotiations including subjects such as the environment, competition, and investment.

Hence option D is correct.

Pg No. 101, Chapter No. 9, Module A

Q19. Which among the following organisation of World Bank provides soft loans to poorest of the poor countries?

(a) International Bank for Reconstruction and Development (IBRD)

(b) International Development Association (IDA)

(c) International Finance Corporation (IFC)

(d) Multilateral Investment Guarantee Agency (MIGA)

Answer: B

Explanation

World Bank (WB)

World Bank emerged from the Bretton Woods Conference, officially known as the United Nations Monetary and Financial Conference, held in 1944, in Bretton Woods.

- Its formation was aimed at assisting in the rebuilding of Western Europe following World War II devastation. After accomplishing this historic task, its efforts have been directed towards alleviating poverty in developing countries).
- The World Bank is the largest development bank in the world. It offers financial solutions and policy assistance to nations, in order to help them eliminate poverty and spread the benefits of sustainable growth to all of their citizens.
- Only sovereign governments and projects supported by sovereign governments are funded directly by the Bank.
- The World Bank Group (WBG) is a collection of five international institutions headquartered in Washington, DC The World Bank Group comprises the following five agencies International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA) and International Centre for Settlement of Investment Disputes (ICSID) India is one of the founder members of IBRD, IDA and IFC.

International Development Association (IDA)

IDA was established in 1960, to support the **world's poorest countries** and is responsible for delivering long-term, interest-free loans to around 80 of the world's poorest countries. **Hence option B is correct.**

- IDA repayments are spread out over 25 to 40 years, with a five- to ten-year grace period in between IDA also makes grants to nations that are in debt difficulties
- IDA offers major debt relief through the Heavily Indebted Poor Countries HIPC) Initiative and the Multilateral Debt Relief Initiative, in addition to concessional loans and grants (MDRI) While the IBRD raises the majority of its funding from global financial markets, IDA is primarily supported by contributions from the governments of its wealthier member countries.
- Additional monies come from IBRD and IFC revenue, as well as borrowers' repayments of previous IDA loans.

Pg No. 99, Chapter No. 9, Module A

Q20. Which among the following is not one of the functions of the World Trade Organisation (WTO)?
(a) Providing guarantees for international loans
(b) Handling trade disputes
(c) Monitoring national trade policies
(d) Technical assistance and training for developing countries
Answer: A
Explanation
GATT went into effect on January 1, 1948 India was founding member of the GATT From 1948 to 1994, the GATT set the rules for much of international trade and presided over periods of rapid development, in international trade.

- From 1948, through 1994, eight rounds of GATT were completed, and on January 1,1995, the WTO was formed.
- The establishment of the World Trade Organization was the most significant reform of international trade since the World War II.
- It also brought back to life in an upgraded version, the failed attempt to establish an International Trade Organization (ITO), in 1948.
- The World Trade organization (WTO) is seen as a watchdog of international trade, facilitating the smooth and rapid movement of goods across borders and promoting multilateralism.

Functions of WTO
The following are the six broader functions of WTO:

- Administering WTO trade agreements
- Providing forum for trade negotiations
- Handling trade disputes
- Monitoring national trade policies
- Technical assistance and training for developing countries and
- Cooperation with other international organisations

Hence option A is the correct answer
Pg No. 101, Chapter No. 9, Module A

Q21. Sustainable Development Goal (SDG) 13 is related to which among the following?
(a) Life below Water
(b) Climate Action
(c) Life on Land
(d) Sustainable cities and communities
Answer: B
Explanation
India and SDG 13: Climate Action
India is committed to SDG 13, which calls for climate action. India pledged to achieve net-zero emissions by 2070, during the United Nations COP26 summit, in Glasgow in November, 2021. India has made five 'Panchamrit' commitments to combat climate change.

i. Achieving the target of net zero emissions, by the year 2070

ii. Achieving 500 Giga Watt non-fossil energy capacity, by 2030
iii. Fulfilling 50 per cent of its energy requirements from renewable energy sources, by 2030
iv. India will reduce the total projected carbon emissions by one billion tonnes from now onwards, till 2030
v. By 2030, India will reduce the carbon intensity of its economy, by less than 45 per cent.

Hence option B is correct.

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

Q22. In India, companies are now free to spend more than the mandated 2 per cent of their net profits on CSR in any year, calculated as the average profits of three previous years. Given below are the annual profits (in lakhs) of four companies, calculate the obligation of each of the companies towards Corporate Social Responsibility (CSR) and select the most appropriate answer from the options given below:

Companies	Year 1	Year 2	Year 3	Profits
A	300	-100	200	
B	200	250	275	
C	250	275	300	
D	500	-400	-100	

Which among the following represents the correct obligation of the companies towards CSR in the present year?

(a) A = 6.67 lakhs, B = 12.08 lakhs, C = 13.75 lakhs, D = Nil
(b) A = 4 lakhs, B = 7.25 lakhs, C = 8.25 lakhs, D = Nil
(c) A = 2.67 lakhs, B = 4.83 lakhs, C = 5.5 lakhs, D = Nil
(d) None of the above

Answer: C

Explanation

CORPORATE SOCIAL RESPONSIBILITY (CSR) ACTIVITIES

The aim of CSR is to voluntarily incorporate economic, social, and environmental obligations into business operations, in order to achieve long-term growth and demonstrate a beneficial impact on the environment, employees, consumers, shareholders, and communities.

- Section 135 of the Companies Act 2013 provides legal support for CSR in India Both the SDGs and the Indian CSR rule were adopted around the same time and appear to have enormous potential for developing a unified sustainable growth strategy.
- Schedule VII provides the overall direction for CSR efforts. SDGs are measurable targets that result from CSR programmes. Businesses, through CSR, play a key role in facilitating SDG implementation.
- 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. It is calculated as the average profits of **three previous years**. In this way in the question if the profits are calculated **C is the correct answer**.

Calculation

For Company A, Profits in 1st year = Rs. 300 lakhs, 2nd year = - Rs. 100 lakhs, 3rd year = Rs. 200 lakhs.

The average of 3 years is = (300 -100 + 200)/3 = 400/3 = 133.33

2% of this average profit = (133.33 x 2)/100 = **Rs. 2.67 lakhs**. Similarly others can be calculated.

Hence option C is correct.

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

Q23. Quantity demanded tends to fall as price rises for two reasons. Which among the following are the two reasons for the same?

(a) Substitution effect and Income effect

(b) Production effect and Income effect

(c) Substitution effect and Production effect

(d) Substitution effect and Supply effect

Answer: A

Explanation

Law of demand

When the price of a commodity is raised (and other things being constant), buyers tend to buy less of the commodity. Similarly, when the price is lowered, other things being constant, quantity demanded increases.

Quantity demanded tends to fall as price rises for two reasons.

- First is the **substitution effect**, I find an alternative cheaper good. The price of a particular good rises, I will substitute other similar goods for it example is the price of dal rises, I eat more vegetables.
- Second is the **income effect**, this comes into play when a higher price reduces quantity demanded. As price goes up, I find myself somewhat poorer than I was before If petrol prices double, I have in effect less real income, so I will naturally curb my consumption of petrol and other goods.

Hence option A is correct

Pg No. 137-38, Chapter No. 13, Module B

Q24. When prices of a commodity are raised, buyers tend to buy less due to concept of_____

(a) Marginal Utility

(b) Law of Demand

(c) Law of Supply

(d) Inflation

Answer: B

Explanation

Law of demand

When the **price of a commodity is raised** (and other things being constant), buyers tend to **buy less** of the commodity Similarly, when the price is lowered, other things being constant, quantity demanded increases. **Hence option B is correct.**

Quantity demanded tends to fall as price rises for two reasons.

- First is the substitution effect, I find an alternative cheaper good. The price of a particular good rises, I will substitute other similar goods for it example is the price of dal rises, I eat more vegetables.
- Second is the income effect, this comes into play when a higher price reduces quantity demanded. As price goes up, I find myself somewhat poorer than I was before If petrol prices double, I have in effect less real income, so I will naturally curb my consumption of petrol and other goods.

Pg No. 137-38, Chapter No. 13, Module B

Q25. Which among the following statement is not correct with respect to inflation?

(a) Cost-Push Inflation is a type of inflation caused by substantial increases in the cost of production of important goods or services where suitable alternatives are available.

(b) Demand-Pull Inflation is a rise in general prices caused by increasing aggregate demand for goods and services

(c) Increasing quantity of money in the hands of the people increases the aggregate demand for goods and services, and if aggregate supply does not follow suit, prices rise which is called demand-pull inflation.

(d) The Wholesale Price Index (WPI) reflects the change in the level of prices of a basket of goods, at the wholesale level.

Answer: A

Explanation

<u>INFLATION</u>

The concept of inflation refers to a sustained rise in the general level of prices of goods and services in an economy over a period of time.

- Inflation leads to fall in purchasing power. When the price level rises, each unit of currency buys fewer goods and services; consequently, inflation is also erosion in the purchasing power of money-a loss of real value in the internal medium of exchange and unit of account in the economy.

<u>CAUSES OF INFLATION</u>

There are many factors that can trigger inflationary pressure in an economy. The most important of these are:

<u>Demand-Pull Inflation</u>

It is a rise in general prices caused by increasing aggregate demand for goods and services Increasing quantity of money in the hands of the people increases the aggregate demand for goods and services, and if aggregate supply does not follow suit, prices rise.

<u>Cost-Push Inflation</u>

It is a type of inflation caused by substantial increases in the cost of production of important goods or services where no suitable alternative is available. For example, if prices of some key inputs like oil rise, producers will have to either adjust output supply or translate the higher costs into higher output prices. When output declines because of cost pressure on producers, there will be a shortage in output markets and as a result prices will rise. **Hence statement A is incorrect and thus the correct answer.**

<u>Price Indices</u>

The most important price indices are:

1. Consumer Price Index
2. Wholesale Price Index
3. GDP Deflator

Wholesale Price Index (WPI)

The WPI reflects the change in the level of prices of a basket of goods, at the wholesale level. WPI focuses on the price of goods traded between corporations at the wholesale stage, rather than goods bought by consumers.

- WPI helps to monitor price movements that reflect supply and demand in industry, manufacturing and construction sectors
- The Office of the Economic Advisor, Department for Promotion of Industry and Internal Trade releases 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 642%).

Hence option A is the correct answer.

Pg No. 156, Chapter No. 14, Module B

Q26. Which among the following is the correct formula to calculate Velocity of money?

(a) Real GDP/Nominal GDP

(b) Nominal GDP/Broad money

(c) Real GDP/Broad money

(d) Narrow money/Broad money

Answer: B

Explanation

MONEY MULTIPLIER

The Money Multiplier approach to money supply was pronounced by Milton Friedman and Anna Schwartz (1963).

- Money multiplier explains the process through which, the "base money (M) created by a central bank multiplies in the banking system to the stock of broad money (M,), at any point of time.
- There are three important determinants of money multiplier - Currency to deposit ratio (which depends on the behaviour of the public), Required reserves to total deposits (which depends on the central bank policy) and Excess reserves maintained by banks with the central bank, as percentage of total deposit liabilities (which depends on the behaviour of commercial banks) are the key determinants of money multiplier.
- The money multiplier is the link between the broad money' (M,) and the reserve money (M) Money multiplier could be derived as "broad money/reserve money" (MM)

VELOCITY OF MONEY

The velocity of money is the frequency with which, one unit of currency is used on domestically produced goods and services, in a specific time period In other words, it is the number of times a money is spent to purchase goods and services in a unit of time.

- The ratio between nominal GDP and money supply is called "Velocity of Money". Velocity is the link between "broad money" and "nominal GDP" and is derived as

  Velocity of money = Nominal GDP / Broad money.
- Velocity refers to the number of times the available money stock may roll over or change hands to finance transactions equivalent of nominal GDP, whereas money multiplier is the magnitude by which, base money is amplified in the banking system to the stock of broad money.

Hence option B is correct.

Pg No. 155, Chapter No. 14, Module B

Q27. The frequency with which one unit of currency is used on domestically produced Goods & services in a specific time period is called________

(a) GDP Deflator

(b) GDP Multiplier

(c) Money Multiplier

(d) Velocity of Money

Answer: D

Explanation

MONEY MULTIPLIER

The Money Multiplier approach to money supply was pronounced by Milton Friedman and Anna Schwartz (1963).

- Money multiplier explains the process through which, the "base money (M) created by a central bank multiplies in the banking system to the stock of broad money (M,), at any point of time.
- There are three important determinants of money multiplier Currency to deposit ratio (which depends on the behaviour of the public), required reserves to total deposits (which depends on the central bank policy) and excess reserves maintained by banks with the central bank, as percentage of total deposit liabilities (which depends on the behaviour of commercial banks) are the key determinants of money multiplier.
- The money multiplier is the link between the broad money' (M,) and the reserve money (M) Money multiplier could be derived as "broad money/reserve money" (MM)

VELOCITY OF MONEY

The velocity of money is the **frequency with which, one unit of currency** is used on domestically produced goods and services, in a specific time period. **Hence option D is the correct answer.**

- In other words, it is the number of times a money is spent to purchase goods and services in a unit of time (The ratio between nominal GDP and money supply L is called "Velocity of Money! Velocity is the link between "broad money" and "nominal GDP" and is derived as "nominal GDP broad money"
- Velocity refers to the number of times the available money stock may roll over or change hands to finance transactions equivalent of nominal GDP, whereas money multiplier is the magnitude by which, base money is amplified in the banking system to the stock of broad money

Pg No. 155, Chapter No. 14, Module B

Q28. Which of the following is not a characteristic of Business Cycle?

(a) Non-pervasive in effect

(b) Synchronic

(c) Recurring

(d) Wave-like movement

Answer: A

Explanation

<u>BUSINESS CYCLE</u>

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**.

<u>CHARACTERISTICS OF A BUSINESS CYCLE</u>

- A business cycle is **synchronic**. The upward and downward movements tend to occur at almost the same period in all industries. The wave of prosperity or depression in one industry will soon generate a wave in other industries.
- It is **pervasive** in nature as it spreads from one sector to another. **Hence option A is the correct answer**
- A business cycle shows a wave-like movement. The period of prosperity and depression can be alternatively seen in a cycle.
- Cyclical fluctuations are **recurring** in nature. The various phases are repeated. A boom is followed by depression and the depression again is followed by boom.
- There can be no indefinite depression or eternal boom period. Business cycles are pervasive in their effects. The up and down movements are not symmetrical. The downward movement is more sudden and violent than the upward movement

Pg No. 178, Chapter No. 16, Module B

Q29. In which among the following phase(s) of a Business Cycle, once economy reaches the peak, a downward tendency in demand is observed. Also, inflation remains low or shows further signs of falling?

(a) Stagnant phase
(b) Recession
(c) Depression
(d) Boom

Answer: B

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.

<u>Recession</u>

Once economy reaches the peak, the course changes. A downward tendency in demand is observed. But the producers, who are not aware of this trend, go on producing.

- The supply now exceeds demand Now the producers come to notice that their stocks are piling up.
- They are compelled to give up future investment plans. The order for new equipment and raw materials are cancelled.

- A businessman even cuts down the existing business. Workers are retrenched. Bankers insist on repayment, stocks accumulate, business failure increases, investment ceases and unemployment expands.
- Unemployment leads to fall in income, expenditure, prices, profits and industrial and trade activities. Desire for liquidity increases all around. Producers are compelled to reduce price so that they can find money to meet their obligations Consumers, who expect a still further decline in prices, postpone their consumption.
- Stocks go on piling up. Some firms are forced into bankruptcy. The failure of one firm affects other firms with whom it has business connections. There is general distress. This phase of the business cycle is known as the crisis. It is the utmost suffering for a business.

The following are the major characteristics of Recession:

- There is a general decline in demand as economic activity slows down.
- **Inflation remains low or shows further signs of falling**
- Employment falls/unemployment rises
- Industries resort to price cuts to stay in business

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

Q30. In which phases of Business Cycle, the following characteristics are observed?
1. An extremely low aggregate demand in the economy causes activity to slow down.
2. Inflation is comparatively lower.
3. Employment avenues begin to close, forcing the unemployment rate to rise rapidly.
(Select the most appropriate answer from the options given below)

(a) Recession phase
(b) Depression phase
(c) Stagnation phase
(d) Recovery phase

Answer: B

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.
- In other words, tenor premium is uniform for all types of loans for a given residual tenor.

Depression

Underemployment of both men and materials is a characteristic of this phase. General demand falls faster than production Producers are compelled to sell their goods at a price which will not even cover the full cost.

- Manufacturers of both capital goods and consumer goods are forced to reduce the volume of production. As a consequence, workers are thrown out.

- The remaining workers are poorly paid. The demand for bank credit is at its lowest which results in idle funds. The interest rates also decline.
- The firms, that cannot pay off their debts, are wound up. Prices of shares and securities fall down.
- Pessimism prevails in the economy. The less-confident investors are not ready to take up new investment projects. The aggregate economic activity is at its bottom.

Some of the primary features of depression are as follows:

- **An extremely low aggregate demand in the economy causes activity to slow down**
- **Inflation is comparatively lower**
- **Employment avenues begin to close, forcing the unemployment rate to rise rapidly. Hence option B is the correct answer**
- To keep the business running, production houses resort to forced labour cuts or retrenchment (to reduce production costs and remain competitive in the market), and so on

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

Q31. The provisions related to the Statutory Liquidity Ratio (SLR) to be maintained by banks has been mentioned in which among the following Act? (Select the most appropriate answer from the options given below)

(a) Reserves and Ratios Act
(b) Banking Regulation Act
(c) RBI Act
(d) Negotiable Instruments Act

Answer: B

Explanation

<u>Statutory Liquidity Ratio (SLR)</u>

Statutory Liquidity Ratio refers to the amount that all banks require maintaining in cash or in the form of Gold or approved securities.

- Approved securities means dated securities, government bonds and shares of different companies/SLR defined by RBI as all Scheduled Commercial Banks, in addition to the average daily balance which they are required to maintain under Section 42 of the RBI Act, 1934, are required to maintain in India, in cash, or in gold valued at a price not exceeding the current market price, or in unencumbered approved securities valued at a price as specified by the RBI from time to time, an amount of which shall not, at the close of the business on any day, be less than 18 per cent or such other percentage not exceeding 40 per cent as the RBI may from time to time, by notification in gazette of India, specify, of the total of its demand and time liabilities in India as on the last Friday of the second preceding fortnight.
- At present (1 June 2022), all Scheduled Commercial Banks are required to maintain a uniform SLR of 18 per cent of the total of their demand and time liabilities in India as on the last Friday of the second preceding fortnight which is stipulated under **section 24 of the B.R. Act, 1949**. **Hence option B is the correct answer**
- This Statutory Liquidity Ratio is determined as percentage of total demand and time liabilities. Demand Liabilities refer to the liabilities, which the commercial banks are liable to pay to the

customers anytime on demand. The liabilities that the banks are liable to pay within one month's time, due to completion of maturity period, are also considered as Demand liabilities.

- In India, Reserve Bank of India always determines the percentage of Statutory Liquidity Ratio. There are some statutory requirements for temporarily placing the money in Government Bonds.
- Following this requirement, Reserve Bank of India fixes the level of Statutory Liquidity Ratio.
- There are some reasons behind introducing Statutory Liquidity Ratio. The main objectives for maintaining the Statutory Liquidity Ratio are the following Statutory Liquidity Ratio is maintained in order to control the expansion of Bank Credit.
- By changing the level of Statutory Liquidity Ratio, Reserve bank of India can increase or decrease bank credit expansion.
- Statutory Liquidity Ratio in a way ensures the solvency of commercial banks By determining Statutory Liquidity Ratio, Reserve Bank of India, in a way, compels the commercial banks to invest in government securities like government bonds.

Pg No. 186, Chapter No. 17, Module B

Q32. Which among the following are the lower and upper bands of the Liquidity Adjustment Facility (LAF)?

(a) Standing Deposit Facility (SDF) and Bank Rate
(b) Standing Deposit Facility (SDF) and Marginal Standing Facility (MSF)
(c) Reverse Repo Rate (RRR) and Marginal Standing Facility (MSF)
(d) Reverse Repo Rate (RRR) and Bank Rate

Answer: B

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. **Hence option B is correct.**
- 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.

Pg No. 191, Chapter No. 17, Module B

Q33. As per the Reserve Bank of India, a Scheduled Commercial Bank is required to maintain reserves in cash or in the form of Gold or approved securities not exceeding _______ per cent of the total of its demand and time liabilities in India as on the last Friday of the second preceding fortnight.

(a) 10 per cent
(b) 40 per cent
(c) 60 per cent
(d) 80 per cent
Answer: B
Explanation
Statutory Liquidity Ratio (SLR)
Statutory Liquidity Ratio refers to the amount that all banks require maintaining in cash or in the form of Gold or approved securities.

- Approved securities means dated securities, government bonds and shares of different companies/SLR defined by RBI as **All Scheduled Commercial Banks**, in addition to the average daily balance which they are required to maintain under Section 42 of the RBI Act, 1934, are required to maintain in India, in cash, or in gold valued at a price not exceeding the current market price, or in unencumbered approved securities valued at a price as specified by the RBI from time to time, an amount of which shall not, at the close of the business on any day, be less than 18 per cent or such other percentage not **exceeding 40 per cent** as the RBI may from time to time, by notification in gazette of India, specify, of the total of its demand and time liabilities in India as on the last Friday of the second preceding fortnight.
- At present (1 June 2022), all Scheduled Commercial Banks are required to maintain a uniform SLR of 18 per cent of the total of their demand and time liabilities in India as on the last Friday of the second preceding fortnight which is stipulated under section 24 of the B.R. Act, 1949.
- This Statutory Liquidity Ratio is determined as percentage of total demand and time liabilities. Demand 1 Liabilities refer to the liabilities, which the commercial banks are liable to pay to the customers anytime on demand. The liabilities that the banks are liable to pay within one month's time, due to completion of maturity period, are also considered as Demand liabilities.
- In India, Reserve Bank of India always determines the percentage of Statutory Liquidity Ratio. There are some statutory requirements for temporarily placing the money in Government Bonds.
- Following this requirement, Reserve Bank of India fixes the level of Statutory Liquidity Ratio.
- There are some reasons behind introducing Statutory Liquidity Ratio. The main objectives for maintaining the Statutory Liquidity Ratio are the following Statutory Liquidity Ratio is maintained in order to control the expansion of Bank Credit.
- By changing the level of Statutory Liquidity Ratio, Reserve bank of India can increase or decrease bank credit expansion.
- Statutory Liquidity Ratio in a way ensures the solvency of commercial banks By determining Statutory Liquidity Ratio, Reserve Bank of India, in a way, compels the commercial banks to invest in government securities like government bonds.

Hence option B is correct.
Pg No. 196, Chapter No. 17, Module B

Q34. Banks are not required to publish the internal benchmark/ MCLR for which of the following maturities?
(a) One month
(b) Two months

(c) Three months
(d) Six months
Answer: B
Explanation
Marginal Cost of Funds Based Lending Rate (MCLR)
The RBI has brought a new methodology of setting lending rate by commercial banks under the name

- 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 base rate will be now determined on the basis of the MCLR calculation. The MCLR shall comprise of, Marginal cost of funds; Negative carry on the CRR, Operating costs and Tenor premium.
- 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.
- Since MCLR is a tenor linked benchmark, banks were asked to arrive at the MCLR of various maturities by incorporating the corresponding tenor premium/ discount to the sum of Marginal cost of funds, Negative carry on the CRR and Operating costs.
- Accordingly, banks to publish the internal benchmark for the maturities of overnight MCLR, **one-month MCLR**, **three-month MCLR**, **six-month MCLR**, **one year MCLR** and have the option of publishing MCLR of any other longer maturity.

Hence option B is the correct answer.
Pg No. 187, Chapter No. 17, Module B

Q35. Which of the following is not one of the benchmarks suggested by RBI for considering External Benchmark Lending Rates w.e.f. 1st October 2019?
(a) LAF Reverse repo rate
(b) GOI 3-months Treasury Bill Yield published by FBIL
(c) RBI policy Repo Rate
(d) GOI 6-months Treasury Bill Yield published by FBIL
Answer: A
Explanation
External Benchmark based Lending Rate (EBLR)
Based on the recommendations of the Internal Study Group (ISG) to Review the Working of the Marginal art of Funds Based Lending Rate (MCLR) System headed by Dr Janak Raj, that was formed by the examine various aspects of the MCLR system.
It was noticed that internal benchmarks such as the Base rate/MCLR have not delivered effective transmission of monetary policy.

As a result, the Study Group advised a time-bound transition to an external benchmark. The RBI has recommended banks to benchmark all new floating rate personal or retail loans (housing, vehicle, etc.) and floating rate loans to Micro and Small Enterprises extended by banks beginning October 1, 2019, to one of the following:

- Reserve Bank of India policy repo rate
- Government of India 3-Months Treasury Bill yield, published by the Financial Benchmarks India Private Ltd (FBIL)
- Government of India 6-Months Treasury Bill yield, published by the FBIL
- Any other benchmark market interest rate, published by the FBIL. **Hence option A is the correct answer**

The spread above the benchmark rate was to be determined entirely at the discretion of the banks at the start of the loan and should stay unaltered during the life of the loan, unless the borrower's credit assessment changes significantly and as agreed with in the loan contract.

- Banks are permitted to make such external benchmark-linked loans available to other sorts of borrowers as well.
- To maintain transparency. standardisation, and simplicity of understanding of loan products for borrowers, individual banks are restricted to adopt multiple benchmarks within a loan category.
- Furthermore, other components of the spread, such as operational costs, might be changed once every three years. The reset clause requires the interest rate under external benchmark to be reset at least once in three months.

Hence option A is correct.

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

Q36. Which among the following is the purpose of Reverse Repo Rate?

(a) Funding banks when required

(b) Bill Discounting Rate

(c) Absorb excess liquidity present with the banks

(d) All of the above

Answer: C

Explanation

Reverse Repo

Reverse Repo rate is the rate at which banks **park their short-term excess liquidity** with the RBI. **Hence option C is correct.**

- The RBI uses this tool when it feels there is too much money floating in the banking system. An increase in the reverse repo rate means that the RBI will borrow money from the banks at a higher rate of interest.
- As a result, banks would prefer to keep their money with the RBI. Thus, we can conclude that Repo Rate signifies the rate at which liquidity is injected into the banking system by RBI, whereas Reverse repo rate signifies the rate at which the central bank absorbs excess liquidity from the banks.
- Presently (as on June 01, 2022), the Fixed Reverse Repo rate is 3.35 per cent.

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

Q37. Which of the following regarding SDF & Reserve Repo is correct?

(a) In case of SDF, RBI provides SLR securities as collaterals.
(b) In case of Reverse Repo Rate, RBI provides SLR securities but the same are not counted for SLR maintenance purpose
(c) In case of SDF, no SLR collaterals are provided to banks, however the balance under SDF is eligible for SLR maintenance
(d) All are incorrect

Answer: C

Explanation

Standing Deposit Facility (SDF)

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.
- As per RBI, deposits under the SDF shall not be reckoned as balances eligible for the maintenance of the cash reserve ratio (CRR) under Section 42 of the RBI Act, 1934, but **shall be an eligible asset for maintenance of the statutory liquidity ratio (SLR)** under Section 24 of the Banking Regulation Act, 1949. **Hence option C is correct.**

Reverse Repo

Reverse Repo rate is the rate at which banks **park their short-term excess liquidity** with the RBI.

- The RBI uses this tool when it feels there is too much money floating in the banking system. An increase in the reverse repo rate means that the RBI will borrow money from the banks at a higher rate of interest.
- As a result, banks would prefer to keep their money with the RBI. Thus, we can conclude that Repo Rate signifies the rate at which liquidity is injected into the banking system by RBI, whereas Reverse repo rate signifies the rate at which the central bank absorbs excess liquidity from the banks.
- Presently (as on June 01, 2022), the Fixed Reverse Repo rate is 3.35 per cent.

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

Q38. Which among the following is not one of the limitations of the role of the bank rate as an instrument of monetary policy?

(a) The structure of interest rates is not automatically linked to the bank rate
(b) Commercial banks enjoy specific refinance facilities, and may not necessarily rediscount their eligible securities with RBI, at bank rate
(c) The bill market is under-developed and the different sub-markets of the money market are not influenced by the bank rate.
(d) Frequent changes in Bank Rate by RBI bring about uncertainty which effects its applicability

Answer: D

Explanation

Bank Rate

Section 49 of the RBI act, 1934 is as follows: "Publication of bank rate. The Bank shall make public from time to time the standard rate at which, it is prepared to buy or re-discount bills of exchange or other commercial papers eligible for purchase under this Act."

- Simplistically put, it is the rate of interest paid by banks to RBI, on their long-term borrowings.
- Bank rate is also referred to as the discount rate. It is the rate of interest at which RBI is ready to buy or rediscount bills of exchange or other commercial papers. No securities are pledged.
- This rate has been aligned to the MSF (Marginal Standing Facility) rate and, therefore, it changes automatically as and when the MSF rate changes, alongside policy repo rate changes Presently (as on 01 June 2022), the bank rate is 4.65%.
- Changes in the bank rate are often used by central banks to control the money supply in the country. Though the Bank rate and MSF rates are aligned, they are very different; based on their design and usage.
- In the event of an emergency when interbank liquidity ceases completely, a MSF is available for the scheduled commercial bank to borrow money from RBI overnight. Overnight loans are taken by banks from RBI on furnishing securities/collaterals as per MSF rates and limits.
- However, **the role of the bank rate as an instrument of monetary policy** has been very limited in India because of these basic factors.

  (a) The structure of interest rates is not automatically linked to the bank rate;

  (b) Commercial banks enjoy specific refinance facilities, and may not necessarily rediscount their eligible securities with RBI, at bank rate, and

  (c) The bill market is under developed and the different sub-markets of the money market are not influenced by the bank rate.

Hence option D is the correct answer.

Pg No. 185-186, Chapter No. 17, Module B

Q39. Which among the following statement about Gross Domestic Product (GDP) is incorrect?

(a) There could be regional disparity in GDP

(b) GDP is an 'aggregate' measure which speaks about how the GDP is distributed among the population of the country.

(c) GDP at market prices measures the value of output at market prices after adjusting for the effect of indirect taxes and subsidies on the prices.

(d) GDP at factor cost, measures the value of output in terms of the price of factors used in its production.

Answer: B

Explanation

Gross Domestic Product (GDP) is the total value of all the goods and services produced in a country in one year.

UTILITY OF GDP

- **GDP is an 'aggregate' measure.** It does **not speak anything about how the GDP is distributed** among the population of the country. Per capita income, another derivative of GDP, also does not indicate the pattern of income distribution. Thus, a country may have high GDP but much skewed distribution of income. Such inequality in income distribution often leads to social tensions. **Hence option B is the correct answer.**

- Like the inequality of income distribution among population, **there could be regional disparity in GDP**, with a few developed states contributing the most to the country's GDP and a majority of less developed state economies contributing a meagre. This is very true of India, where regional strife due to disproportionate distribution of income region-wise is a common feature.
- **Higher GDP does not necessarily imply higher welfare.** Welfare is a wider concept which encompasses development in all aspects of the society, e.g., health, education, sanitation, etc. India has over time grown from a low GDP nation to high GDP nation, yet, its social development indicators are not commensurately favourable. Therefore, interpretation of GDP should always be supplemented by some kind of Human Development Index (HDI), as developed by the World Bank
- GDP does not reflect the total income of a country, if the country is an export-oriented economy, like one of those South-East Asian economies. Gross National Product (GNP) is a more accurate measure in this context, as it factors in earnings from the external sector Concepts like GDP does not throw light on how much of the population is financially excluded or included. Lower level of financial inclusion is today a global malady and therefore GDP measures should be evaluated accordingly.
- One of the newest concepts in GDP today is the 'green' GDP: A country may be achieving high GDP but at the cost of its environmental degradation. Environmental issues in growth are quite pertinent and sensitive matters today Statisticians all over the world are busy with developing models which can measure 'green' GDP.
- **GDP at market prices measures the value of output at market prices after adjusting for the effect of indirect taxes and subsidies on the prices.** Market price is the economic price for which a good or service is offered in the market place.
- Similarly, **GDP at factor cost, measures the value of output in terms of the price of factors used in its production**. Factors of production are land, labour, capital and entrepreneur they get remunerations in the form of rent, wages, salaries, interest and profits respectively

GDP at factor cost = GDP at market prices - (indirect taxes - subsidies)

Pg No. 211, Chapter No. 18, Module B

Q40. Which among the following is not one of the components of calculation of GDP by Income Approach?

(a) Compensation of employees
(b) Property income
(c) Production taxes and depreciation on capital
(d) Government consumption

Answer: D

Explanation

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 is the GDP.

The three ways to compute GDP as per National Income Accounting are:

1. Expenditure Wise: Calculating the total expenditure of all the entities
2. Income Wise: Calculating the total incomes received by factors of production-land, labour, capital and entrepreneur
3. Product Wise

Calculating the total production
Income Approach
GDP from the income is the sum of the following major components:
1. Compensation of employees
2. Property income
3. Production taxes and depreciation on capital. Hence option D is the correct answer.
4. Compensation of Employees - It represents wages, salaries, and other employee supplements.

Property Income: It constitutes corporate profits, proprietor's incomes, interests, and rents GDP at market prices measures the value of output at market prices after adjusting for the effect of indirect taxes and subsidies on the prices. Market price is the economic price for which a good or service is offered in the market place Similarly, GDP at factor cost, measures the value of output in terms of the price of factors used in its production.

Factors of production are land, labour, capital and entrepreneur they get remunerations in the form of rent, wages, salaries, interest and profits respectively.

GDP at factor cost = GDP at market prices - (indirect taxes- subsidies)

National Income = Wage Rent + Interest + Dividend + Undistributed Profit (Operating Surplus) + Opening Stock of Public Enterprise + Mixed Income from Self Employed + Direct taxes collected by government + Net Factor Income from Abroad (NFIA) + Value of Production for self-consumption.
Hence option D is the correct answer.
Pg No. 209, Chapter No. 18, Module B

Q41. Which of the following is the formula for GVA at Basic Price?
(a) GVA at Basic Price = GVA at Factor Cost + Production Taxes + Subsidies
(b) GVA at Basic Price = GVA at Factor Cost + Production Taxes - Subsidies
(c) GVA at Basic Price = GVA at Factor Cost - Production Taxes + Subsidies
(d) GVA at Basic Price = GVA at Factor Cost - Production Taxes - Subsidies
Answer: B
Explanation
Gross value added (GVA) at Basic prices
Gross value added (GVA) is the measure of the value of goods and services produced in an area, industry or sector of an economy less intermediate consumption over a specified period of time. GVA at basic prices is the new measure of economic activities compiled from 2011 by National Statistical Office replacing the practice of measuring it by GDP at factor cost. GVA at basic prices is equal to GDP at factor cost plus production taxes less production subsidies.

GVA at Basic Prices = GVA at factor cost+ Production taxes - Production subsidies. Hence option B is correct

GDP at Market Prices = GVA at basic prices + Product taxes - Product subsidies

Here,

Basic price = Factor cost+ Production taxes- Production subsidy

Market price = Basic price + Product taxes - Product subsidy

Pg No. 210, Chapter No. 18, Module B

Q42. Which among the following is the correct formula for the calculation of Net Domestic Product (NDP) at Factor Cost (FC)?

(a) NDP at FC = GDP at MP - Indirect taxes + Subsidies

(b) NDP at FC = GDP at MP + Indirect taxes - Subsidies

(c) NDP at FC = NDP at MP - Indirect taxes + Subsidies

(d) NDP at FC = GNP at MP + Indirect taxes - Subsidies

Answer: C

Explanation

NDP at Factor Cost and NDP at Market Price

Net Domestic Product at Factor cost (NDP): It refers to the total value of earnings received by all the factors of production in the form of wages, profits, rent, interest, etc. within the domestic territory of a country during a year.

NDP at Factor cost includes cost of Compensation of Employees + Operating Surplus+ Mixed income

Net Domestic Product at Market Price (NDP): It refers to the market value of all the final goods and services produced within the domestic territory of a country during a year. For a stable economy the NDP at Factor cost and NDP at Market price must be equal.

NDP at FC = NDP at MP - Indirect taxes + Subsidies. Hence option C is correct

NDP at MP = NDP at FC + Indirect taxes - Subsidies

Pg No. 213, Chapter No. 18, Module B

Q43. _____________is the Revenue deficit minus Grants in Aid for creation of capital assets.

(a) Fiscal Deficit

(b) Effective Revenue deficit

(c) Primary deficit

(d) None of the above

Answer: B

Explanation

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 B is correct.

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

Q44. Which among the following is not one of the components of Non-Tax Revenue of the Indian Government?

(a) Interest Receipts

(b) Dividend and Profits

(c) Customs

(d) External Grants

Answer: C

Explanation

Revenue Receipts

Tax Revenue

A. Gross Tax Revenue

1. Corporation tax
2. Income Tax
3. Wealth Tax
4. Goods and Services Tax (GST)-CGST, IGST, GST Compensation Cess
5. Other Taxes and Duties
6. Customs. **Hence option C is the correct answer.**
7. Union Excise Duties (largely replaced by GST, but existing for few items)
8. Service Tax
9. Taxes of the Union Territories

Net Tax Revenue Gross tax revenue (-) NCCD transferred to the National Calamity Contingency Fund (-) States' Share

B. Total Non-Tax Revenue

1. Interest Receipts
2. Dividend and Profits
3. External Grants.
4. Other Non-Tax Revenue
5. Receipts of Union Territories.

Total Revenue Receipts. Net Tax Revenue + Total Non-Tax Revenue

Pg No. 220, Chapter No. 19, Module B

Q45. Which of the following is not a Tax Revenue of Central Government?

(a) GST Compensation Cess

(b) Corporation Tax

(c) Union Excise Duty

(d) Receipts of Union Territories

Answer: A

Explanation

Revenue Receipts

Tax Revenue

A. Gross Tax Revenue

1. Corporation tax
2. Income Tax
3. Wealth Tax
4. Goods and Services Tax (GST)-CGST, IGST, GST Compensation Cess
5. Other Taxes and Duties
6. Customs.
7. Union Excise Duties (largely replaced by GST, but existing for few items)
8. Service Tax
9. Taxes of the Union Territories

Net Tax Revenue Gross tax revenue (-) NCCD transferred to the National Calamity Contingency Fund (-) States' Share (including GST Compensation Cess) **Hence option A is the correct answer.**

B. Total Non-Tax Revenue

1. Interest Receipts
2. Dividend and Profits
3. External Grants.
4. Other Non-Tax Revenue
5. Receipts of Union Territories.

Total Revenue Receipts = Net Tax Revenue + Total Non-Tax Revenue

Pg No. 220, Chapter No. 19, Module B

Q46 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

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 the correct answer.

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

Q47. Which among the following is not a regulatory body in India?

(a) RBI

(b) SEBI

(c) IRDA
(d) RERA
Answer: D
Explanation
ROLE OF FINANCIAL SECTOR REGULATORS IN AN ECONOMY
The financial system in India consists of financial markets, financial institutions and financial instruments.

- The financial system is the backbone of the economy and, hence, it is imperative that it functions smoothly, without undue risk to the investors.
- A reasonable regulation of the financial system is essential to check the imprudence of the players, which can erode the confidence of the public in the system.
- The financial system deals with the people's money and it is necessary to generate, maintain and promote the confidence and trust of the people in the financial system at all times and with great care, by preventing any misuse and even imprudence by any of the players of the ecosystem.
- To have poor or weak regulators would be akin to a busy street without the presence of any policemen - a situation that can easily break down into a chaos. Thus, the rationale behind prudent regulation of the financial system is to Generate, maintain and promote confidence and trust of the public in the financial system.
- Protect investor's interests by adequate/timely disclosure by the institutions and access to information by the investors. Ensure that the financial markets are both fair and efficient.
- Ensure that the market participants measure up to the rules of the market place.
- Ensure that the financial instruments that are available in the market are fair to the interest of the market participants and do not give any particular segment unfair advantage.
- In India, which is a developing country, the financial regulators consist of **RBI, SEBI, IRDA and PFRDA**. The statutory objectives of the financial sector regulators and their regulatory functions and tools are elaborated in this Unit to enable the readers to get an idea on the various facets of the financial system, that are dealt with in other units.
- The **Real Estate (Regulation and Development) Act, 2016** is an Act of the Parliament of India which provides for the establishment of the **Real Estate (Regulation and Development) Authority** which seeks to protect home-buyers as well as help boost investments in the real estate industry. It is thus not a regulatory body.

Hence option D is the correct answer.
Pg No. 231, Chapter No. 20, Module C

Q48. Which among the following is not a financial institution in India?
(a) Chit Fund Company
(b) Non-Banking Financial Companies (NBFCs)
(c) Pension Funds
(d) Mutual Funds
Answer: A
Explanation
Formal Financial System

- The formal financial sector, on the other hand, is characterised by the presence of an organised, institutional, and regulated system, which caters to the financial needs of the modern spheres of economy It forms the backbone of any economy and one of the most important systems in the growth of any nation.
- The components of the formal financial system are the financial institutions, financial instruments and financial markets.
- Financial Institutions, while on one hand, cater to the entities who possess wealth, on the other hand, they cater to those entrepreneurs and businesses who require the wealth in the form of capital, for their investments.

Examples of financial institutions are

- Financial Regulators
- Commercial and Cooperative Banks
- **Non-Banking Financial Companies (NBFCs)**
- Development Financial Institutions (DFIs)
- Insurance companies
- Insurance brokers
- **Mutual Funds**
- **Pension Funds**

The **financial institutions** can further be divided into two types:

- **Banking Institutions or Depository Institutions** - This includes banks and other credit unions which collect money from the public against interest provided on the deposits made and lend that money to the ones in need.
- **Non-Banking Institutions or Non-Depository Institutions** - Insurance, mutual funds and brokerage companies fall under this category. They cannot ask for monetary deposits but sell financial products to their customers. Further, Financial Institutions can be classified into three categories
- **Regulatory** - Institutes that regulate the financial markets like RBI, IRDA, SEBI, etc. Intermediates - Commercial banks which provide loans and other financial assistance such as SBI, BOB, PNB, etc.
- **Non-Intermediates** - Institutions that provide financial aid to corporate customers. It includes NABARD, SIBDI, etc.

Hence option A is correct.

Pg No. 231, Chapter No. 20, Module C

Q49. Which among the following Committees has recommended the establishment of Universal Banks?

(a) Narasimham Committee I

(b) Narasimham Committee II

(c) Dahote Committee

(d) Sodhani Committee

Answer: B

Explanation

PRIVATE SECTOR BANKS

For a period of almost 25 years after 14 banks were nationalised in the country, no private bank was grad 2 licence to set up operations. Consequent to the **Narasimham Committee Report of 1991**, recommending opening up competition in the banking space by licensing banks in the private sector, private sector were approved from 1994 onwards, the first being ICICI Bank, in June 1994.

- Private sector banks are banks which are constituted under the Companies Act, 1956 (and later editions of Companies Act) and operate under the Banking Regulations Act, 1949.
- At present, there are 21 Private Sector Banks in the country of which, 12 are Old Private Sector Banks and the rating New Private Sector Banks. 'Old Private Sector Banks' are those that were set up prior to nationalisation, was those set up after nationalisation are generally known as "New Private Sector Banks".
- Pursuant to the guidelines issued in January 1993, the old private sector banks having net worth of less than Rs 50 crore were advised to attain the level of Rs 50 crore by March 31, 2001, and prepare action plans for augmenting capital funds to the level of Rs. 100 crore.
- The minimum capital requirement for Private Sector Banks was thereafter raised to the present requirement of Rs 500 crores.
- The **Narasimham Committee II of 1998** established **Universal Banks. Hence option B is correct**

Some of the guidelines presently in force for setting up Universal banks in the Private Sector space (against Differentiated Banks like Payments Banks and Small Finance Banks) are listed here:

- Initial minimum paid up capital of Rs 500 crores
- The bank should maintain a minimum net worth of Rs 500 crores, at all times.

Hence option B is correct

Pg No. 251, Chapter No. 21, Module C

Q50. Merger of which among the following banks took place with the Bank of Baroda

(a) Corporation Bank

(b) Syndicate Bank

(c) Oriental Bank of Commerce

(d) Dena Bank

Answer: D

Explanation

PRIVATE SECTOR BANKS

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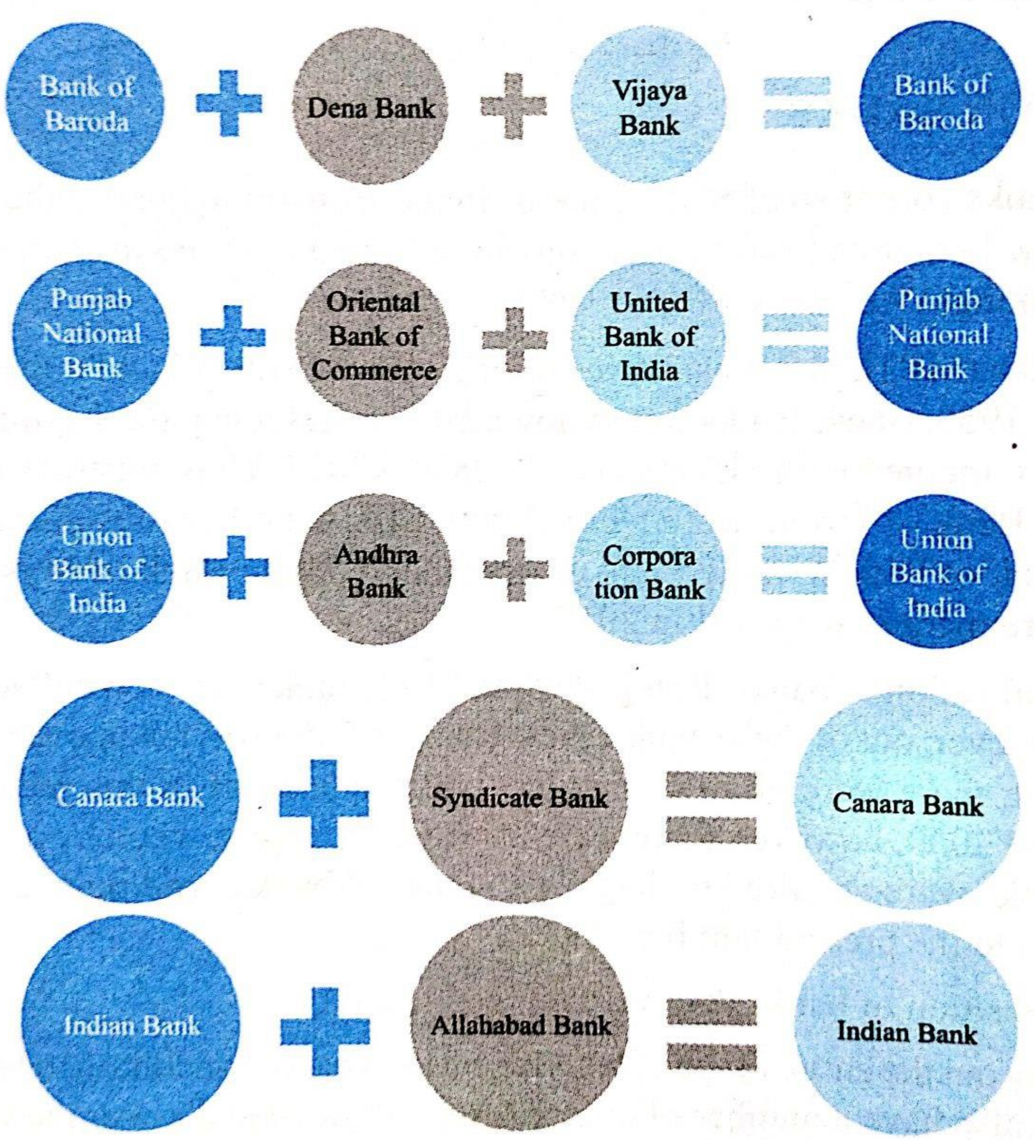

Figure 21.3 Merger of nationalised banks in 2019 and 2020

Hence option D is correct
Pg No. 252, Chapter No. 21, Module C

Q51. Which among the following do not fall under the provisions of the Banking Regulation Act, 1949?

(a) Scheduled Commercial Banks
(b) State Cooperative Banks
(c) Private Banks
(d) State Co-operative Agriculture and Rural Development Banks (SCARDBs)

Answer: D

Explanation

Types of Cooperative Banks

There are different types of cooperative credit institutions working in India. These institutions can be classified into two broad categories- Rural and Urban

Rural Cooperative Banks

Rural credit institutions dominate the entire cooperative credit structure and there are over 97,000 such societies Rural cooperative banks receive refinance facility from NABARD Rural cooperative credit institutions are further divided into short-term credit institutions and long-term credit institutions. The short-term rural credit institutions, which cater to the short-term financial needs of the rural population, have three-tier federal structure, namely:

- **State Cooperative Bank** in each state (they can be scheduled or non-scheduled banks but they require license)
- **Central Cooperative Banks** at the district level (non-scheduled banks but they require license), and
- **Primary Agricultural Credit Societies**, at the village level. (PACS are not covered under the Banking Regulation Act)
- **Long-term agricultural credit** is provided by the **Land Development Banks** (now known as Agriculture and Rural Development Banks). The **State Co-operative Agriculture and Rural Development Banks (SCARDBS)** and the Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) are classified as cooperative credit societies and they are non-banks.

Hence option D is correct as SCARDBs are non-banks and thus do not fall under the provisions of the Banking Regulation Act, 1949

Pg No. 259, Chapter No. 21, Module C

Q52. The Reserve Bank of India (RBI) has ________ Local Boards in India

(a) 2

(b) 3

(c) 4

(d) 5

Answer: C

Explanation

Section 9 of the Act deals with details of the Local Boards and Members of the Local Boards

A Local Board shall be constituted for each of the four geographical territories, which are specified in the First Schedule of the Act and shall consist of five members, to be appointed by the Central Government. RBI has **four Local Boards** in India. **Hence option C is correct.**

- These members will represent, as far as possible, territorial and economic interests and the interests of co-operative and indigenous banks.
- The tenure of members of the local Board will be 4 years and can be re-appointed for a maximum of two terms totalling eight years.

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

Q53. Which of the following official is not a member of Central Board of RBI?

(a) RBI Governor

(b) Deputy Governor of RBI

(c) Executive Governor of RBI

(d) Central Government nominee

Answer: C

Explanation

Sections 7 and 8- Management and Central Board

The general superintendence and direction of the affairs and business of the Bank are entrusted to a Central Board of Directors under Section 7 of the Act.

- However, the Board has to abide by any directions that may be given by the Central Government after consultation with the Governor of the Bank. Such directions can be given from time to time, in public interest.
- The Central Board shall consist of the **Governor**, not more than four **Deputy Governors**, to be appointed by the Central Government and other **directors** to be nominated by the Central Government, as under four directors to be nominated by Central Government,
    - One each from the Local Boards constituted under Section 9 of the Act
    - Ten directors to be nominated by Central Government from various fields
- Two Government official to be nominated by the Central Government (amendment 2012). **Hence option C is the correct answer**

The Governor and Deputy Governors are whole time officials of the Bank

The Governor and Deputy Governors hold office for a term fixed by the Central Government at the time of appointment, not exceeding **five years** and are eligible for reappointment.

- The Government official nominated under Section 8(1)(d) shall hold office, at the pleasure of the Government.
- The directors nominated from the Local Board shall continue during their membership of the Local Boards.
- The other directors shall hold office for four years and thereafter until their successors are nominated.

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

Q54. Which among the following is the correct sequence of establishment of Development Financial Institutions (DFIs)?

1. Industrial Development Bank of India (IDBI)

2. Export-Import Bank of India (EXIM)

3. Industrial Finance Corporation of India (IFCI)

4. Small Industries Development Bank of India (SIDBI)

(Select the most appropriate answer from the options given below)

(a) 1 – 2 – 3 - 4

(b) 3 – 1 – 2 - 4

(c) 3 – 4 – 1 - 2

(d) 2 – 1 – 3 - 4

Answer: B

Explanation

EVOLUTION OF DEVELOPMENT FINANCIAL INSTITUTIONS IN INDIA

RBI was entrusted with the task of developing an appropriate financial architecture through institution building, so as to mobilise and direct resources to preferred sectors, as per the plan priorities. While the reach of the banking system was expanded to mobilise resources and extend working capital finance on an ever increasing scale, to different sectors of the economy, the DFIs were established mainly to cater to the demand for long-term finance by the industrial sector.

- The first DFI established in India in **1948 was the Industrial Finance Corporation of India (IFCI)**, followed by setting up of State Financial Corporations (SFCs) at the State level, after passing of the State Financial Corporations Act, 1951 Besides IFCI and SFCs, in the early phase of planned economic development in India, a number of other financial institutions were set up.
- **Industrial Development Bank of India (IDBI)** was constituted under the Industrial Development Bank of India Act, 1964 as a Development Financial Institution (DFI) and came into being on July 01, **1964**
- Industrial Credit and Investment Corporation of India (ICICI Ltd) was set up in 1955, Life Insurance Corporation of India (LIC) in 1956, Refinance Corporation for Industries Ltd. (later taken over by IDBI) in 1958 Agriculture Refinance Corporation (precursor of ARDC and NABARD) in 1963, UTI and IDBI in 1964, Rural Electrification Corporation Ltd and HUDCO Ltd in 1969-70, Industrial Reconstruction Corporation of India Ltd. (precursor of IIBI Ltd) in 1971, GIC in 1972 and National Bank for Financing Infrastructure and Development(NaBFID) in 2021
- It may be noted here that although the powers to regulate financial institutions had been made available to RBI in 1964, under the newly inserted Chapter IIIB of RBI Act, the definition of term financial institution was made precise and comprehensive by amendment to the RBI Act (Section 45-1 (c)F only in 1974
- A good number of Financial Institutions were set up after 1974. NABARD was set up in 1981.
- **EXIM Bank (functions carved out of IDBI) in 1982**, SCICI Ltd (Shipping Credit and Investment Company of India Ltd) in 1986 (set up by ICICI Ltd in 1986 and later merged with ICICI Ltd. in 1997), PFC Ltd. (Power Finance Corporation Ltd) and IRFC Ltd. (Indian Railway Finance Corporation).
- In 1986, IREDA Ltd (Indian Renewable Energy Development Agency Ltd) in 1987, RCTC Ltd. (Risk Capital and Technology Finance Corporation) and TDICI Ltd. (Technology Development and Investment Corporation of India) (later known as IFCI Venture Capital Funds Ltd. and ICICI Venture Funds Management Ltd.) in 1988, NHB in 1988, TFCI Ltd (Tourism Finance Corporation of India) (set up by IFCI) in 1989, **SIDBI** (also carved out of IDBI) in **1989**, and IDFC Ltd. in 1997.

Hence option B is correct

Pg No. 296, Chapter No. 23, Module C

Q55. Which of the following Development Finance Institute is not established by RBI?

(a) EXIM Bank

(b) NABARD

(c) Deposit Insurance and Credit Guarantee Corporation

(d) Industrial Development Bank of India (IDBI)

Answer: A

Explanation

Role of RBI in developing and nurturing Institutions

The development role of RBI includes ensuring credit availability to the productive sectors of the economy, establishing institutions designed to build the country's financial infrastructure, expanding access to affordable financial services and promoting financial education and literacy. Over the years, the Reserve Bank has added new institutions as the economy has evolved. Some of the institutions established by RBI include:

- **Deposit Insurance and Credit Guarantee Corporation** (1962), to provide protection to bank depositors and guarantee cover to credit facilities extended to certain categories of small borrowers
- **Unit Trust of India (1964)**, the first mutual fund of the country
- **Industrial Development Bank of India (1964)**, a development finance institution for industry
- **National Bank for Agriculture and Rural Development (1982)**, for promoting rural and agricultural credit.
- **Discount and Finance House of India (1988)**, a money market intermediary and a primary dealer in government securities
- **National Housing Bank (1989)**, an apex financial institution for promoting and regulating housing finance.
- **Securities and Trading Corporation of India (1994)**, a primary dealer RBI, while specifically focusing on financial inclusion, uses key tools in this as an on-going effort. These include directed credit to priority sectors and weaker sections, Lead Bank Scheme and providing sector specific refinance

Hence option A is the correct answer.

Pg No. 296, Chapter No. 23, Module C

Q56. Which among the following is the facility of EXIM Bank through which loans are provided to Sovereign Governments?

(a) Buyers' Credit

(b) Lines of Credit

(c) Overseas Investment Finance

(d) Project Exports

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 Bank is wholly owned by the Government of India and was set up for the purpose of financing, facilitating, and promoting foreign trade in India. Exim Bank is the principal financial institution in the country for coordinating working of institutions engaged in financing exports and imports. Exim Bank is an apex institution, which promotes foreign trade and, in addition to a number of domestic offices, it has nine overseas offices.

Exim Bank's Products Various products offered by the Exim Bank are discussed below:

- **Buyers' Credit**: Through this programme, the overseas buyer can open an LC in favour of the Indian exporter and can import goods and services from India, on deferred payment terms. While on the one hand, the exporter enjoys reduced transaction costs and complexities of international trade transactions on the other hand, the Indian exporter gets to compete in the international market and can continue to put his working capital to good use to scale up operations. While Indian companies avail of buyer's credit from other international financial institutions in order to finance their imports at competitive LIBOR rates, buyer's credit that Exim Bank provides can only be used for the export of Indian goods or services

- **Corporate Banking**: The Bank provides 360-degree support to export-oriented units, by catering to long-term loan requirements that help exporters finance new projects, expand, modernise or purchase new equipment or carry out R&D and cater to their working capital and overseas investment requirements. They have been playing a catalytic role in building "brand India" by partnering with micro, small and medium enterprises (MSMEs) and enhancing their global footprint. Exim Bank's aim is to strengthen the export capabilities of our rural enterprises and ensure all-round economic development and to enhance the purchasing power from the bottom of the pyramid.
- **Lines of Credit**: From its inception, Exim Bank has been extending Lines of Credit (LOC) to enable Indian exporters to enter new geographies or expand their business in existing export markets without any payment risk from overseas importers. The Bank puts special emphasis on extending LOC as an effective market entry tool as well as a means of market diversification for Indian exporters. It extends LOCs to overseas financial institutions, regional development banks, sovereign governments and other entities overseas, to enable buyers in those countries import developmental and infrastructure projects, equipment, goods and services from India, on deferred credit terms. The bank extends LOCs on their own and also at the behest of and with the support of Government of India.
- **Overseas Investment Finance**: Exim Bank provides access to foreign markets by providing (a) Term loans to Indian companies for (i) equity investment in their overseas Joint Venture/wholly owned subsidiaries, (ii) onward lending to their overseas JV/WOS (b) Term loans to overseas JV/WOS of Indian companies towards part financing (i) capital expenditure towards acquisition of assets (ii) working capital requirements (iii) equity investment in another company, (iv) acquisition of brands/patents/rights/ other IPR (v) acquisition of another company (vi) any other activity that would otherwise be eligible for finance from Exim Bank, had it been an Indian identity (c) guarantee facility to the overseas JV/WOS for raising term loan/working capital.
- **Project Exports**: Exim Bank has been providing a steady stream of support to project activities in engineering, procurement and construction (civil, mechanical, electrical or instrumental). This includes provision of specific equipment related to supplies, construction and building materials, consultancy, technical know-how technology transfer, design, engineering (basic or detailed). The Bank also supports existing or new projects, plants or processes that require additional assistance in processes such as international competitive bidding including multilaterally funded projects in India. It extends funded and non-funded facilities to export of projects and services categorised as (i) civil engineering and construction projects (ii) turnkey projects (iii) technical and consultancy service contracts and (iv) supplies.

Hence option D seems to be the most appropriate answer. The exact answer for this question is not known as none of the initiatives mentioned above provide such facilities for Sovereign Governments.
Pg No. 311, Chapter No. 23, Module C

Q57. Which among the following Development Financial Institutions is not a Specialised Financial Institutions?
(a) EXIM Bank

(b) UTI
(c) NABARD
(d) TFCI

Answer: B

Explanation

CLASSIFICATION OF DFIs

- DFIs can be classified into four categories, viz., Development Banks, **Specialised Financial Institutions**, Investment Institutions and State-Level Financial Institutions

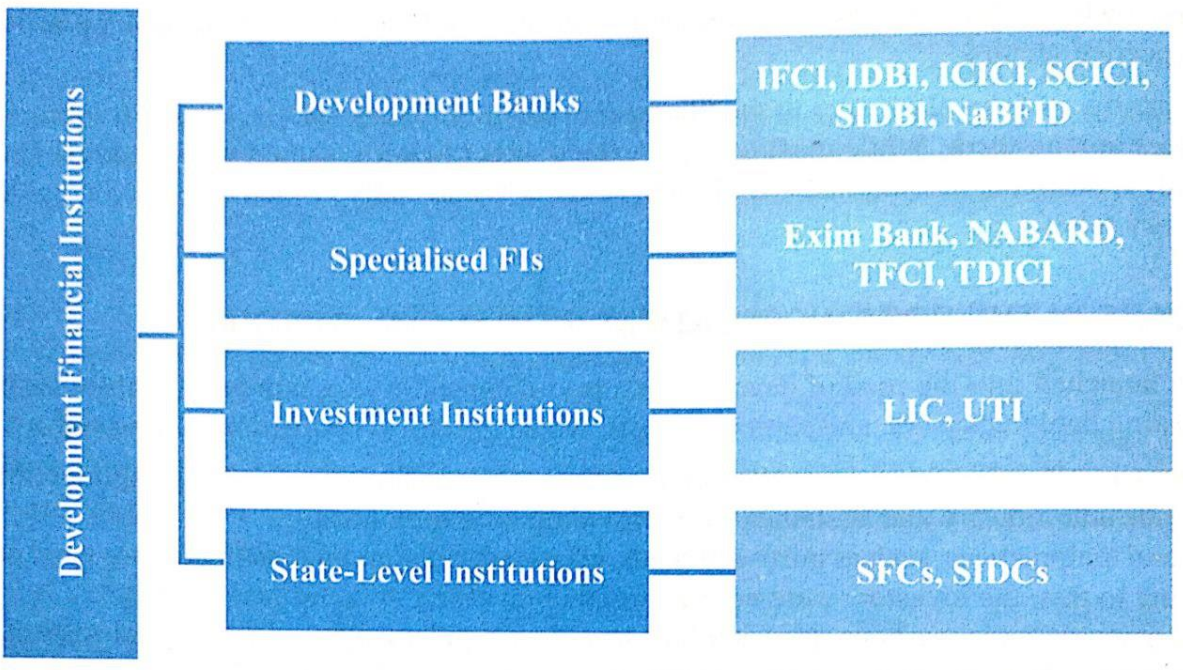

Figure 23.1 Classification of DFIs

Hence option B is the correct answer
Pg No. 298, Chapter No. 23, Module C

Q58. Which of the following facilities extended by SIDBI can be for a period of upto 10 years?
(a) SMILE
(b) SMILE equipment finance
(c) SPEED
(d) Loan under partnership with OEM

Answer: A

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 A is correct.
Pg No. 305, Chapter No. 23, Module C

Q59. Which of the following statement with respect to Self-Help Groups (SHGs) is incorrect?
(a) Lending to SHGs constitute part of priority sector lending of banks.
(b) Financing to SHGs by banks are refinanced upto an extent of 90% by NABARD
(c) Advances to SHGs are included as part of lending to the weaker sections.
(d) Loans to SHGs are provided collateral-free.
Answer: B
Explanation
Self-Help Groups (SHGs)

SHGs are small informal group of 10-20 individuals, who are homogenous with respect to social and economic background and come together voluntarily, for promoting savings habit among members and for a common cause to raise and manage resources, for the benefit of group members.

- However, in hilly tracts and regions and predominantly tribal dominated areas, where communities are dispersed, economically weaker and physically challenged persons, smaller groups of minimum 5 members are also formed into SHGs.

Linkage for Borrowing

As per guidelines issued by NABARD, SHGs may be sanctioned savings linked loans by banks (varying from a saving to loan ratio of 1:1 to 1:4). However, in case of matured SHGs, loans may be given beyond the limit of four times the savings, as per the discretion of the bank.

- The loan would be in the name of the SHG and it is the SHG which is responsible for repayment of the loan.
- Loan may be granted by the SHG for various purposes to its members. The bank does not decide the purposes for which the SHG gives loans to its members.
- The purpose can be emergency needs like illness in the family, marriage, etc., or buying of assets for income generation acquisition of assets.
- Defaults by a few members of SHGS and/or their family members to the financing bank should not ordinarily come in the way of financing SHGs persons by banks, provided the SHG is not in default.
- No loan related and the case of **eligible priority sector loans** to SHGs/ JLGs, this limit will be applicable per member and not to the group as a whole.
- RBI/NABARD guidelines stipulate that **no collateral security** should be taken from SHGs, by banks.
- Lending to SHGs constitute part of **priority sector lending** of banks and such advances should be included as part of their lending to the **weaker sections**. Financing to SHGs by banks are **refinanced 100% by NABARD. Hence option B is the correct answer.**

Pg No. 343, Chapter No. 24, Module C

Q60. Which among the following is not a kind of Micro Finance Institution (MFIs)?

(a) Not for profit MFIs

(b) Mutual benefit MFIs

(c) For profit MFIs (NBFC-MFIs)

(d) Green MFIs

Answer: D

Explanation

Microfinance is a form of financial service, which provides small loans and other financial services to poor and low-income households.

- It is an economic tool, designed to promote financial inclusion, which enables the poor and low-income households, to come out of poverty, increase their income levels and improve their overall living standards.
- Microfinance consists of micro-savings, micro-credit, micro- insurance and micro-pensions.
- As per NABARD, Microfinance Institutions (MFIs) are defined as 'those which provide thrift, credit and other financial services and products of very small amounts, mainly to the poor in rural, semiurban or urban areas, for enabling them to raise their income level and improve living standards.

A variety of MFIs that cater to the needs of poor exist in India, and there are around 900 MFIs, with different legal forms, according to which, MFIs can be categorised under three types:

- **Not for profit MFIs** - These are societies registered under the Societies Registration Act, 1860, or similar Acts. They also include trusts set up, under the Indian Trust Act, 1882 and 'Not for Profit companies established under Section 25 of the Companies Act, 1956 (now section 8 of the Companies Act, 2013)
- **Mutual benefit MFIs** - These include State and National Cooperatives and Mutually Aided Cooperative societies, set up under the Mutually Aided Cooperative Societies Act, which was enacted by the Government of Andhra Pradesh, in the year 1955.
- **For profit MFIs (NBFC-MFIs)** - These are non-banking financial companies (NBFCs), which are registered under the Companies Act and regulated by the RBI. Most of the microfinance in India are through MFIs that fall in this category. They form the largest category of MFIs

Hence option D is correct.

Pg No. 323, Chapter No. 24, Module C

Q61. 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

Q62. As per RBI's Master Direction, registered NBFC-MFIs are required to maintain a Minimum Net Owned Funds of in the North Eastern Region of the country of ____________.

(a) 1 crore

(b) 2 crores

(c) 3 crores

(d) 5 crores

Answer: B

Explanation

NBFC-Microfinance Institution (NBFC-MFI)

NBFC-MFI is a non-deposit taking NBFC having not less than 75% of its assets in the nature of qualifying assets which satisfy certain criteria.

Eligibility (as per Master Direction of RBI updated 14 June, 2022)

- Minimum Net Owned Funds of Rs. 5 crores (For NBFC-MFIs registered in the North Eastern Region of the country, the minimum NOF requirement shall stand at Rs.2 crore);
- Not less than 75 per cent of its total assets are in the nature of "microfinance loans as defined under Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022.
- NBFC-MFI should be registered with the Bank under the provisions of RBI Act, 1934 and having an asset size of Rs. 500 crore and above

Hence option B is correct.

Pg No. 338, Chapter No. 25, Module C

Q63. Which among the following is/are the salient features of the amendments made to Chapter III-B of the RBI Act in 1997?

(a) Making it mandatory for NBFCs to obtain a Certificate of Registration (COR) from RBI.

(b) Making it mandatory for NBFCs to maintain a minimum level of Net-Owned Funds (NOF).

(c) Requiring all NBFCs to create a reserve fund and to transfer a sum, which is not less than 10% of their profits every year

(d) Empowering RBI to file winding up petitions against NBFCs

Answer: C

Explanation

REGULATORY OVERSIGHT BY RBI ON NBFCs

Amendments to the RBI Act in 1997, bestowed comprehensive powers on RBI, to regulate and supervise NBFCs. **The salient features of the amendments made to Chapter III-B of the RBI Act in 1997** include the following:

- Making it mandatory for NBFCs, to obtain a Certificate of Registration (COR) from RBI and to maintain a minimum level of Net-Owned Funds (NOF),

- Requiring deposit taking NBFCs, to maintain a certain percentage of assets in unencumbered approved securities,
- **Requiring all NBFCs to create a reserve fund and to transfer a sum, which is not less than 20% of their profits every year, Hence option C is the correct answer.**
- Empowering RBI to prescribe policies for adherence by NBFCs, with regard to income recognition, accounting standards, etc.;
- Empowering RBI to issue directions to NBFCs or their auditors, with regard to their preparation of balance sheets, profit and loss account, disclosure of liabilities, etc.,
- Empowering RBI to order a special audit of NBFCs,
- Empowering RBI to prohibit NBFCs from alienating assets, and
- **Empowering RBI to file winding up petitions against NBFCs**

Pg No. 336, Chapter No. 25, Module C

Q64. Which among the following entities regulates Chit Fund Companies?

(a) Ministry of Corporate Affairs, GoI

(b) RBI

(c) SEBI

(d) Respective State Governments

Answer: D

Explanation

REGULATORS OF NBFCs

In terms of powers given to RBI, under the Reserve Bank of India Act, it regulates a section of the NBFCs. However, in order to obviate dual regulation, certain categories of NBFCs as mentioned below, which are supervised by other regulators, are exempted from the requirement of registration with RBI. These are:

- Venture Capital Funds/Merchant Banking companies/Stock Broking companies, registered with the SEBI Insurance company holding a valid Certificate of Registration, issued by the IRDAI
- **Nidhi companies** as notified under section 620A of the Companies Act, 1956, regulated by the **Ministry of Corporate Affairs**
- **Chit companies**, as defined in section 2(b) of the Chit Funds Act, 1982, regulated by the respective **State Governments**
- Housing finance companies regulated by the NHB, and
- Stock Exchange or a Mutual Benefit Company, regulated by SEBI

Hence option D is correct.

Pg No. 334, Chapter No. 25, Module C

Q65. Which among the following entities regulates NBFC-Venture Capital Funds?

(a) Ministry of Corporate Affairs, GoI

(b) RBI

(c) SEBI

(d) Respective State Governments

Answer: C

Explanation

REGULATORS OF NBFCs

In terms of powers given to RBI, under the Reserve Bank of India Act, it regulates a section of the NBFCs. However, in order to obviate dual regulation, certain categories of NBFCs as mentioned below, which are supervised by other regulators, are exempted from the requirement of registration with RBI. These are:

- Venture Capital Funds/Merchant Banking companies/Stock Broking companies, registered with the SEBI Insurance company holding a valid Certificate of Registration, issued by the IRDAI
- **Nidhi companies** as notified under section 620A of the Companies Act, 1956, regulated by the **Ministry of Corporate Affairs**
- **Chit companies**, as defined in section 2(b) of the Chit Funds Act, 1982, regulated by the respective **State Governments**
- Housing finance companies regulated by the NHB, and
- Stock Exchange or a Mutual Benefit Company, regulated by SEBI

Hence option C is correct.

Pg No. 334, Chapter No. 25, Module C

Q66. The regulatory minimum Net Owned Fund (NOF) for NBFC-ICC, NBFC-MFI and NBFC-Factors shall be increased to ________ as per the Scale-Based Regulation (SBR).

(a) ₹10 crore

(b) ₹5 crore

(c) ₹8 crore

(d) ₹2 crore

Answer: A

Explanation

SCALE BASED REGULATION (SBR)

Guidelines on the revised scale based regulatory framework for NBFCs have been issued by RBI vide its notification no RBI/2021-22/112 dated 22 October 2021 Regulatory structure for NBFC's shall comprise of four layers, based on their **size, activity, and perceived riskiness.**

- NBFCs in the lowest layer shall be known as NBFC-Base Layer (NBFC-BL) NBFCS in middle layer and upper layer shall be known as NBFC Middle Layer (NBFC-ML) and NBFC-Upper Layer (NBFC-UL) respectively.
- The Top Layer is ideally expected to be empty and will be known as NBFC-Top Layer (NBFC-TL).

Categorisation of NBFCs carrying out specific activity:

As the regulatory structure envisages scale based as well as activity-based regulation, the following prescriptions shall apply in respect of the **NBFCs, NBFC-P2P, NBFC-AA, NOFHC and NBFCs without public funds** and customer interface will always remain in the Base Layer of the regulatory structure.

- NBFC-D, CIC, IFC and HFC will be included in Middle Layer or the Upper Layer (and not in the Base layer), as the case may be.
- SPD and IDF-NBFC will always remain in the Middle Layer
- The remaining NBFCs, viz, Investment and Credit Companies (NBFC-ICC), Micro Finance Institution(NBFC-MFI), NBFC-Factors and Mortgage Guarantee Companies (NBFC-MGC) could be in any of the layers of the regulatory structure depending on the parameters of the scale based regulatory framework.

- Government owned NBFCs shall be placed in the Base Layer or Middle Layer, as the case may be. They will not be placed in the Upper Layer till further notice Further details of the regulatory norms may be seen from the above-mentioned notification dated 22nd October 2021 issued by RBI.

Net Owned Fund

Regulatory minimum Net Owned Fund (NOF) for NBFC-ICC, NBFC-MFI and NBFC-Factors shall be increased to **₹10 crore**. The following glide path is provided for the existing NBFCs to achieve the NOF of ₹10 crore:

NBFCs	Current NOF	By March 31, 2025	By March 31, 2027
NBFC-ICC	₹2 crore	₹5 crore	₹10 crore
NBFC-MFI	₹5 crore (₹2 crore in NE Region)	₹7 crore (₹5 crore in NE Region)	₹10 crore
NBFC-Factors	₹5 crore	₹7 crore	₹10 crore

Hence option A is correct.

Pg No. 344, Chapter No. 25, Module C & RBI Website

Q67. Consider the macroeconomic indicators given below:

1. GDP – $ 3.737 trillion

2. GVA - $ 2.787 trillion

3. Insurance Premium – $ 127 billion

4. Population – 141.1cr.

Calculate the insurance density for the above given economy and mark the most appropriate answer from the options given below:

(a) 78 USD

(b) 90 USD

(c) 34 USD

(d) 45 USD

Answer: B

Explanation

<u>INSURANCE PENETRATION & DENSITY</u>

The measure of **insurance penetration and density** reflects the level of development of insurance sector in a country.

- While insurance penetration is measured as the percentage of insurance premium to GDP, **insurance density** is calculated as the ratio of **premium to population** (per capita premium, expressed worldwide in US Dollars per capita).
- Thus, the ratio of premium to population here is calculated as: **$127 billion/141.1 cr. = 90 USD**.

Hence option B is the correct answer.

Pg No. 351, Chapter No. 26, Module C

Q68. Which of the following is not correct with reference to insurance brokers?

(a) Insurance brokers are bound by Code of Conduct laid by IRDAI

(b) Insurance brokers are not permitted to levy any fees for the advice

(c) Insurance brokers can represent only one Insurance Company

(d) Insurance brokers require to be licensed by IRDAI

Answer: C

Explanation

INSURANCE INTERMEDIARIES

Insurance is a product representing a promise to compensate the insured or third- party according to specified terms and conditions, in the event of the occurrence of a covered contingency In most insurance transactions there is usually an intermediary- **an insurance agent (individual or corporate) or an insurance broker**.

- Insurance intermediaries serve as a badge between consumers (seeking to buy insurance policies) and the insurance companies (seeking to sell those policies) **Insurance brokers are licensed by the IRDA** and governed by the Insurance Regulatory and Development Authority (Insurance Brokers) Regulations, 2002.
- Individual insurance agents and corporate agents are also licensed by the IRDA and governed by the Insurance Regulatory and Development Authority (licensing of Individual Insurance Agents) Regulations, 2000 and the Insurance Regulatory and Development Authority (Licensing of Corporate Agents) Regulations, 2002, respectively. These regulations lay down the **Code of Conduct**, for the respective intermediaries.
- An agent is a person who is licensed by the Authority, to solicit and procure insurance business, including business relating to continuance, renewal or revival of policies of insurance. An agent could be an Individual Agent or a Corporate Agent.
- An Individual Agent, as the name suggests is an individual, who is an intermediary, representing an insurance company, while a corporate agent is an intermediary other than an individual, representing an insurance company.
- Once the insurance contract has been put into force, the agent has to ensure continuance of the policy through regular payment of renewal premiums. In case of a claim, the agent should help and facilitate the insured, for proper and timely settlement of the claims.
- While an Agent represents only one insurance company (one general, one life or both if he is a composite agent, apart from a health insurance company), a **Broker may deal with more than one life or general or both**. **Agents and Brokers** have to be licensed by the Insurance Regulatory and Development Authority (IRDA) for life insurance or general insurance or both. They are also bound by a **Code of Conduct** laid down in the respective regulations of IRDAI. **Hence statement C is the correct answer**
- The primary job of a broker is to advise the customers about choice of insurance products and companies. **Insurance brokers give advice to the insured, without charging them**.
- As per IRDA, no intermediary can offer any discount to a prospective policyholder, to induce a person to take the policy.
- If any such inducement is resorted to, it would be deemed as violation of provisions of Section 41 of the Insurance Act, 1938 and all parties involved would be subject to prosecution as provided by the Law.

Hence option C is the correct answer.

Pg No. 356, Chapter No. 26, Module C

Q69. _______ is the limit of Foreign Direct Investment (FDI) in Insurance Intermediaries in India.

(a) 26%

(b) 74%

(c) 49%

(d) 100%

Answer: D

Explanation

PRIVATISATION AND FOREIGN DIRECT INVESTMENT (FDI) IN INSURANCE SECTOR

The insurance industry was first opened to private players and FDI in the year 2000, when the Government permitted. FDI to the extent of 26% in Indian insurance companies.

- This cap, after several years of deliberations, was increased to 49% in 2015 and the budget 2021-22 provided for increase in the cap for FDI to 74% The latest amendment is an enabling amendment that gives companies access to foreign capital, if they need it.
- It is an important shift in stance, as the increase in the FDI cap means insurance companies can now be foreign-owned and controlled, as against the current situation, wherein they are only Indian-owned and controlled.
- This will give a foreign company the right to appoint a majority of directors, control the management and the policy decisions taken. A higher FDI limit will help insurance companies access foreign capital to meet their growth requirements.
- In the meanwhile, on 2nd September 2019, the IRDAI issued notification effectively allowing **100% FDI in insurance intermediaries. Hence option D is correct.**

Pg No. 350, Chapter No. 26, Module C

Q70. Which among the following cannot act as both borrowers and lenders in the Call, Notice & Term money market?

(a) Primary Dealers

(b) Cooperative Banks

(c) Regional Rural Banks

(d) Small Finance Banks

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".
- 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.

Participants in the Market

This market is supervised by the Reserve Bank of India, which issues guidelines for the various participants in the call/notice money market.

- Participants in call/notice money currently include banks, Primary Dealers, development finance institutions, insurance companies and select mutual funds.

- Of these, banks and PDs can operate both as borrowers and lenders in the market. **Non-bank institutions**, which have been given specific permission to operate in call/notice money markets can, however, **operate as lenders only**.

List of Institutions Permitted to Participate in the Call/Notice Money Market both as Lenders and Borrowers.

a) Scheduled Commercial Banks (**excluding Regional Rural Banks**);

b) Co-operative Banks other than Land Development Banks; and

c) Primary Dealers.

Hence option C is correct

Pg No. 414, Chapter No. 30, Module D & RBI Website

Q71. The applicant to become a Tri-Party Agent should have minimum paid-up equity share capital of ____________.

(a) Rs. 5 crores

(b) Rs. 10 crores

(c) Rs. 25 crores

(d) Rs. 50 crores

Answer: C

Explanation

TRI-PARTY REPO

A Tri-party repo is a type of repo contract, where a third entity (apart from the borrower and lender) called 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. The in-party repo system was introduced by RBI in August 2017.

- The differentiating factor in the case of triparty repo, from the market repo is the presence of the third-party, which is known as tri-party agent.
- The job of the triparty agent is to administer the transaction between the lender and the borrower Here, the agent does post-trade processing, such as collateral selection, payment and settlement, custody and management of the collaterals during the life of the transaction, etc.
- Once a lender or borrower notifies about transactions, the agent matches the transaction and, if successful, processes it. The agent automatically selects, from the securities account of the seller, sufficient collateral that satisfy the credit and liquidity criteria set by the buyer.
- The tri-party agent continues to manage the transaction by making periodical revaluation of the collateral, margins, etc. The tri-party agent does not change the relationship between the borrower and lender, and he does not participate in the risk of transactions.
- In case of any default, the impact still falls entirely on the defaulting party. CCIL and NSE are two approved tri-party agents.

Eligibility criteria of tri-party agents

All tri-party agents need prior authorisation from the Reserve Bank, to act in that capacity

Eligibility criteria include:

- Scheduled commercial banks, recognised stock exchanges and clearing corporations of stock exchanges or clearing corporations, authorised under the Payment and Settlement Systems Act, are eligible to be tri-party agents.
- **The applicant should have minimum paid-up equity share capital of Rs. 25 crores;**
- The applicant should have past experience of at least 5 years in the financial sector, in India or abroad, preferably in custody, clearing or settlement services.
- Tri-party agents should put in place, adequate system infrastructure to carry out their functions

Hence option C is correct

Page No. 419, Chapter No. 30, Module D

Q72. The minimum credit rating shall be _____ as per rating symbol for companies who can issue Commercial Papers?

(a) A1

(b) A2

(c) A3

(d) A4

Answer: C

Explanation

COMMERCIAL PAPER

With a view to enabling highly rated corporate borrowers to diversify their sources of short-term borrowing and also provide an additional instrument to investors, RBI introduced Commercial Papers as a money market instrument, in the Indian financial market in 1990.

A Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note.

Companies, including Non Banking Finance Companies (NBFCs) and All India Financial Institutions (AEs), are eligible to issue CPs, subject to the condition that

(a) any fund-based facility availed of from bank(s) and/or financial institutions is classified as a standard asset by all financing banks/institutions at the time of issue.

(b) Other entities like co-operative societies/unions, government entities, trusts, limited liability partnerships and any other body corporate having presence in India with a net worth of Rupees 100 crore or higher

(c) Any other entity specifically permitted by the Reserve Bank of India (RBI).

All residents, and non-residents permitted to invest in CP's under Foreign Exchange Management Act (FEMA), 1999 are eligible to invest in CPs; however, no person can invest in CPs issued by related parties either in the primary or secondary market.

- Eligible participants/issuers shall obtain credit rating for issuance of CP from any one of the SEBI registered Credit Rating Agencies (CRA).
- The **minimum credit rating shall be A3** as per rating symbol and definition prescribed by SEBI The issuers shall ensure, at the time of issuance of the CP, that the rating so given is current and not due for review. **Hence option C is correct.**
- Eligible issuers, whose total CP issuance during a calendar year is Rupees 1000 crore or more, shall obtain credit rating for issuance of CPs from at least two CRAS registered with SEBI and should adopt

the lower of the two ratings. Where both ratings are the same, the issuance shall be for the lower of the two amounts for which ratings are obtained CP's can be issued for maturities between a minimum of 7 days and a maximum up to one year from the date of issue. The maturity date of the CP shall not go beyond the date up to which the credit rating of the issuer is valid.

- CPs can be issued on a "stand alone" basis. The aggregate amount of CP from an issuer shall be within the limit, as approved by its Board of Directors of the Company or the quantum indicated by the Credit Rating Agency for the specified rating, whichever is lower Banks and FIs will, however, have the flexibility to fix working capital limits, taking into account the resource pattern of companies' financing including CPs.
- An FI can issue CPs, within the overall umbrella limit fixed by the RBI, i.e., the quantum for which the CPs can be issued together with other instruments, viz., term money borrowings, term deposits, certificates of deposit and inter-corporate deposits should not exceed 100% of the Company's net owned funds, as per the latest audited balance sheet.
- CPs may be issued to and held by individuals, banking companies, other corporate bodies registered or incorporated in India and unincorporated bodies.
- Non-Resident Indians (NRIs) and Foreign Institutional Investors (FIIs). However, investment by FIIs should be within the limits set for their investments by SEBL Mutual Funds, Banks, Insurance companies, etc., are the dominant investors in the CP market.
- Secondary market trading takes place through the inter-bank broking market between institutional participants.
- CPs are issued at a discount to their face value, as may be determined mutually by the issuer and the investor. The buyback offer can be made at the prevailing market price only not before 30 days from the date of issue.

Page No. 417, Chapter No. 30, Module D

Q73. The minimum amount that can be invested in a Certificate of deposit (CD) should be __________.

(a) Rs.5 lakh

(b) Rs.10 lakh

(c) Rs.15 lakh

(d) Rs.20 lakh

Answer: A

Explanation

CERTIFICATES OF DEPOSIT

Certificate of deposit is a negotiable money market instrument issued in dematerialised form, by scheduled commercial banks (including Regional Rural Banks (RRBs) and Small Finance Banks (SFBs)); and select all-India Financial Institutions that have been permitted by RBI to raise short-term resources.

- CDs are discounted instruments and are issued at a discounted price and redeemed at par value. While the tenor of issue can range from 7 days to 1 year, most CDs are issued by banks for 3, 6 and 12-months tenors.
- CDs can be issued to individuals (other than minors), corporations, companies, trusts, funds, associations, etc. Non-Resident Indians are also permitted to subscribe to CDs. However, they are mainly subscribed to by banks, mutual funds, provident and pension funds and insurance companies.

- **The minimum amount of a CD should be Rs.5 lakh**, i.e., the minimum deposit that can be accepted from a single subscriber **should not be less than Rs. 5 lakh** and CDs are accepted in multiples of Rs.5 lakh thereafter, Banks are not allowed to grant loans against CDs, unless specifically permitted by the Reserve Bank.
- Buyback of CDs at prevailing market price can be made only 7 days after the date of issue of the CD.

Hence option A is correct.

Pg No. 416, Chapter No. 30, Module D

Q74. ________ is an unsecured money market instrument issued in the form of a promissory note issued by private companies.

(a) Corporate Bonds

(b) Certificate of Deposit

(c) Call Money

(d) Commercial Paper (CP)

Answer: D

Explanation

COMMERCIAL PAPER

With a view to enabling highly rated corporate borrowers to diversify their sources of short-term borrowing and also provide an additional instrument to investors, RBI introduced Commercial Papers as a money market instrument, in the Indian financial market in 1990.

A **Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note. Hence option D is correct.**

Companies, including Non Banking Finance Companies (NBFCs) and All India Financial Institutions (AEs), are eligible to issue CPs, subject to the condition that

(a) any fund-based facility availed of from bank(s) and/or financial institutions is classified as a standard asset by all financing banks/institutions at the time of issue.

(b) Other entities like co-operative societies/unions, government entities, trusts, limited liability partnerships and any other body corporate having presence in India with a net worth of Rupees 100 crore or higher

(c) Any other entity specifically permitted by the Reserve Bank of India (RBI).

All residents, and non-residents permitted to invest in CP's under Foreign Exchange Management Act (FEMA), 1999 are eligible to invest in CPs; however, no person can invest in CPs issued by related parties either in the primary or secondary market.

- Eligible participants/issuers shall obtain credit rating for issuance of CP from any one of the SEBI registered Credit Rating Agencies (CRA).
- The **minimum credit rating shall be A3** as per rating symbol and definition prescribed by SEBI The issuers shall ensure, at the time of issuance of the CP, that the rating so given is current and not due for review.
- Eligible issuers, whose total CP issuance during a calendar year is Rupees 1000 crore or more, shall obtain credit rating for issuance of CPs from at least two CRAS registered with SEBI and should adopt the lower of the two ratings. Where both ratings are the same, the issuance shall be for the lower of the two amounts for which ratings are obtained CP's can be issued for maturities between a minimum

of 7 days and a maximum up to one year from the date of issue. The maturity date of the CP shall not go beyond the date up to which the credit rating of the issuer is valid.

- CPs can be issued on a "stand alone" basis. The aggregate amount of CP from an issuer shall be within the limit, as approved by its Board of Directors of the Company or the quantum indicated by the Credit Rating Agency for the specified rating, whichever is lower Banks and FIs will, however, have the flexibility to fix working capital limits, taking into account the resource pattern of companies' financing including CPs.
- An FI can issue CPs, within the overall umbrella limit fixed by the RBI, i.e., the quantum for which the CPs can be issued together with other instruments, viz., term money borrowings, term deposits, certificates of deposit and inter-corporate deposits should not exceed 100% of the Company's net owned funds, as per the latest audited balance sheet.
- CPs may be issued to and held by individuals, banking companies, other corporate bodies registered or incorporated in India and unincorporated bodies.
- Non-Resident Indians (NRIs) and Foreign Institutional Investors (FIIs). However, investment by FIIs should be within the limits set for their investments by SEBI Mutual Funds, Banks, Insurance companies, etc., are the dominant investors in the CP market.
- Secondary market trading takes place through the inter-bank broking market between institutional participants.
- CPs are issued at a discount to their face value, as may be determined mutually by the issuer and the investor. The buyback offer can be made at the prevailing market price only not before 30 days from the date of issue.

The **corporate bond market** in India comprises bonds issued by various corporations for their normal business activities to raise long term funds and thus form part of capital market.

- **Certificate of deposit** is a negotiable money market instrument issued in dematerialised form, by scheduled commercial banks (including Regional Rural Banks (RRBs) and Small Finance Banks (SFBs)); and select all-India Financial Institutions that have been permitted by RBI to raise short-term resources.
- 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.

Hence option D is correct.

Pg No. 417, Chapter No. 30, Module D

Q75. Individuals can participate in non-competitive basis as retail investors in auctions of Treasury Bills and the allocation in this case is restricted to a maximum of _________ within the notified amount.

(a) 1 percent

(b) 15 percent

(c) 10 percent

(d) 5 percent

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.

- 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

Non-Competitive Bidding

State Governments, Union Territories with legislature, eligible Provident Funds in India, designated Foreign Central Banks (Nepal Rashtra Bank, Royal Monetary Authority of Bhutan, Vnesheconom Bank (only in 91 Day T Bills), can participate on non-competitive basis, the allocation for which may be within or outside the notified amount, in consultation with the central Government.

- Individuals can also participate on non-competitive basis as retail investors. For retail investors, the allocation is restricted to a **maximum of 5 per cent** within the notified amount. Individual investors can also place bids as per the non-competitive scheme through Retail Direct portal (https://rbiretaildirect.org in).
- The entities eligible to bid on non-competitive basis are also, eligible to bid in the competitive segment, without any restriction on the bid amount. The auction is conducted Price based using either uniform price based or multiple price method.
- Bids for the auction can be submitted by the participants in electronic format on the Reserve Bank of India's Core Banking Solution (E-Kuber) system. Only in the event of system failure, physical bids can also be accepted by the Public Debt Office of the RBI.

Hence option D is correct.

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

Q76. 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) 273-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

Q77. Which among the following statement is incorrect with respect to Term Money Market?

(a) Term money refers to borrowing/lending of funds for a period exceeding 14 days and upto one year on an uncollateralised basis.

(b) Term money refers to borrowing/lending of funds for a period exceeding 7 days and upto one year on an collateralised basis.

(c) Term money refers to borrowing/lending of funds for a period exceeding 7 days and upto one year on an uncollateralised basis.

(d) Term money refers to borrowing/lending of funds for a period exceeding 14 days and upto one year on a collateralised basis.

Answer: A

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. **Term money refers to borrowing/lending of funds for a period exceeding 14 days and upto one year. Hence option A is correct.**
- 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

Q78. Notice money means borrowing or lending in ______

(a) Notice money refers to borrowing/lending of funds for a period exceeding 7 days and upto one year on an uncollateralised basis.

(b) Notice money refers to borrowing/lending of funds for a period exceeding 2 days and upto 14 days on an collateralised basis.

(c) Notice money refers to borrowing/lending of funds for a period exceeding 2 days and upto 14 days on an uncollateralised basis.

(d) Notice money refers to borrowing/lending of funds for a period exceeding 14 days and upto one year on a collateralised basis.

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. **Hence option A is correct.**

- 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. Term money refers to borrowing/lending of funds for a period exceeding 14 days and upto one year. **Hence option C is correct.**
- 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

Q79. Which among the following is the Reserve Bank of India's Core Banking Solution system?
(a) E-Kuber
(b) E-Finance
(c) E-NAM
(d) E-Dham

Answer: A

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.

- 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

Non-Competitive Bidding

State Governments, Union Territories with legislature, eligible Provident Funds in India, designated Foreign Central Banks (Nepal Rashtra Bank, Royal Monetary Authority of Bhutan, Vnesheconom Bank (only in 91 Day T Bills), can participate on non-competitive basis, the allocation for which may be within or outside the notified amount, in consultation with the central Government.

- Individuals can also participate on non-competitive basis as retail investors. For retail investors, the allocation is restricted to a **maximum of 5 per cent** within the notified amount. Individual investors can also place bids as per the non-competitive scheme through Retail Direct portal (https://rbiretaildirect.org in).
- The entities eligible to bid on non-competitive basis are also, eligible to bid in the competitive segment, without any restriction on the bid amount. The auction is conducted Price based using either uniform price based or multiple price method.
- Bids for the auction can be submitted by the participants in electronic format on the **Reserve Bank of India's Core Banking Solution (E-Kuber) system**. **Hence option A is correct.**
- Only in the event of system failure, physical bids can also be accepted by the Public Debt Office of the RBI.

Page No. 416, Chapter No. 30, Module D

Q80. Which among following statement(s) is/are correct?

1. India is one of the fastest growing economies but is one of the most unequal societies.

2. **As per World Inequality Report 2022, the poorest half of the global population "barely owns any wealth" possessing just 2% of the total wealth.**
3. **The causes of migration are linked through environment to political, economic and societal causes and thus distinguishing pure environment induced causes of migration is easy.**
4. **Jobless growth is a situation wherein the level of unemployment either remain stagnant or decreases.**

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

Answer: C

Explanation

- India is one of the fastest growing economies but is one of the most unequal societies. **Hence statement 1 is correct.**
- As per World Inequality Report 2022, the poorest half of the global population "barely owns any wealth" possessing just 2% of the total, whereas the richest 10% of the global population own 76% of all wealth. The Middle East and North Africa (MENA) are the most unequal regions in the world, whereas Europe has the lowest inequality levels. **Hence statement 2 is correct.**
- The causes of migration are linked through environment to political, economic and societal causes. Thus distinguishing pure environment induced causes of migration is **difficult. Hence statement 3 is incorrect.**
- Jobless growth is a situation when the level of output in the economy tends to rise without a proportionate rise in the opportunities of employment. The level of unemployment either remain stagnant or decreases. **Hence statement 4 is correct.**

Hence option C is correct

Source: Google

Q81. A company shall be eligible to issue Commercial Paper provided the tangible net worth of the company, as per the latest audited balance sheet, is not less than __________.

(a) Rs. 2 crores
(b) Rs. 4 crores
(c) Rs. 5 crores
(d) Rs. 10 crores

Answer: B

Explanation

COMMERCIAL PAPER

With a view to enabling highly rated corporate borrowers to diversify their sources of short-term borrowing and also provide an additional instrument to investors, RBI introduced Commercial Papers as a money market instrument, in the Indian financial market in 1990.

A **Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note.**

Companies, including Non Banking Finance Companies (NBFCs) and All India Financial Institutions (AEs), are eligible to issue CPs, subject to the condition that

(a) any fund-based facility availed of from bank(s) and/or financial institutions is classified as a standard asset by all financing banks/institutions at the time of issue.
(b) Other entities like co-operative societies/unions, government entities, trusts, limited liability partnerships and any other body corporate having presence in India with a net worth of Rupees 100 crore or higher
(c) Any other entity specifically permitted by the Reserve Bank of India (RBI).
All residents, and non-residents permitted to invest in CP's under Foreign Exchange Management Act (FEMA), 1999 are eligible to invest in CPs; however, no person can invest in CPs issued by related parties either in the primary or secondary market.

- Eligible participants/issuers shall obtain credit rating for issuance of CP from any one of the SEBI registered Credit Rating Agencies (CRA).
- The **minimum credit rating shall be A3** as per rating symbol and definition prescribed by SEBI The issuers shall ensure, at the time of issuance of the CP, that the rating so given is current and not due for review.
- CPs can be issued on a "stand alone" basis. The aggregate amount of CP from an issuer shall be within the limit, as approved by its Board of Directors of the Company or the quantum indicated by the Credit Rating Agency for the specified rating, whichever is lower Banks and FIs will, however, have the flexibility to fix working capital limits, taking into account the resource pattern of companies' financing including CPs.
- An FI can issue CPs, within the overall umbrella limit fixed by the RBI, i.e., the quantum for which the CPs can be issued together with other instruments, viz., term money borrowings, term deposits, certificates of deposit and inter-corporate deposits should not exceed 100% of the Company's net owned funds, as per the latest audited balance sheet.
- CPs may be issued to and held by individuals, banking companies, other corporate bodies registered or incorporated in India and unincorporated bodies.
- Non-Resident Indians (NRIs) and Foreign Institutional Investors (FIIs). However, investment by FIIs should be within the limits set for their investments by SEBI Mutual Funds, Banks, Insurance companies, etc., are the dominant investors in the CP market.
- Secondary market trading takes place through the inter-bank broking market between institutional participants.
- CPs are issued at a discount to their face value, as may be determined mutually by the issuer and the investor. The buyback offer can be made at the prevailing market price only not before 30 days from the date of issue.
- A company shall be eligible to issue CP provided - (a) the tangible net worth of the company, as per the latest audited balance sheet, is not less than **Rs. 4 crore**

Hence option B is correct.
Pg No. 417, Chapter No. 30, Module D

Q82. In a 100% of net offer to public through voluntary book-built issue, allotments to different categories of investors are required to be ensured in different proportions. Which among the following is incorrect in his regard
(a) Retail Individual Investors (RIIs): Not less than 35% of the net offer to the public
(b) Non-Institutional Investors (NIIs): Not less than 15% of the net offer to the public

(c) Qualified Institutional Buyers (QIBs): Not more than 50% of the net offer to the public
(d) None of the above

Answer: D

Explanation

Pricing of an issue in the capital market

In a 100% of net offer to public through voluntary book-built issue, allotments to different categories of investors are required to be ensured in the following proportions:

- Retail Individual Investors (RIIs): Not less than 35% of the net offer to the public
- Non-Institutional Investors (NIIs): Not less than 15% of the net offer to the public
- Qualified Institutional Buyers (QIBs): Not more than 50% of the net offer to the public (5% of which should go to Mutual funds) **Hence option D is correct.**

Anchor investor means a qualified institutional buyer who makes an application for a value of at least ten crore rupees in a public issue on the main board made through the book building process in accordance with these regulations or makes an application for a value of at least two crore rupees for an issue made in accordance with Chapter IX of these regulations

- **Green shoe-option** means an option of allotting equity shares in excess of the equity shares offered in the public issue as a post-listing price stabilizing mechanism
- **Self-certified Syndicate Bank** means a banker to an issue registered with the Board, which offers the facility of ASBA

Pg No. 435, Chapter No. 31, Module D

Q83. Which among the following statement is correct with respect to a Red Herring Prospectus?

(a) An offer document for the purpose of Qualified Institutional Placement & contains all relevant and material disclosures.
(b) An offer document used in case of book built public issue.
(c) It provides detailed information about the company's business operations, financials, promoters and the company's objective for raising funds by filing IPOs.
(d) None of the above

Answer: C

Explanation

Red Herring Prospectus

A Red Herring Prospectus, or offer document, is filed by a company to SEBI (Securities and Exchange Board of India), when it intends to raise money from the public by selling shares of the company to investors.

- The document is very useful to investors because, **it provides detailed information about the company's business operations, financials, promoters and the company's objective for raising funds by filing IPOs.**
- It also elaborates on how the company intends to use the money that will be raised and the possible risks for investors.

Contents of RHP

The Red Herring Prospectus contains some of the following information:

Business Description

This segment talks about a company's core operations and how it conducts business. A prospective shareholder, should pay attention to this part, as the investment will be utilised by the company, in its core business.

Financial information

This is one of the most important segments and contains the company's audit reports and financial statements. For an investor, the financial statement will help him to get an idea of future dividends, based on the profits disclosed. The investor can gauge the safety and profitability of his future investment, based on the financial information.

Risk Factors

Companies lists out the potential risks that could impact their business and operations under a section titled "Risk Factors' While many are routinely listed risks, some risks need to be scrutinised. For instance, if the investor find that the company has a number of pending legal cases, it may be a good idea to avoid the IPO.

Use of Proceeds

Companies announce IPOs for various reasons. The investor should find out what the company intend to do with the capital it raises, through the IPO Does the company plan to reduce its debt, purchase new assets or meet its working capital needs? Also, the capital structure of the company should b scrutinised in order to see if any big private investors have put money into the company

Industry overview

A red herring prospectus carries information about the position of the company, relative to competitors. The performance trends of the industry to which the company belongs to, is also include in the document.

Management

A company's prospects have a lot to do with the people who run it. The management is responsible for planning strategies on varied fronts like driving growth, pushing expansions, renovation, marketing. etc. This section has details such as names, qualifications, designations about directors, promoters and key management personnel. It may also have information about any criminal cases or that of financial delinquency or pending litigations against these people. It is important for an investor to check this section because all these can be a risk factor.

Hence option C is correct.

Pg No. 433, Chapter No. 31, Module D

Q84. Which among the following is the correct description of V-shaped recovery in an economy?

(a) It is a quick, sharp improvement in an economy after a sharp decline.

(b) It is an unusual scenario where certain industries and individuals pull out of a recession, while others stagnate.

(c) It is a type of recovery characterized by a slow rate of recovery, with persistent unemployment and stagnant economic growth

(d) It is the most-optimistic scenario in which the economy quickly rises after an economic crash.

Answer: A

Explanation

V-Shaped Recovery

A V-shaped recovery is a quick, sharp improvement in an economy after a sharp decline. Hence option A is correct.

- On a graph of gross domestic product (GDP) over time, the decline forms the left side of the letter V. The recession is the point at the bottom, then rapid improvement from that point forms the right side of the letter V.
- A K-shaped recovery is an unusual scenario where certain industries and individuals pull out of a recession, while others stagnate.
- An L-shaped recovery is a type of recovery characterized by a slow rate of recovery, with persistent unemployment and stagnant economic growth
- Z-shaped recovery is the most-optimistic scenario in which the economy quickly rises after an economic crash.

Hence option A is correct.

Source: Google

Q85. The Prudential Limit for Primary Dealers for transacting as part of Call and Notice Money market is ________ .

(a) 100% of capital funds, on a daily average basis in a reporting fortnight

(b) 125% of capital funds on any given day

(c) 225% of Net Owned Fund (NoF) as at the end of the previous financial year on a daily average basis in a reporting fortnight.

(d) 225% of Net Owned Fund (NoF) as at the end of the previous financial year.

Answer: C

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 C is correct.

Pg No. 415, Chapter No. 31, Module D

Q86. Transaction permitted in Central Govt securities that have been notified but not yet actually issued are known as "When Issued". In this context, identify the correct statement

(a) NRIs are eligible to undertake only Long position

(b) NRIs are eligible to undertake only Short position

(c) OCIs can undertake both Long & Short positions

(d) HUFs can undertake both Long & Short positions

Answer: A

Explanation

GOVERNMENT SECURITIES

The Government securities market consists of securities issued by the State and the Central governments Government securities include Central Government securities, Treasury bills and State Development Loans.

- Transactions are also permitted in Central Government securities, whether new or reissued, that have been notified for issuance, but not yet actually issued.
- Such transactions are called 'When, as and if Issued or commonly as "When Issued' All entities eligible for participation in the primary auction of Central Government Securities can participate in 'When Issued' market.
- However, resident individuals, **Hindu Undivided Families (HUF), Non-Resident Indians (NRI) and Overseas Citizens of India (OCIs)** are eligible to undertake **only long position** in "When Issued' securities. **Hence option A is correct**
- Entities other than scheduled commercial banks and Primary Dealers (PDs), shall close their short positions, if any, by the close of trading on the date of auction of the underlying Central Government security

Pg No. 442, Chapter No. 32, Module D

Q87. Consider that a person has bought Government Securities in India 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

GOVERNMENT SECURITIES

The Government securities market consists of securities issued by the State and the Central governments Government securities include Central Government securities, Treasury bills and State Development Loans.

- They are issued in order to finance the fiscal deficit and managing the temporary cash mismatches of the Government.
- All entities registered in India like banks, financial institutions, Primary Dealers, firms, companies, corporate bodies, partnership firms, institutions, mutual funds, Foreign Institutional Investors, State

Governments, Provident Funds, trusts, research organisations, Nepal Rashtra bank and even individuals are eligible to purchase Government Securities.

- They are generally held by banks and institutions with the Reserve Bank of India in Subsidiary General Ledger accounts.
- They can be held in special accounts known as Constituent Subsidiary General Ledger (CSGL) accounts which can be opened with banks and Primary Dealers or in dematerialised form in demat accounts maintained with the Depository Participants of NSDL.

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. 440, Chapter No. 32, Module D

Q88. Which among the following is an instrument used by companies to raise funds to supply long-term investment products, for long-term investors?

(a) Corporate Bonds

(b) Sovereign Bonds

(c) Government Securities

(d) State Development Loans

Answer: A

Explanation

CORPORATE BOND MARKET

The Corporate Debt Market in India is at a relatively early stage, in terms of an efficient price discovery mechanism as well as market participation.

- Primary corporate debt market is dominated by finance companies and relatively a small amount of funds is raised by manufacturing and other service industries through this market.
- Indian firms are still seeking bank finance as the path to fulfill the funding requirements.
- An efficient bond market would help corporates reduce their financing costs and allow them to structure their asset-liability profiles better.
- A well-developed corporate bond market is also necessary for long-term financing of corporates.

Objectives of development of a robust corporate bond market are as follows:

- to diffuse stress on banks, by diversifying credit risk across the various investors
- **to supply long-term investment products, for long-term investors. Hence option A is correct.**
- to reduce funding cost for corporate and others, by eliminating agency and disintermediation cost to ensure that capital is allocated more efficiently among various enterprises

Here, all of Sovereign Bonds, Government Securities and State Development Loans are used by Government entities. **Hence option A is correct.**

Pg No. 449, Chapter No. 32, Module D

Q89. Which among the following was first established by Foreign entities?

(a) Fixed Income Money Market and Derivatives Association of India (FIMMDA)

(b) Indian Banks' Association (IBA)

(c) Financial Benchmark India Private Ltd. (FBIL)

(d) Foreign Exchange Dealers' Association of India (FEDAI)

Answer: Not clear

Explanation

1. Fixed Income Money Market and Derivatives Association of India (FIMMDA)

FIMMDA is the Self-Regulatory Organisation (SRO), associated with the fixed income and derivative markets in India. It is an association of Commercial Banks, Financial Institutions and Primary Dealers and is a voluntary self-regulating institution for the bond, money and derivatives markets.

- FIMMDA is an association of Scheduled Commercial Banks, Public Financial Institutions, Primary Dealers and Insurance Companies was incorporated as a Company under section 25 of the Companies Act, 1956 on May 4, 1998.

2. Indian Banks' Association (IBA)

In the year 1944, a group of bankers met under the Chairmanship of Shri Pranlal Devkaran Nanjee, Chairman, Devkaran Nanjee Banking Company Ltd. In the year 1946, the Association was formally established on 26thSeptember, 1946.

3. Financial Benchmark India Private Ltd. (FBIL)

In terms of recommendations of the Committee on Financial Benchmarks set up by Reserve Bank of India (February 2014) to review the systems governing major financial benchmarks in India, Fixed Income Money Market & Derivative Association of India (FIMMDA) and Foreign Exchange Dealers' Association of India (FEDAI) were identified as benchmark administrators for the Indian rupee interest rate benchmarks and Foreign exchange benchmarks respectively.

- **Financial Benchmark India Private Ltd (FBIL)** was jointly promoted by Fixed Income Money Market & Derivative Association of India (FIMMDA), Foreign Exchange Dealers' Association of India (FEDAI) and Indian Banks' 'Association (IBA).
- It was incorporated on 9th December 2014 under the Companies Act 2013. It was recognised by Reserve bank of India as an independent Benchmark administrator on 2nd July 2015.

4. Foreign Exchange Dealers' Association of India (FEDAI)

FEDAI is one of the very important institutions connected with the forex market and foreign exchange transactions in India. The Foreign Exchange Dealers' Association of India (FEDAI) 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 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.

The question was not completely clear as all the Organisations were established by Indian entities.
Pg No. 458, Chapter No. 33, Module D

Q90. Which among the following is one of the participant(s) of Forex Market?
1. RBI
2. Authorised Dealers
3. Customers
4. SEBI
(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
The Foreign Exchange (Forex) Market is an inter-bank market that took shape in 1971, when global trade shifted from fixed exchange rates to floating ones.

- This is a set of transactions among forex market participants involving exchange of specified sums of money in a currency unit of any given nation for currency of another nation, at an agreed rate, as on any specified date.
- During exchange, the exchange rate of one currency to another currency is determined simply by supply and demand-exchange to which both parties agree.

<u>MARKET PARTICIPANTS</u>
The global forex market being very large and deep, has the following participants:
Commercial banks and investment banks: They generally act on their own behalf or based on the needs and interests of their clients.

- **Brokers -** They act as intermediaries between financial institutions or as links with private individuals, in exchange market, for a fee. They deal with **Authorised Dealers** like banks etc.
- **Central banks -** Central banks like **RBI** are responsible for issuing their respective country's currency and managing and controlling the money supply Central Banks therefore intervene in currency markets- individually or in a coordinated way to keep the value of their currencies within the limits defined by their monetary policies, in pursuance of explicit commitments (such as in the case of fixed exchange rates) or otherwise, using their foreign currency reserves.
- **Sovereign funds -** These are public investment funds that invest proceeds from business privatisations, natural resources (oil, gas), etc., in foreign currency assets, Hedge funds and investment entities.
    - These entities intervene in foreign exchange markets, with speculative purposes or to obtain returns.

- Multinationals, large corporations and SMEs and institutional investors (such as insurance companies and asset managers.
- These engage in exchange markets for commercial or investment purposes.

- **Individuals -** They operate in the foreign exchange market, for transactional hedging or speculative purposes. They form the major **customer** base.
- **Securities and Exchanges Board of India (SEBI)** is the regulator of the sector and thus is involved in Forex dealings.

Hence option D is the correct answer

Pg No. 456, Chapter No. 33, Module D

Q91. Which among the following is the enforcement authority of the Foreign Exchange Management Act, 1999?

(a) Foreign Exchange Department, State Bank of India.

(b) Directorate of Enforcement, Department of Revenue, Ministry of Finance

(c) Capital Market Division, Ministry of Commerce

(d) None of the above

Answer: B

Explanation

FOREIGN EXCHANGE MANAGEMENT ACT (FEMA), 1999

A system of exchange control was first time introduced through a series of rules, under the Defense of India Act, 1939, on temporary basis. The foreign exchange crisis persisted for a long time and finally an Act was promulgated in the statute under the title "Foreign Exchange Regulation Act, 1947" Subsequently, this Act was replaced by the Foreign Exchange Regulation Act, 1973 (FERA) which came into force with effect from January 1, 1974 and regulated foreign exchange for more than 26 years under this Act.

Authorities and Enforcement Machinery FEMA in itself is not an independent and isolated law. The provisions of FEMA are spread at different places and so there are several regulatory bodies:

- Reserve Bank of India makes Regulations under FEMA and the Rules are made by the Central Government.
- Authorities governing the enforcement of FEMA are:
    - Foreign Exchange Department, Reserve Bank of India.
    - **Directorate of Enforcement**, Department of Revenue, Ministry of Finance. **Hence option B is correct.**
    - Capital Market Division, Department of Economic Affairs, Ministry of Finance
    - Foreign Trade Division, Department of Economic Affairs, Ministry of Finance

Pg No. 459, Chapter No. 33, Module D

Q92. Appeals against the decisions of the Adjudicating Authorities and Special Director (Appeals) are heard by which among the following?

(a) Authorised Dealer

(b) Enforcement Directorate

(c) Appellate Tribunal

(d) Competent Authority

Answer: D

Explanation

FOREIGN EXCHANGE MANAGEMENT ACT (FEMA), 1999

A system of exchange control was first time introduced through a series of rules, under the Defense of India Act, 1939, on temporary basis. The foreign exchange crisis persisted for a long time and finally an Act was promulgated in the statute under the title "Foreign Exchange Regulation Act, 1947" Subsequently, this Act was replaced by the Foreign Exchange Regulation Act, 1973 (FERA) which came into force with effect from January 1, 1974 and regulated foreign exchange for more than 26 years under this Act.

Authorities and Enforcement Machinery FEMA in itself is not an independent and isolated law. The provisions of FEMA are spread at different places and so there are several regulatory bodies:

- Reserve Bank of India makes Regulations under FEMA and the Rules are made by the Central Government.
- Authorities governing the enforcement of FEMA are:
  - Foreign Exchange Department, Reserve Bank of India.
  - **Directorate of Enforcement**, Department of Revenue, Ministry of Finance.
  - Capital Market Division, Department of Economic Affairs, Ministry of Finance
  - Foreign Trade Division, Department of Economic Affairs, Ministry of Finance

Machinery responsible for various aspects of FEMA

- **Enforcement Directorate**: To enforce the provisions of the Act, the Central Government, have established the Directorate of Enforcement with Directors and other officers, as officers of the Enforcement. The officers of the Directorate perform adjudication function, so as to impose penalty on persons for contravention of the Act
- **Adjudicating Authorities**: The Adjudicating Authorities will issue a notice to the person who had contravened the provisions of the Foreign Exchange Management Act, Rules, Regulations, Notifications or any directions issued by the RBI
- **Special Director (Appeals)**: Any person aggrieved by an order made by the Adjudicating Authority, being an Assistant Director of Enforcement or a Deputy Director of Enforcement can prefer an appeal to the Special Director (Appeals)
- **Appellate Tribunal**: Any person aggrieved by an order made by the adjudicating Authority, or the Special Director (Appeals) can prefer an appeal to the Appellate Tribunal. **Hence option D is correct.**

FEMA envisages that the RBI shall have the controlling role in management of foreign exchange.

- Since the RBI cannot directly handle foreign exchange transactions, it empowers "Authorised Persons" to deal in foreign exchange, as per the directions issued by it.
- The RBI is empowered to issue directions related to handling of foreign exchange transaction to such "Authorised Persons"
- These Directions are issued through AP (DIR) Circulars and Master Circulars and Directions (AP stands for Authorised Person and DIR stands for Directions).

Hence option D is correct

17, Pg No. 459, Chapter No. 33, Module D

Q93. The settlement in SPOT markets takes place in which among the following manner?

(a) On the same day

(b) On one day after the Trading day

(c) On one month after the Trading day

(d) On two days after the Trading day

Answer: A

Explanation

FX-RETAIL PLATFORM – SPOT SETTLEMENTs

A spot trade, also known as a spot transaction, refers to the purchase or sale of a foreign currency, financial instrument, or commodity for **instant delivery on a specified spot date**. **Hence option A is correct**

- Most spot contracts include the physical delivery of the currency, commodity, or instrument; the difference in the price of a future or forward contract versus a spot contract takes into account the time value of the payment, based on interest rates and the time to maturity.
- In a foreign exchange spot trade, the exchange rate on which the transaction is based is referred to as the spot exchange rate.

Source: Google

Q94. Which among the following is the Alternate Reference Rate of USA suggested to be used by various central Banks in substitution of LIBOR?

(a) SOFR

(b) SONIA

(c) SOFIA

(d) ESTR

Answer: A

Explanation

LIBOR AND ALTERNATE REFERENCE RATES (ARRs)

London Inter Bank Offered Rate or LIBOR was a very popular benchmark and was issued for US Dollar, British Pound, Euro, Swiss Franc, Canadian Dollar and the Japanese Yen.

- The rate was being calculated and published each day by the ICE Benchmark Administration (IBA).
- The LIBOR had come into a great amount of criticism and irregularities, as a result of which, steps were taken to replace it as a financial benchmark rate.
- The events of LIBOR rigging' created shock waves in the financial system and the credibility of a financial reference used to price and determine payoffs for trillions of dollars of loans/bonds/derivatives came under a cloud.

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 A is the correct answer.
Pg No. 457, Chapter No. 33, Module D

Q95. Which of the following is not one of the 6 currencies in the US Dollar Index?
(a) Chinese Yuan
(b) Swiss Franc
(c) British Pound
(d) Swedish Kroner
Answer: A
Explanation
US DOLLAR INDEX (USDX)
The US dollar index (USDX) is a measure of the value of the US Dollar relative to the value of a basket of currencies of the majority of USA's most significant trading partners This index is similar to other trade-weighted indexes, which also use the exchange rates from the same major currencies.

- The US Dollar Index is used to measure the relative value (strength) of the dollar against a basket of six world currencies-**Euro, Swiss Franc, Japanese Yen, Canadian Dollar, British Pound, and Swedish Kroner**. The EUR is, by far, the largest component of the index, making up 57.6% of the basket. **Hence option A is the correct answer.**
- The weights of the rest of the currencies in the index are JPY (13.6%) GBP (11.9%), CAD (91%), SEK (4.2%), CHF (3.6%).
- The index started in 1973, shortly after the Bretton Woods Agreement was dissolved, with a base of 100, and values since then are relative to this base.
- The US Dollar index has risen and fallen sharply throughout its history, reaching its high point in February 1985 with a value of 164.72 and its low point in March 2008 with a value of 70.698.
- The index is greatly affected by macroeconomic factors, including inflation/ deflation in the dollar and foreign currencies included in the comparable basket, as well as recessions and economic growth in those countries

Pg No. 461-462, Chapter No. 33, Module D

Q96. In the context of interconnectedness of Capital market which among the following statements is correct?
(a) Bond Market & Money Market move in tandem
(b) Equity markets normally move negatively in relation to bond yields
(c) Equity markets and bond yields move in random ways

(d) None of the above

Answer: B

Explanation

INTERCONNECTEDNESS OF THE CAPITAL MARKET

The relationship between the bond markets and money markets is such that these markets move in tandem.

- The capital market (equity), however, moves in the opposite direction. An increase in bond yields pushes the stock markets down, whereas a decrease in bond yields increases the stock market indices.
- While there are exceptions, the equity markets have normally moved negatively with bond yields. That means **as bond yields go down, the equity markets tend to outperform by a bigger margin** and as bond yields go up equity markets tend to fall A comparison of the 10-year G-Sec yields with stock market index NIFTY over a period of 5 years. **Hence option B is the correct answer.**
- Bond yields, in a way, represent the opportunity cost of investing in equities. For example, if the 10-year bond is yielding 7% pa, then the equity markets will be attractive only if it can earn well above 7%.
- In fact, equity being risky there will have to be a risk premium, first of all, to be even comparable.
- Let us assume that the risk premium on equities is 5% Therefore, that 12% will literally act as the opportunity cost for equity Below 12%, it may not be prudent for the investor to take the risk of investing in equities as even the additional risk is not being compensated.
- As bond yields go up the opportunity cost of investing in equities goes up and therefore equities become less attractive In addition to the linkages between the domestic capital market, there is also an interconnectedness between the domestic capital markets and their counterparts in the large international financial centres like New York, London and Paris Interconnectedness tends to move stock markets, across the globe, in tandem, that is in the same direction
- Tracking the movements of the NIFTY 50 with the S&P500, which is a major stock exchange in USA over a period of 5 years and the positive correlation between these two markets, indicating global coupling, is evident.

Pg No. 476, Chapter No. 34, Module D

Q97. In respect of every issue to be managed by the lead merchant banker holding a certificate under Category-I shall accept a minimum underwriting obligation of _____ of the total underwriting commitment or Rs 25 lacs, whichever is less

(a) 2%

(b) 5%

(c) 10%

(d) 15%

Answer: B

Explanation

DEFINITION OF MERCHANT BANKING

Merchant Banking primarily involves providing financial advice and services to large corporates and wealthy individuals Merchant Banks do not provide regular banking services to the general public.

- The notification of the Ministry of Finance defines Merchant Banker as- "Any person who is engaged in business of issue management either by making arrangements regarding selling, buying or subscribing to the securities as manager, consultant, advisor or rendering corporate advisory service in relation to such issue management."

Underwriting

It is one of the higher risk services of Merchant banking activity and it is necessary to be circumspect in accepting such business.

- Assignments that pose risk of devolvement should be avoided unless there is sub-underwriting tie-up directly or indirectly with promoters and their related investment companies or a firm commitment of buy-back on reasonable terms.
- Major aspects which need close scrutiny before underwriting to be considered are the project and its viability, project location, promoters and their track record, product and its marketability, past performance of existing companies in the same line, Government Policy, capital market conditions, etc.
- In respect of every issue to be managed, the lead merchant banker holding a certificate under Category-I shall accept a minimum underwriting obligation of **5% of the total underwriting commitment or Rs 25 lacs**, whichever is less
- Provided that, if the lead merchant banker is unable to accept the minimum underwriting obligation, that lead merchant banker shall make arrangement for having the issue underwritten to that extent by a merchant banker associated with the issue and shall keep the Board informed of such arrangement.
- Provided further that in any issue made in accordance with Chapter XA of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, the merchant banker shall, itself or jointly with other merchant bankers associated with the issue, underwrite at least fifteen per cent of the issue size.

Hence option B is correct.

Pg No. 488, Chapter No. 35, Module D

Q98. All OTC trades in CDs shall be reported within ________ of the trade on the reporting platform of Clearcorp Dealing Systems (India) Ltd. (CDSIL)

(a) 5 minutes

(b) 10 minutes

(c) 15 minutes

(d) 20 minutes

Answer: C

Explanation

CERTIFICATES OF DEPOSIT

Certificate of deposit is a negotiable money market instrument issued in dematerialised form, by scheduled commercial banks (including Regional Rural Banks (RRBs) and Small Finance Banks (SFBs)), and select all-India Financial Institutions that have been permitted by RBI to raise short-term resources.

- CDs are discounted instruments and are issued at a discounted price and redeemed at par value. While the tenor of issue can range from 7 days to 1 year, most CDs are issued by banks for 3, 6 and 12-months' tenors.

- CDs can be issued to individuals (other than minors), corporations, companies, trusts, funds, associations, etc. Non-Resident Indians are also permitted to subscribe to CDs. However, they are mainly subscribed to by banks, mutual funds, provident and pension funds and insurance companies.
- The minimum amount of a CD should be 5 lakh, Le, the minimum deposit that can be accepted from a single subscriber should not be less than 25 lakh and CDs are accepted in multiples of 5 lakh thereafter.
- Banks are not allowed to grant loans against CDs, unless specifically permitted by the Reserve Bank Buyback of CDs at prevailing market price can be made only 7 days after the date of issue of the CD.
- All OTC trades in CDs shall be reported within **15 minutes** of the trade on the reporting platform of Clearcorp Dealing Systems (India) Ltd. (CDSIL). **Hence option C is correct.**

Pg No. 497, Chapter No. 36, Module D

Q99. Which of the following statement is true regarding Certificate of Deposits?

(a) It is issued at Discounted Value & redeemed at par value

(b) It is issued at par value & redeemed at discounted values

(c) It is issued at par value & redeemed at premium value

(d) It is issued at par value & redeemed at the same value

Answer: A

Explanation

CERTIFICATES OF DEPOSIT

Certificate of deposit is a negotiable money market instrument issued in dematerialised form, by scheduled commercial banks (including Regional Rural Banks (RRBs) and Small Finance Banks (SFBs)) and select all-India Financial Institutions that have been permitted by RBI to raise short-term resources.

- CDs are **discounted instruments and are issued at a discounted price and redeemed at par value**. While the tenor of issue can range from 7 days to 1 year, most CDs are issued by banks for 3, 6 and 12-months' tenors. **Hence option A is correct.**
- CDs can be issued to individuals (other than minors), corporations, companies, trusts, funds, associations, etc. Non-Resident Indians are also permitted to subscribe to CDs. However, they are mainly subscribed to by banks, mutual funds, provident and pension funds and insurance companies.
- The minimum amount of a CD should be 5 lakh, Le, the minimum deposit that can be accepted from a single subscriber should not be less than 25 lakh and CDs are accepted in multiples of 5 lakh thereafter.
- Banks are not allowed to grant loans against CDs, unless specifically permitted by the Reserve Bank Buyback of CDs at prevailing market price can be made only 7 days after the date of issue of the CD.

Pg No. 497, Chapter No. 36, Module D

Q100. Which of the following statement is incorrect regarding call & put option?

(a) A call option is a right to buy an underlying asset at a fixed price at a future date.

(b) A put option is the right to sell an underlying asset at a fixed price at a future date.

(c) A call option is the obligation of the option writer to sell an underlying asset at a fixed price at a future date.

(d) A put option is the obligation of the option buyer to buy an underlying asset at a fixed price at a future date.

Answer: D

Explanation

OPTIONS

An option is a contract which gives the buyer (holder) the right, but not the obligation, to buy or sell specified quantity of the underlying assets, at a specific (strike) price, on or before, a specified time (expiration date)

Call Options

A call option gives the holder (buyer) the right to BUY specified quantity of the underlying asset at the strike price, on or before expiration date.

- The seller or writer of the option, however, has the obligation to sell the underlying asset, if the buyer of the call option decides to exercise his option to buy
- Example: An investor buys one European call option on Infosys, at the strike price of Rs 1500, paying a premium of Rs 100. If the market price of Infosys on the day of expiry is more than Rs 1500, the option will be exercised and the option buyer will buy the share at Rs 1500. The buyer of the option will earn profits once the share price crosses Rs 1600 (Strike Price + Premium, i.e., 1500+ 100). Suppose stock price is Rs 1800, the option will be exercised and the investor will buy 1 share of Infosys from the seller of the option at Rs 1500 and sell it in the market at Rs 1800, making a profit of Rs 200 ((Spot price- Strike price) - Premium)

Put Options

A Put option gives the holder (buyer), the right to SELL specified quantity of the underlying asset, at the strike price, on or before expiry date.

- The seller of the put option, however, has the obligation to buy the underlying asset at the strike price, if the buyer of the option decides to exercise his option to sell.
- Example. An investor buys one European Put option on Reliance, at the strike price of Rs 2300 and pays a premium of Rs 125 If the market price of Reliance, on the day of expiry is less than Rs 2300, the option can be exercised. Hence, if on expiry date, the price of a Reliance share is Rs 1800, the option buyer will sell the share at the option price Rs 2300 and buy at the market price and make a profit of Rs 375 (Selling price-buying price-option premium, or 2300-1800-125) On the other hand, at the time of expiry, market price of Reliance is Rs 2800, the buyer of the Put option will choose not to exercise his option to sell as he can sell in the market at a higher rate. In this case, the investor loses the premium paid (i.e., Rs 125), which shall be the revenue earned by the seller of the Put option.

Differences between call and put options

	Call Options	Put Options
Option buyer or option holder	Buys the right to buy the underlying asset at the specified price.	Buys the right to sell the underlying asset at the specified price.
Option seller or option writer	Has the obligation to sell the underlying asset (to the option holder) at the specified price.	Has the obligation to buy the underlying asset (from the option holder) at the specified price.

Hence option D is correct

Pg No. 502-503, Chapter No. 36, Module D

Q101. Which among the following statement is not correct with respect to Derivatives?
(a) Forward Agreements are traded Over the Counter.
(b) Forward Agreements have flexible maturities.
(c) Swaps deal with exchange of financial flows.
(d) Futures are negotiable instruments.
Answer: D
Explanation
DERIVATIVE
In terms of guidelines issued by RBI, a derivative is a financial instrument
(a) 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')
(b) 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, and
(c) that is settled at a future date.
The derivatives market is very large and highly leveraged. This is because the amount of underlying is multiplied several times in the derivatives arena.

Differences between Futures & Forwards
Forwards are negotiable instruments as they are traded OTC while Futures are not negotiable as they are traded over the Stock Exchanges. **Hence option D is correct.**

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

Swaps deal with exchange of financial flows and Credit risk.
Pg No. 499 - 503, Chapter No. 36, Module D

Q102. Which among the following statement is correct with respect to Derivatives?
(a) Futures have flexible maturities.
(b) Forwards deal with standard amounts
(c) Futures require no margins for trading
(d) Forwards are traded 24 x 7
Answer: D
Explanation
DERIVATIVE
In terms of guidelines issued by RBI, a derivative is a financial instrument

(a) 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')
(b) 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, and
(c) that is settled at a future date.
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Differences between Futures & Forwards

Forwards are negotiable instruments as they are traded OTC while Futures are not negotiable as they are traded over the Stock Exchanges.

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 D is correct.
Pg No. 499, Chapter No. 36, Module D

Q103. If a corporate has to borrow, for a period of 3 months, 6 months from now, it is referred to as a _______ FRA.
(a) 3 x 6
(b) 3 x 9
(c) 6 x 9
(d) 9 x 12
Answer: C
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 3 months, 3 months from now, it is referred to as a 3x6 FRA**, meaning beginning THREE months from now and ending SIX 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. If a corporate house sells an FRA, then it undertakes to receive a particular fixed rate and pays a floating rate; hence, it hedges against any fall in the interest rates. The principal amount is only notional, and there is no commitment on either of the counterparties to either lend or borrow the notional principal amount.

- The convention in FRA markets is to denote the FRAS as 3 x 6, 6x 9, etc. A **6x9 FRA** means a corporate seeking protection for a **3 months' borrowing or lending commitment, starting 6 months from today and ending 9 months from today**. **Hence option C is correct.**
- A 9x12 FRA means seeking protection for a 3 months' borrowing or lending commitment starting 9 months from today and ending 12 months from today and so on so forth.

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

Q104. Which among the following statement is correct with respect to the

(a) The transactions processed under TReDS are without recourse to the MSMEs

(b) The transactions processed under TReDS are with recourse to the MSMEs

(c) The transactions processed under TReDS are both with recourse and without recourse to the MSMEs

(d) one of the above

Answer: A

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 MSMEs, despite their important role in contributing to the Indian economy, continue to face constraints in obtaining adequate finance.
- 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.
- It may be stated that the TReDS facilitates the discounting of both invoices as well as bills of exchange.
- 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. Hence option A is correct.**

Pg No. 521, Chapter No. 37, Module D

Q105. Which among the following statement is correct with respect to Bill Discounting and Factoring?

(a) Bill Discounting is always without recourse

(b) Factoring involves assignment of debt

(c) Bill Discounting involves assignment of debt

(d) None of the above

Answer: B

Explanation

BILLS DISCOUNTING VS FACTORING

Although, both bills discounting and factoring involve financing of receivables (often exports receivables), there are differences between them.

BILLS DISCOUNTING	FACTORING
Requires strong balance sheet and collaterals	Can be done with weak balance sheet, no collateral provided the receivables are of good quality
Always with recourse	Can be without recourse
Collection is job of exporter	Collection is job of factor
Financing is transaction based	Financing is based on accounts-receivable ledger
It is only a mode of financing	It consists of complete receivables management, including MIS, collection, and even credit insurance
There is no assignment of debt	It involves assignment of debt

Hence option B is correct

Page No. 517, Chapter No. 37, Module D

Q106. Venture Capital investments are generally __________opportunities

(a) High-risk low-return

(b) Low-risk high-return

(c) Low-risk Low-return

(d) High-risk high-return

Answer: D

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.
- Venture Capital may be broadly defined as long-term investment in business, which has potential for significant growth and financial returns. This is usually provided in the form of equity, apart from conditional loans and conventional loans Venture Capitalists are thus not financiers only, but also bear the risk as well.

- Their return from the enterprise depends upon the extent of the success achieved by them. The most distinguishing feature of Venture Capital is that it meets the needs of a business wherein the probability of loss is quite high, because of the uncertainties associated with the business, but the returns expected are also higher than normal.
- The entrepreneur intends to enter into an untrodden field. Thus, the Venture Capitalist invests in a business where uncertainties are yet to be quantified into risks.

Hence option D is correct

Page No. 528, Chapter No. 38, Module D

Q107. Match the following Credit Rating symbols correctly to the description provided below:

Credit Rating Symbols	Description
A. AA	**i. Vulnerable to Default**
B. BBB	**ii. High Risk**
C. B	**iii. High Safety**
D. C	**iv. Moderate Safety**

(a) A – i, B – ii, C – iii, D – iv

(b) A – iii, B - iv, C - ii, D - i

(c) A - iv, B - ii, C - iii, D – i

(d) A - ii, B - i, C - iii, D - iv

Answer: B

Explanation

CREDIT RATING SYMBOLS

Presently, in India, there are seven CRAS which have been approved by SEBI. These are

1. CRISIL Ratings Limited
2. India Ratings and Research Pvt. Ltd. (Ind-Ra, formerly Fitch Ratings India Pvt.)
3. ICRA Limited
4. CARE Ratings Ltd.
5. Brickwork Ratings India Pvt. Ltd
6. Infomerics Valuation and Rating Pvt. Ltd
7. Acuite Ratings & Research Limited

All these seven CRAS also have been accredited by RBI, for the purpose of risk weighting banks' claims for capital adequacy purposes.

- Ratings are classified into three grades viz, high investment grades, investment grades and speculative grades.
- 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+

High Investment Grades

- **AAA** - Triple A denotes **highest safety** in terms of timely payment of interest and principal. The issuer is fundamentally strong and any adverse changes are not going to affect it.
- **AA** - Double A denotes high safety in terms of timely payment of interest and principal.
- **A** - denotes adequate safety in terms of timely payment of interest and principal. Changes in circumstances can adversely affect such issues.
- **BBB** - Triple B denotes **moderate safety** in terms of timely payment of interest and principal speculative grades.

Speculative Grades

- **BB** - Double B denotes inadequate safety in terms of timely payment of interest and principal. Uncertain changes can lead to inadequate financial capacity to make timely payments in the immediate future
- **B** - Denotes **high risk** Adverse changes could lead to inability or unwillingness to make timely payment.
- **C** - Denotes substantial risk. Issue rated is **vulnerable to default**. **Hence option B is correct.**
- **D** - Denotes default in terms of timely payment of interest and principal.

These symbols are just a current opinion of an agency and they are not recommendations to invest or not to invest. The rating assigned applies to a particular instrument of the company and is not a general evaluation of the company.

Pg No. 557, Chapter No. 40, Module D

Q108. Which of the following is not a Credit Information Company in India?

(a) TransUnion CIBIL

(b) Experian

(c) Equifax

(d) CRISIL

Answer: D

Explanation

CREDIT INFORMATION COMPANIES (CICs) IN INDIA

A Credit Information Company (CIC) collects and maintains records of an individual's payments and dues pertaining to loans and credit cards These records are submitted by the respective banks and other credit institutions to the CIC This information is then used to create credit information reports, which is provided to credit institutions, in order to access the credit worthiness and capacity of a borrower to repay his loan and advances and discharge his other obligations in respect of credit facility availed or to be availed by him. It is, therefore, imperative that the information that is compiled and conveyed is accurate since inaccurate record of information of a person maintained by credit institutions and CIC may have dire consequences.

At present, there are four CICS operating in India. Their brief profiles are as follows:

- **TransUnion CIBIL** - CIBIL is the first entrant in the country CIBIL was incorporated in August 2000 based on the recommendations made by the Siddiqui Committee. It commenced commercial bureau operations in May 2004. It prepares credit information reports for individuals as well as corporate entities. Apart from compiling a credit history, a credit score is also compiled and is made available to lenders as well as proponents. CIBIL has more than 500 members including more than 200 cooperative banks. The CIBIL credit score varies from 300 to 900. A credit score gives an indication about the borrower's propensity to pay, so that a lender can decide quickly on the request received for a loan/credit card. Generally, the loan providers prefer a credit score of more than 700. A CIBIL score of 900 is the least risky, while a score of 300 is extremely risky.

- **Experian** - Experian Credit Information Company was established as a joint venture with several banks and financial institutions in India, in the year in 2006. Experian prepares credit reports of individuals, based on the information provided by banks and other financial institutions about the financial history of the individual
- **Equifax** - Equifax is a CIC that was founded in the year 1899 in Atlanta. It is one of the oldest CIC as of now Equifax got its 'Certificate of Registration for its operations in India in the year 2010 CRIF High Mark Credit Information Services
- **CRIF High Mark Credit Information Services Pvt. Ltd.** is an RBI approved credit bureau in India. It serves retail, agriculture and rural, MSME, commercial and microfinance
- **CRISIL** is a **Credit Rating Agency** in India.

Hence option D is the correct answer

Pg No. 560, Chapter No. 40, Module D

Q109. The classification of Mutual Funds into open-ended and close-ended schemes is done based on which among the following criteria?

(a) Maturity

(b) Asset under Management

(c) Size of the scheme

(d) Net Asset Value (NAV)

Answer: A

Explanation

MUTUAL FUNDS AND THEIR FUNCTIONS

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 Mutual fund issues units to investors, in accordance with the quantum of money invested by them. Investors of mutual funds are known as unit holders.

Classification by Organisational Structure of Funds

- **Open-ended funds -** An open-ended fund or scheme is the one that is available for subscription and repurchase, on a continuous basis. These schemes do not have a fixed **maturity period** and investors can conveniently buy and sell units, at Net Asset Value (NAV) per unit, which is declared on a daily basis. The key feature of open-end schemes is liquidity. **Hence option A is correct.**
- **Close-ended funds** - A close-ended fund or scheme has a stipulated maturity period, eg, 3-5 years. The fund is open for subscription only during a specified period at the time of launch of the scheme. Investors can invest in the scheme at the time of the new fund offer and thereafter, they can buy or sell the units of the scheme on the stock exchanges, where the units are listed. In order to provide an exit route to the investors, some close-ended funds give an option of selling back the units to the mutual fund through periodic repurchase at NAV related prices SEBI Regulations stipulate that at least

one of the two exit routes is provided to the investor, i.e., either repurchase facility or through listing on stock exchanges.

Pg No. 572, Chapter No. 41, Module D

Q110. Net Asset Value (NAV) for Index/Debt Mutual Fund & NAV for Equity Mutual Funds have to be rounded off to ___ & ___ places.

(a) 2;2

(b) 4;4

(c) 2;4

(d) 4;2

Answer: D

Explanation

NET ASSET VALUE (NAV)

The Net Asset Value (NAV) of schemes need to be published on a daily basis, by the Mutual Funds at least in two daily newspapers.

- NAV and sale/repurchase price of all Mutual Fund schemes, except for Fund of Fund Schemes, are updated on Association of Mutual Funds in India's (AMFI) website and the Mutual Funds' websites by 9 PM of the same day Fund of Fund Schemes shall have an extended time up to 10 AM, the following business day in this regard and the NAVs are published in newspapers, with an asterisk to indicate the one-day time lag/or the actual time lag.
- To ensure uniformity, Mutual Funds have to round off NAV, up to **four decimal places** for index funds and all types of **debt & liquid/money market schemes**. For all **equity** oriented and balanced fund schemes, the Fund Houses are required to round off the NAV, up to **two decimal places**.
- However, Mutual Funds can also round off the NAVS up to more than two decimal places in case of equity oriented and balanced fund schemes also, if they so desire.

Hence option D is correct.

Page 577, Chapter No. 41, Module D

Q111. Which among the following was established by the Indian Government to develop the Mutual Funds sector in India?

(a) SEBI

(b) UTI

(c) RBI

(d) FIMMDA

Answer: B

Explanation

EVOLUTION OF MUTUAL FUNDS

The mutual fund industry in India started in 1963, with the formation of Unit Trust of India, at the initiative of the Government of India and RBI.

- **Unit Trust of India (UTI)** was established in the year 1963, by an Act of Parliament. It was set up by the RBI and functioned under the Regulatory and administrative control of the RBI.
- The first scheme launched by UTI was Unit Scheme, 1964 (US-64). In the year 1978, UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI), took over the regulatory and administrative control of UTI in place of RBI.

- At the end of the year 1988, UTI had Rs. 6,700 crores of assets, under its management.

Hence option B is correct.

Pg No. 567, Chapter No. 41, Module D

Q112. Which among the following is the correct match?

Category of Mutual Fund	MF Characteristic
1. Index Fund	**i. Lock in 3 years**
2. Liquid Fund	**ii. 95% investment in underlying funds**
3. Equity Linked Savings Scheme (ELSS)	**iii. 95% investment in Particular Index**
4. Fund of Fund	**iv. Debt & Money Market Securities with maturity upto 91 days**

(a) 1 - iii, 2 – iv, 3 – i, 4 – ii

(b) 1 – ii, 2 – iv, 3 – i, 4 - iii

(c) 1 – iv, 2 – ii, 3 – iii, 4 –i

(d) 1 – ii, 2 – i, 3 – iii, 4 –iv

Answer: A

Explanation

1. Equity Linked Savings Scheme (ELSS) - An open-ended equity linked saving scheme with a statutory **lock in period of 3 years** and tax benefit-Minimum investment in equity & equity related instruments 80% of total assets (in accordance with Equity Linked Saving Scheme, 2005 notified by the Ministry of Finance

2. Liquid Fund - An open-ended liquid scheme investing in Debt and money market securities with maturities upto 91 days only

3. Index Funds/ ETFs - An open-ended scheme replicating/ tracking index - Minimum investment in securities of a particular index (which is being replicated/ tracked)- 95% of total assets.

4. Fund of Funds (FoFs) (Overseas/ Domestic) - An open-ended fund of fund scheme investing in fund (mention the underlying fund)-Minimum investment in the underlying fund-95% of total assets

Hence option A is correct.

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

Q113. Risk-o-meter- risk levels are categorised into ____ levels.

(a) 2

(b) 5

(c) 6

(d) 10

Answer: C

Explanation

RISK DEPICTION-RISK-O-METER

In 2015, as part of a system by which mutual funds were to convey risk perception to investors, SEBI replaced the colour coding by the Risk-o-meter.

- The risk-o-meter had five levels when introduced. In 2020, based on the recommendation of Mutual Fund Advisory Committee (MFAC), the guidelines for product labeling in mutual funds was reviewed and the risk-o-meter was modified to include six levels.

- A pictorial representation of the risk to the principal invested in a mutual fund product is depicted using a Riskometer. This is depicted in Fig below:

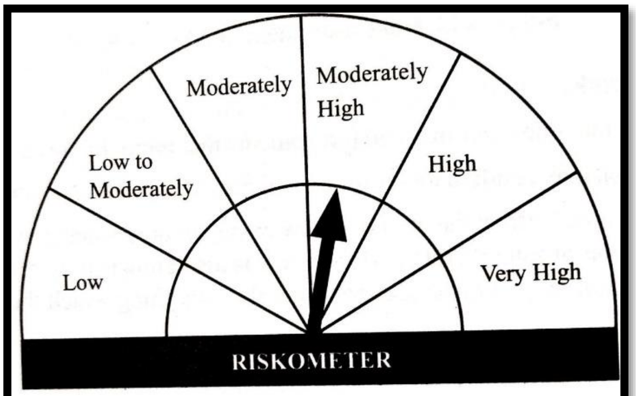

Figure 41.3 Riskometer

The risk levels are characterised in **6 levels** as:

- Low
- Moderately Low
- Moderate
- Moderately High
- High
- Very High. **Hence option C is correct.**

The low-risk funds are those mutual funds where the investments made are by those who do not want to take a risk with their money.

- The investments in such cases are made in places like debt market and tend to be long-term investments.
- As a result of them being low risk, the returns on these investments are also low. The investments under the medium risk categories are those investments that come with a medium amount of risk to the investor.
- They are ideal for those who are willing to take some risk with the investment and tends to offer higher returns.
- These funds can be used as an investment to build wealth over a longer period of time. The high-risk funds are those mutual funds that are ideal for those who are willing to take higher risks with their money and are looking for higher returns.

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

Q114. The life cover under the Prime Minister Jeevan Jyoti Bima Yojana (PMJJBY) is __________.

(a) 1 lakh

(b) 2 lakhs

(c) 3 lakhs

(d) 5 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.
- 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.
- In order to facilitate all those getting enrolled under PMJJBY for the first time during the middle of the policy period, payment of pro-rata premium is permitted. The premium is Rs. 436 per annum which is to be auto-debited in one installment from the subscriber's bank account, as per the option given by him on or before 31st May of each annual coverage period under the scheme.
- The scheme and the accompanying life cover is deemed to have been terminated, if the insured attains age 55 years' age, subject to annual renewal up to that date (entry, however, will not be possible beyond the age of 50 years), and
- Closure of account with the Bank or insufficiency of balance to keep the insurance in force

Hence option B is the correct answer
Pg No. 594, Chapter No. 42, Module D

Q115. The PMJJBY is available to people in the age group of _________years
(a) 18-50
(b) 18-55
(c) 18-58
(d) 21-50
Answer: A
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. **Hence option A is correct.**

- 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.
- 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
- In order to facilitate all those getting enrolled under PMJJBY for the first time during the middle of the policy period, payment of pro-rata premium is permitted. The premium is Rs. 436 per annum which is to be auto-debited in one installment from the subscriber's bank account, as per the option given by him on or before 31st May of each annual coverage period under the scheme.

- The scheme and the accompanying life cover is deemed to have been terminated, if the insured attains age 55 years' age, subject to annual renewal up to that date (entry, however, will not be possible beyond the age of 50 years), and
- Closure of account with the Bank or insufficiency of balance to keep the insurance in force

Hence option A is the correct answer

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

Q116. The risk coverage under the Prime Minister Suraksha Bima Yojana (PMSBY) is ______ for accidental death and full disability.

(a) 1 lakh

(b) 2 lakhs

(c) 3 lakhs

(d) 5 lakhs

Answer: B

Explanation

Prime Minister Suraksha Bima Yojana (PMSBY)

This is an accident insurance scheme. The Scheme is available to people in the age group 18 to 70 years, with a bank/post office account, who give their consent to join/enable auto-debit on or before 31st May, for the coverage period 1st June to 31st May, on an annual renewal basis Aadhaar is the primary KYC for the bank account.

- **The risk coverage under the scheme is Rs. 2 lakhs for accidental death and full disability** and Rs. 1 lakh for partial disability. While full disability has been defined as loss of use in both eyes, hands or feet, partial disability has been defined as loss of use in one eye, hand or foot.
- Further, death due to suicide, alcohol, drug abuse, etc., are not covered. The premium is Rs. 20 per annum and this amount is to be deducted from the account holder's bank/Post office account through auto-debit facility in one installment.
- The scheme is offered by Public Sector General Insurance Companies or any other General Insurance Company who are offering the product on similar terms, with necessary approvals and tie up with Banks and Post Offices for this purpose.

Pg No. 594-595, Chapter No. 42, Module D

Q117. As part of the Employees Provident Fund Scheme, the employer's matching contributions are allocated across EPF and EPS such that ______goes into the EPF, the remaining ________ goes into the EPS.

(a) 3.67 per cent, 8.33 per cent

(b) 8.33 per cent, 3.67 per cent

(c) 3.67 per cent, 1.33 per cent

(d) 1.67 per cent, 8.33 per cent

Answer: A

Explanation

EMPLOYEES PROVIDENT FUNDS SCHEME

This mandatory pension scheme for the private sector is managed by the Employees' Provident Fund Organisation (EPFO).

- It was set up in 1952 and covers employees in specified economic sectors at firms with more than 20 employees.
- It is a statutory body under the Ministry of Labour, GOI, which is responsible for regulation and management of provident funds in India. The EPFO administers the mandatory provident fund, while outsourcing the management of the scheme's assets to fund managers.
- Traditionally, assets have been managed by PSU banks. Employers can be exempted from participation, if their pension plans provide at least the same level of benefits.
- Taking into account the Employees' Provident Fund and Miscellaneous Provisions Act, 1952, the schemes of EPFO are administered by a tri-partite board called the Central Board of Trustees.
- The board comprises representatives of the Government (both Central and State), employers, and employees. The board is chaired by the Ministry of Labour and Employment, Government of India.

The EPFO operates the following three major schemes

- Employees' Pension Scheme (EPS),
- Employees' Deposit Linked Insurance Scheme (EDLIS) and
- Employees' Provident Fund Scheme (EPF)

Both the employer and employee should contribute 12 per cent of employee's salary for EPF The employer's matching contributions are allocated across **EPF and EPS such that 3.67 per cent goes into the EPF the remaining 8.33 per cent goes into the EPS.**

Hence option A is correct.

Page No. 604, Chapter No. 43, Module D

Q118. UAN is generated and allotted by the Employees' Provident Fund Organisation (EPFO). It is a unique_____ digit number.

(a) 10

(b) 11

(c) 12

(d) None of the above

Answer: C

Explanation

UNIVERSAL ACCOUNT NUMBER (UAN)

Employees' Provident Fund Organisation (EPFO) was set up in 1952 and covers employees in specified economic sectors at firms with more than 20 employees. It is a statutory body under the Ministry of Labour, GOI, which is responsible for regulation and management of provident funds in India.

- The EPFO performs the dual role of being the administration and overseeing the implementation of the Act and also works as a service provider for the covered beneficiaries, ie, its members.
- EPFO introduced Universal Account Number (UAN), which acts as an umbrella for multiple member IDs allotted to an individual by different employers.
- UAN is a unique **12-digit number** assigned to an employee by EPFO UAN enables the linking of multiple EPF accounts (member IDs) allotted to a single member.
- The UAN programme was launched in October 2014, as part of Pandit Deen Dayal Upadhyay Shramev Jayate Karyakaram.

Hence option C is correct.

Page No. 604, Chapter No. 43, Module D

Q119. Under the Atal Pension Yojana (APY) the minimum guaranteed pension of ____ per month is provided after the subscriber attains the age of 60 years.

(a) Rs. 1000 to Rs. 2000

(b) Rs. 500 to Rs. 3000

(c) Rs. 100 to Rs. 2000

(d) Rs. 1000 to Rs. 5000

Answer: D

Explanation

ATAL PENSION YOJANA (APY)

Atal Pension Yojana (APY) is a pension scheme launched by Government of India, which is focused on 2014 for the unorganised sector workers.

- Under the APY, minimum guaranteed pension of **Rs. 1,000 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:

(i) 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

(ii) 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.

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

Q120. Atal Pension Yojana (APY) is being carried out by __________.

(a) IRDAI

(b) NPS

(c) PFRDA

(d) LIC

Answer: C

Explanation

ATAL PENSION YOJANA (APY)

Atal Pension Yojana (APY) is a pension scheme launched by Government of India, which is focused on 2014 for the unorganised sector workers. It is being carried out by the **Pension Funds Regulatory Body of India.**

- Under the APY, minimum guaranteed pension of Rs. 1,000 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:

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

Q121. Which of the following is not a type of REIT?

(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

Q122. Not less than ________of net distributable cash flow of the Real Estate Investment Trust (REIT) are to be distributed to unit holders.

(a)30%

(b) 50%

(c) 60%

(d) 90%

Answer: D

Explanation

Real Estate Investment Trust (REIT)

Real Estate Investment Trusts (REIT) are trusts registered under the regulations which are incorporated to provide an opportunity to invest in real estate equity options, by eliminating the elaborate investment procedures involved in the real estate industry.

- They are governed by SEBI (Real Estate Investment Trusts) Regulations, 2014, and amendments to the same, issued thereafter. Some of the important **regulations** governing functioning of REITs are as follows:

Structure of investment trust

Sponsor to hold not less than 25 per cent of the total units of the investment trust after initial offer, on a post issue basis, for at least three years, from the date of listing of such units (unless such holding is disallowed by government or regulatory provisions).

- Investment trusts to invest not less than 80 per cent of the value in completed and revenue-generating projects, and not more than 10 per cent in 'under construction' projects.
- Investment trusts to hold controlling interest and not less than 50 per cent equity share capital or interest in the SPVs (except in the case of public-private partnership projects, where such holding is disallowed, by the government or regulatory provisions)
- SPVs to hold not less than 80 per cent of assets directly in properties and not invest in other SPVs. SPVs not to engage in any activity other than those pertaining and incidental to the underlying projects.

Stipulations to ensure transparency

Trustee to hold assets for the benefit of unit holders, oversee activities, and ensure compliance with A full valuation to be conducted by an independent valuer, at least once in a year All related-party transactions to be on an arm's length basis with respect to reporting and disclosure requirements.

Distribution requirements

Not less than 90 per cent of net distributable cash flow of the SPV to be disbursed to the investment trust, in proportion to its holding in the SPV, subject to applicable provisions in the Companies Act, 2013, or the Limited Liability Partnership Act, 2008. **Not less than 90 per cent of net distributable cash flow of the investment trust to be distributed to unit holders.**

Hence option D is correct.

Pg No. 642, Chapter No. 45, Module D

Q123. Insurance Regulatory and Development Authority of India (IRDAI) has committed to enable 'Insurance for All' by ___________, where every citizen has an appropriate life, health and property insurance cover and every enterprise is supported by appropriate insurance solutions and also to make Indian insurance sector globally attractive.

(a) 2027

(b) 2047

(c) 2050

(d) 2070

Answer: B

Explanation

Insurance Regulatory and Development Authority of India (IRDAI) has committed to enable **'Insurance for All' by 2047**, where every citizen has an appropriate life, health and property insurance cover and every enterprise is supported by appropriate insurance solutions and also to make Indian insurance sector globally attractive.

- To attain this objective, efforts are being made towards creating a progressive, supportive, facilitative and a forward looking regulatory architecture to foster a conducive and competitive environment leading to wider choice, accessibility and affordability to policyholders.
- This reform agenda taken up by IRDAI derives inspiration from the Government of India's vision of financial inclusion and strong emphasis on accelerating reforms.

The focus of IRDAI is to

- strengthen the three pillars of the entire insurance ecosystem viz. insurance customers (policyholders), insurance providers (insurers) and insurance distributers (intermediaries) by
- making available right products to right customers;
- creating robust grievance redressal mechanism;
- facilitating ease of doing business in the insurance sector;
- ensuring the regulatory architecture is aligned with the market dynamics;
- boosting innovation, competition and distribution efficiencies while mainstreaming technology and moving towards principle based regulatory regime.

Hence option B is correct

Source: IRDAI Website

Q124. The percentage of interest subsidy provided under the Interest Subsidy Eligibility Certificate (ISEC) is ____________.

(a) 2%

(b) 6%

(c) 4%

(d) 5%

Answer: C

Explanation

Interest Subsidy Eligibility Certificate (ISEC)

The scheme aims to provide funding for the **khadi programme** undertaken by khadi institutions through mobilizing funds from banking institutions, thereby bridging the gap between the actual fund requirement and the availability of funds from budgetary sources.

- **KEY BENEFITS** - Under the scheme credit would be made available at a concessional rate of interest as per the requirement of the Khadi Institutions (KI), thus enabling the mobilization of funds from the Financial Institutions / Banks for the additional requirements
    - Under the scheme, the benefiting KIs are only required to pay a concessional rate of interest, which is just **4%.** And, the difference between the actual Interest charged by the lending bank and 4%, concessional rate of interest would be borne by the KVIC as an 'interest subsidy'
- **SCHEME APPLICABLE FOR** - The financial assistance under the scheme can be availed by all Khadi Institutions (KIs) registered with the KVIC or State Khadi and Village Industries Boards (KVIBs)

Hence option C is correct

Source: Invest India Website

Q125. Which among the following international organisations have been supporting the Swachh Bharat Mission and National Rural Livelihoods Project in India?

(a) IMF

(b) WTO
(c) World Bank
(d) None of the above
Answer: C
Explanation
Support of World Bank to Indian initiatives

- **India - Swachh Bharat Mission Support Operation**: To support the Government of India in its efforts to ensure all citizens in rural areas have access to improved sanitation – such as a toilet or latrine with a focus on changing behaviors – in ending the practice of open defecation by 2019.
- **National Rural Livelihoods Project**: India's National Rural Livelihoods Mission (NRLM) aims to benefit some 350 million people in 12 states which account for almost 85% of the rural poor.
    - The World Bank will support the NRLM with a credit of $1 billion, in continuation of its decade-long engagement in the sector.
    - The Government of India's $5.1 billion National Rural Livelihoods Mission (NRLM) is one of the world's largest initiatives to improve the livelihoods of poor rural people and boost the rural economy.

Source: World Bank Website

Q126. Under category of Social Infrastructure, loans up to a limit of ₹________ per borrower for building health care facilities under 'Ayushman Bharat' in Tier II to Tier VI centres are eligible for priority sector classification.
(a) 5 crore
(b) 10 crore
(c) 50 lakhs
(d) 20 lakhs
Answer: B
Explanation
Ayushman Bharat
Ayushman Bharat is National Health Protection Scheme, which will cover over 10 crore poor and vulnerable families (approximately 50 crore beneficiaries) providing coverage upto 5 lakh rupees per family per year for secondary and tertiary care hospitalization.

- Ayushman Bharat - National Health Protection Mission will subsume the on-going centrally sponsored schemes - Rashtriya Swasthya Bima Yojana (RSBY) and the Senior Citizen Health Insurance Scheme (SCHIS).
- For individual households, the loan limit will be Rs. 10 lakh per borrower. Bank loans up to a limit of **Rs. 10 crore per borrower for building healthcare facilities** including under 'Ayushman Bharat' in Tier II to Tier VI centres, have been allowed. **Hence option B is correct.**

Source: GoI Website

Q127. As per the latest regulations of RBI, all banks are required to exchange Rs 2000 bank notes up to a maximum of _________ at a time starting from May 23, 2023.
(a) Rs. 6000
(b) Rs. 10,000
(c) Rs. 20,000

(d) Rs. 15,000

Answer: C

Explanation

Withdrawal of Rs. 2000 notes

The Reserve Bank of India (RBI) on May 19, 2023 announced that it has withdrawn Rs 2,000 currency notes from circulation, while it will still be considered as legal tender

Limits on exchange

The following are the limits on exchange for different entities possessing Rs. 2000 notes:

- All banks will exchange Rs 2000 bank notes up to a maximum of **Rs 20,000 at a time** starting from May 23, 2023.
- This means that you can exchange up to 10 notes of Rs 2000.This cap is implemented to minimise disturbance to the general public, ensure operational convenience, and avoid interfering with bank branches' regular business operations.

Hence option C is correct.

Source: RBI Website

Q128. Which of the following has the authority to declare that particular denomination of currency note will cease to be legal tender?

(a) Rs. 500 bank notes

(b) Rs. 10,000 bank notes

(c) Rs. 2000 bank notes

(d) None of the above

Answer: C

Explanation

Withdrawal of Rs. 2000 notes

The Reserve Bank of India (RBI) on May 19, 2023 announced that it has withdrawn Rs 2,000 currency notes from circulation, while it will still be considered as legal tender

Limits on exchange

The following are the limits on exchange for different entities possessing Rs. 2000 notes:

- All banks will exchange **Rs 2000 bank notes** up to a maximum of **Rs 20,000 at a time** starting from May 23, 2023.
- This means that you can exchange up to 10 notes of Rs 2000.This cap is implemented to minimise disturbance to the general public, ensure operational convenience, and avoid interfering with bank branches' regular business operations.

Hence option C is correct.

Source: RBI Website

Q129. Which among the following is one of the pillars of the Foreign Trade Policy 2023?

1. Incentive to Remission

2. Export promotion through collaboration

3. Ease of doing business

4. E-Commerce Developing Districts as Export Hubs

(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
Foreign Trade Policy 2023
Union Minister of Commerce and Industry, Consumer Affairs, Food and Public Distribution and Textiles recently launched the **Foreign Trade Policy 2023. Hence option D is correct.**

- The Key Approach to the policy is based on these 4 pillars:
  (i) Incentive to Remission,
  (ii) Export promotion through collaboration - Exporters, States, Districts, Indian Missions,
  (iii) Ease of doing business, reduction in transaction cost and e-initiatives and
  (iv) Emerging Areas – E-Commerce Developing Districts as Export Hubs and streamlining SCOMET policy.
- Foreign Trade Policy (2023) is a policy document which is based on continuity of time-tested schemes facilitating exports as well as a document which is nimble and responsive to the requirements of trade. It is based on principles of 'trust' and 'partnership' with exporters.
- In the FTP 2015-20, changes were done subsequent to the initial release even without announcement of a new FTP responding dynamically to the emerging situations. Hereafter, the revisions of the FTP shall be done as and when required. Incorporating feedback from Trade and Industry would also be continuous to streamline processes and update FTP, from time to time.
- The FTP 2023 encourages recognition of new towns through "Towns of Export Excellence Scheme" and exporters through "Status Holder Scheme". The FTP 2023 is facilitating exports by streamlining the popular Advance Authorization and EPCG schemes, and enabling merchanting trade from India.

Source: PIB Website

Q130. Which among the following is one of the component(s) of the Green Development Framework of RBI?
1. Energy efficiency
2. Pollution
3. Health infrastructure
4. Enhancing natural ecosystems and biodiversity
(a) 1, 2 and 3 only
(b) 2, 3 and 4 only
(c) 1, 2 and 4 only
(d) 1, 2, 3 and 4
Answer: C
Explanation
Green Deposits Framework of RBI
On 11th April, 2023, RBI released the Framework for Acceptance of Green Deposits ("Framework") for banks and deposit-taking NBFCs/HFCs, to be applicable from 1st June, 2023. As the green deposits formally mark its presence in the Indian financial markets, one may be inquisitive on various aspects related to it.

- The framework will come into effect from June 1, 2023.

- A green deposit refers to an interest-bearing deposit received by an RE (Regulated Entity) for a fixed period, with the proceeds earmarked for allocation towards green finance.
- The RBI framework, effective from June 1, mandates that the funds raised through green deposits must be utilised for activities promoting **energy efficiency, reducing carbon emissions and greenhouse gases, fostering climate resilience and adaptation, and preserving and enhancing natural ecosystems and biodiversity**. **Hence option C is correct.**

Source: RBI Website

Section – 2

Sno.	Topic	Type of Question
1.	Regulations of RBI related to NBFCs	For NBFCs registered with RBI ceiling of limits they can avail from banks
2.	EPF Contribution	EPF contribution are payable on maximum wage ceiling of ______ as basic salary.
3.	Foreign Direct Investment	Which of the following statement is incorrect regarding Foreign Institutional Investment?
4.	Inflation	1. Causes of inflation, 2. Primary objective of monetary policy is to maintain inflation within the target limits, 3. Base Year of CPI-IW 4. Which agency publishes the CPI combined Data?
5.	Micro Economics	Which of the following are limitation of Micro Economics?- multi-statement question
6.	Scheduled vs. Non-Scheduled Banks	Characteristics of Non-Scheduled Commercial Banks
7.	Insurance Sector	R.N. Malhotra committee on insurance sector reforms
8.	Deficits in Union Budget	Component of Fiscal Deficit Financing in India
9.	PM Surakhsha Bima Yojana	PMSBY Age of Subscribers
10.	Demand Curve	Position of money Demand Curve depends upon________.
11.	Sustainable Development Goals	Which of the following is a part of SDGs.
12.	IS-LM Curve (Theories of Interest)	Steps in Hicks-Hansen Synthesis Curve Model

Section – 3

1. EASE 5.0 Agenda
2. Designation of Government Securities E.g. 7.86% GoI 2030
3. GVA at Basic Prices
4. Causes of inflation

5. Range of Credit Score
6. Risk based Supervision policy of RBI
7. EASE 5.0 Modern Technical Capabilities
8. Minimum Subscription limit for InvITs
9. Base Year for CPI(IW)
10. Functions of NITI Aayog
11. SDF and Reverse Repo
12. Maximum loan limit
13. Credit Information Companies
14. Objective of Monetary Policy
15. CPI (Combined)

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JAIIB OCTOBER 2023 EXAM

PPB

RECOLLECTED QUESTIONS

WITH

DETAILED EXPLANATION

Preface

The document gives a fair idea of the kind of questions that were asked in JAIIB October 2023 Principles and Practices of Banking 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 PPB 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. Which of the following is a non-fund-based credit facility?

(a) Overdraft
(b) Letter of Credit
(c) Working Capital Loan
(d) Bill Discounting

Answer: B

Explanation:

Types of Credit Facilities

Credit facilities are broadly classified into two types based on funds outflow; they are:

a) **Fund-based credit facilities** - These involve the outflow of funds thereby, is lent to the customer. They can be generally of following types:
   i. Cash credits/overdrafts
   ii. Bill finance
   iii. Term loans/ Demand loans

b) **Non-Fund Based Credit Facilities** - In this the bank's funds are not directly lent to the customer, and these include:
   i. Bank guarantee
   ii. Acceptance facility
   iii. Letter of credit facility

Hence, A is the correct answer

Pg No. 323 Chapter No. 22, Module B

Q2. Which of the following is an example of financial inclusion?

(a) Loan given to businessman to buy a car
(b) Opening account by a person who already has 2 savings account with the bank
(c) Account opened by a person from his sole proprietorship firm
(d) Opening a bank account of a housewife living in rural areas

Answer: D

Explanation:

- Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to disadvantaged and low-income segments of society, in contrast to financial exclusion where these services are not available or affordable to such segments. Financial inclusion means provision of affordable basic financial services, viz., payments and remittance facilities, savings, loans, and insurance products by the formal financial system to those who generally tend to be excluded.
- Growth of NGOs and Self-Help Groups (SHGS) has been significant and their linkage with banks has facilitated a higher degree of financial inclusion. Also, SHG movement has enabled social and economic inclusion of women.
- The focus on financial inclusion comes from the recognition that financial inclusion has several externalities, which can be exploited to the mutual advantage of those excluded, the banking system and society at large.
- The bouquet of services under micro finance fold has expanded from just credit and thrift products to include micro insurance, micro pension, micro remittances, digital payments, amongst others.

Thus, while serving the underprivileged, microfinance also presents an opportunity for expanding the benefits of financial developments to those at the bottom of the pyramid.

Hence, D is the correct answer

Pg No. 224, Chapter No. 16, Module A

Q3. Which of the following is a stage in Terror Financing?

(a) Layering
(b) Placement
(c) Integration
(d) Raising

Answer: D

Explanation:

Stages of Financing of Terrorism

There are numerous terrorist outfits, in the world. These have financial cycles similar to commercial entities and use banks and financial institutions. Financing of Terrorism comprises following stages:

a) Raising: Terrorist organisations source funds from their sympathizers both individuals and organisations. Sometimes, terrorist outfits also engage in various income generating activities, legal or criminal. Channeling funds from both such sources is done in a clandestine manner so that the purpose for which these are collected is not known.

b) Moving: Contributors to the terrorist organisations can be located anywhere not only in their home country but across the world. These funds are therefore required to be moved to the places of their establishments of the terrorist organisations.

c) Storing: As the funds raised may be deployed for terrorism related activities including the regular activities for running the outfits with a gap of time and spread over a period, these are parked in the interim in bank accounts or any other financial investment.

d) Using: Finally, the raised funds are used for the purposes of carrying out the terrorism act or for various organisational related activities.

Other options are related to stages of Money Laundering

Hence, D is the correct answer

Pg No. 17, Chapter No. 2, Module A

Q4. In which of the following situations, the Bank will act as a Trustee?

(a) Government securities are purchased by the bank on behalf of the customer.
(b) Purchase of draft from the bank by the customer
(c) A customer came to the bank to update his passbook and accidentally left his bag containing jewellery in the bank.
(d) Standing instruction to bank for payment of monthly rent

Answer: C

Explanation:

A trustee is a person or firm that holds and administers property or assets for the benefit of a third party. Trustees are required to make decisions in the beneficiary's best interests and have a fiduciary responsibility to them, meaning they act in the best interests of the beneficiaries to manage their assets.

If a customer keeps certain valuables or securities with the bank for safe-keeping or deposits a certain amount of money for a specific purpose, the banker, besides becoming a bailee, is also a trustee.
The banker - customer relationships are summarized below for different types of transactions.

Transaction	Bank	Customer
Deposit in the bank	Debtor	Creditor
Loan from bank	Creditor	Debtor
Safe custody	Bailee	Bailor
Hypothecation	Hypothecatee	Hypothecator
Shares given for sale	Agent	Principal
Articles left by mistake	Trustee	Beneficiary
Money deposited but instructions not given for disposal	Trustee	Beneficiary
Sale/purchase of securities on behalf of customer	Agent	Principal
Standing instruction	Agent	Principal
Purchase of a draft	Trustee	Beneficiary
Collection of Cheque	Agent	Principal
Locker	Lessee	Lessor
Pledge	Pawnee	Pawnor
Mortgage	Mortgagee	Mortgagor
Payee of a draft	Trustee	Beneficiary

Hence, C is the correct answer
Pg No. 8, Chapter No. 1, Module A

Q5. When a customer has to access his locker, how is the locker operated?
(a) The custodian key is operated first and then the customer key
(b) The customer key is operated first and the custodian key
(c) Only the customer key is used
(d) Either the customer key or custodian key is used

Answer: A
Explanation:
Safe deposit locker is a facility extended to the customers to enable them to keep their valuables/documents etc., in a specially designed locker on payment of prescribed rentals. The relationship between the bank and the hirer of the locker is that of a "Lessor and Lessee" or "Bailor and Bailee".
Lockers have dual control, i.e., they can be opened only by applying two keys. One is with the hirer, and the other, a master key operable on all the lockers at the branch, is held by the on-duty officer-in-charge of lockers. **For opening the locker, the custodian key is operated first and then the customer - key.** The locker can be locked by the hirer's key alone.
Hence, A is the correct answer.
Pg No. 213, Chapter No. 15, Module A

Q6. The main characteristics of data stored in data warehouse do not include_______.

(a) Subject-oriented
(b) Integrated
(c) Time variant
(d) Volatile

Answer: D

Explanation:

A data warehouse is a data management system designed to support business intelligence and analytics for an entire organisation. A data warehouse stores structured data whose purpose is usually well-defined. The data within a data warehouse is usually derived from a wide range of sources, such as application log files and transactional applications. Data warehouses often contains large amounts of data, including historical data.

The main characteristics of the data stored in a data warehouse are:

- It is **subject-oriented**, e.g., in a banking environment, it may be customer-oriented, storing all Information, including transactions of all types pertaining to the customer.
- It is **integrated**, and there are no inconsistencies.
- The data in a data warehouse is **non-volatile**. In simple terms, in a transaction processing system like Core Banking, the data is constantly updated and dynamic. In a data warehouse, the instances daily) can be stored statically. of data at various points of time (say d
- It is a **time-variant**. The time zone for data in a data warehouse is significantly longer, say five to ten years.
- Various regulatory and internal reports can be quickly generated with ease from a single source of data avoiding inconsistencies among different reports.

Data warehouses can be established even across multiple computer platforms as long as the transaction details are made available to the data warehouse in a standardized format.

Hence, D is the correct answer

Pg No. 721, Chapter No. 42, Module C

Q7. The Presiding Officer of Debt Recovery Tribunal holds office for a term of 5 years from the date on which he assumes office, or until he attains the age of ___ years, whichever is earlier.

(a) 58
(b) 50
(c) 65
(d) 70

Answer: C

Explanation:

- The Central Government is empowered to establish tribunals called "Debts Recovery Tribunal" to exercise the jurisdiction, powers and authority conferred on under DRT Act. The Central Government specifies the areas within which the tribunal may exercise jurisdiction for the applications filed under the Act.
- The tribunal is made up of only one person called 'Presiding Officer'(PO). Bun Qualification: A person is qualified for appointment as a PO of DRT if he is, or has been, or is qualified to be appointed as a District Judge.

- The PO holds office for a term of five years from the date on which he assumes his office, or **until he attains the age of 65 years**, whichever is earlier.
- The tribunal is provided with one or more Recovery Officers. The staff will work under the superintendence of the PO.

Hence, C is the correct answer

Pg No. 514, Chapter No. 29, Module B

Q8. Which of the following is a benefit of Automated Teller Machine (ATM)?

i. Multi-currency dispensing
ii. Medium for publicity of the bank.
iii. Ticket Dispensing
iv. Account opening
v. Crucial touchpoint for cross-selling of banks' products.

Choose the correct code-

(a) i, ii, iii
(b) i, iv, iii
(c) ii, iii, i, iv
(d) i, ii, iii, iv, v

Answer: D

Explanation:

Automated Teller Machines (ATMs) are primarily used to perform some banking functions such as the withdrawal of cash or deposit of cash/cheque, etc., using an ATM/ATM cum debit cards, credit cards and prepaid cards, as permitted by the issuer.

Stand-alone ATMs made their appearance in India in the early 1990s. For facilitating the operations through these ATMs, a customer is provided with an ATM card with a personal identification number (PIN), which can be changed at any time by the customer. Whenever a customer performs a transaction, he/she has to key in the PIN, which is validated by the ATM switch, before the machine permits any transaction. The PIN has to be kept secret by the customer to prevent any misuse or fraudulent transactions in the event of loss of the card.

The convenience of ATMs To the Customers:

a. 24 × 7 access availability
b. Less time for transactions (less queue)
c. Privacy in transactions
d. Any branch/anywhere banking enabled
e. Acceptability of debit/credit cards across multiple bank ATMs; even foreign tourists can use International Maestro/VISA cards.
f. Other services enabled in ATMs in addition to cash dispensing includes clearing cheques deposits, balance enquiry, cheque book requisition, details of recent transactions, utility bill payments, etc.

To the Bank:

a. The cost of setting up is lower than setting up a branch. The cost of the transaction is also
b. The routine transactions through ATMs relieves the bank staff for more productive work.
c. ATMs serve as the crucial touchpoint for cross-selling of banks' products.
d. Enables a bank to display products on the screen and serves as a medium for publicity of the bank.
e. Less hassle in handling cash.

The role of ATMs is evolving from being a primary banking customer touchpoint to a channel complementary to branch, mobile and internet banking. ATM services are

a. Cardless cash withdrawal
b. Withdraw money using smartphones
c. Multi-currency cash dispensing
d. Loan repayment
e. Bill pay
f. Ticket dispensing
g. Account opening

Hence, D is the correct answer
Pg No. 738 Chapter No. 44, Module C

Q9. A demand draft issued by a cheque is_______.

(a) Not a cheque
(b) Not considered as a cheque for the purposes of protection under Negotiable Instruments Act
(c) Not a negotiable instrument
(d) None of the above

Answer: A
Explanation:
Bank Draft **is a negotiable instrument**, and an order drawn by one branch of a bank instructing another branch of the bank to pay a certain sum of money to the order of a certain person. A bank draft is akin to a bill of exchange, **not a cheque**, but for the **purpose of various protections under NI Act it is treated as a cheque.**
A Demand Draft cannot be payable to bearer as it would amount to a currency note and will be a violation of Sec.31 of the RBI Act 1934.
Hence, A is the correct answer
Pg No. 209 Chapter No. 15, Module A

Q10. Which of the following statements is incorrect?

(a) Bridge is a hardware device that creates a single, aggregate network from multiple networks.
(b) Router is a networking device, it forwards data packets between computer networks.
(c) Modem is a computer hardware device that converts data from a digital format into a format suitable for an analog transmission medium.
(d) VPN are network devices that amplify or regenerate an incoming signal before retransmitting it.

Answer: D
Explanation:
Modems: A modulator-demodulator or modem is a computer hardware device that converts data from a digital format into a format suitable for an analog transmission medium such as telephone or radio.
Bridge: It is a hardware device that creates a single, aggregate network from multiple networks. Function of Bridge is different than that of Router. Routing allows multiple networks to communicate independently and yet remain separate, whereas bridging connects two separate networks as if they were a single network.

Routers: A router is a networking device, it forwards data packets between computer networks. Routers perform the traffic directing functions on the Internet. Data sent through the internet, such as a web page or email, is in the form of data packets. A packet is typically forwarded from one router to another router through the networks that constitute an internet until it reaches its destination node.

Repeaters: These are network devices, "that amplify or regenerate an incoming signal before retransmitting it. They are incorporated' in networks to expand its coverage area. They are also known as signal boosters.

Hence, D is the correct answer.

Pg No. 715,716 Chapter No. 42, Module C

Q11. Cash management for corporations with subsidiaries worldwide can__________.

- **i. pool everything internationally so that the company can offset the debts with the surplus**
- **ii. transform treasury function as a profit-centre**
- **iii. contribute dramatically to a company's profitability and to its competitive edge.**
- **iv. improve the overall productivity of funds**

Choose the correct code-

(a) i, ii, iii
(b) ii, iii
(c) iii, iv
(d) i, ii, iii, iv

Answer: D

Explanation:

- Corporations with subsidiaries worldwide can pool everything internationally so that the company can offset the debts with the surplus monies from various subsidiaries.
- The end result will transform treasury function as a profit-centre by optimising cash and putting it to good use.
- Creative and pro-active cash management solutions can contribute dramatically to a company's profitability and to its competitive edge.
- The ultimate purpose of proper management of liquidity, needless to emphasise, is to improve the overall productivity of funds.

Hence, D is the correct answer.

Pg No. 175 Chapter No. 11, Module A

Q12. A Nodal Officers for customer service at head office and controlling office with whom________.

(a) customers with grievances can approach
(b) Ombudsman and RBI can liaise
(c) Both A and B
(d) None of the above

Answer: C

Explanation:

Nodal Department / Official for Customer Service

Each bank should have a nodal department/ official for customer service in the Head Office and each Controlling office, with whom customers with grievances can approach in the first instance whom the Ombudsman and RBI can liaise.

Hence, C is the correct answer
Pg No. 235 Chapter No. 17, Module A

Q13. RBI grants licenses to certain entities as Authorised Dealer – Category II to undertake which of the following non-trade current account transactions?

i. **Fee for participation in global conferences and specialised training**
ii. **Film shooting**
iii. **Remittance towards fee for examination held in Mumbai for TOEFL**
iv. **Emigration and emigration consultancy fees**
v. **Skills / credential assessment fees for intending migrants**
vi. **Visa fees**
vii. **Medical treatment abroad**

Choose the correct code-

(a) i, ii, iv, vii
(b) i, ii, iv, vii, iii
(c) v, vi, vii, ii
(d) All of the above

Answer: D
Explanation:
In order to provide adequate foreign exchange facilities and efficient customer service, RBI grants licenses to certain entities as Authorised Dealer - Category II (AD-Cat II) to undertake a range of non- trade current account transactions:

i. Private visits
ii. Remittance by tour operators / travel agents to overseas agents/principals/hotels
iii. Business travel
iv. Fee for participation in global conferences and specialized training
v. Remittance for participation in international events / competitions (towards training, sponsorship, and prize money)
vi. Film shooting
vii. Medical treatment abroad
viii. Disbursement of crew wages
ix. Overseas education
x. Remittance under educational tie up arrangements with universities abroad
xi. Remittance towards fees for examinations held in India and abroad and additional score sheets for GRE, TOEFL etc.,
xii. Employment and processing, assessment fees for overseas job applications
xiii. Emigration and emigration consultancy fees
xiv. Skills / credential assessment fees for intending migrants
xv. Visa fees
xvi. Processing fees for registration of documents as required by the Portuguese/ other Governments,
xvii. Registration/subscription/membership fees to International Organisations.

Hence, D is the correct answer
Pg No. 133 Chapter No. 8, Module A

Q14. Banks inform customers about their internal arrangements for handling customer complaints through____.

(a) prominent place in branches
(b) bank's website
(c) welcome kit given when onboarding
(d) All of the above

Answer: D
Explanation:
Information to Customers: Banks inform customers about its internal arrangements for handling customer complaints, covering following aspects:

- Where to make a complaint?
- How a complaint should be made?
- When to expect a reply?
- Whom to approach for redressal?
- What to do if the customer is not happy about the outcome?

This information is generally made available at a prominent place in branches, the bank's website, and in the welcome kit given when onboarding. Also, at branches a notice may be displayed requesting the customers to meet the branch manager regarding grievances.
Hence, D is the correct answer.
Pg No. 259 Chapter No. 19, Module A

Q16. Which of the following statements is/are correct regarding Bill of Lading?

i. **Bill of lading is a document to title to goods**
ii. **Unless otherwise specified in the LC, a 'charter party' bill of lading is always acceptable.**
iii. **A bill of lading is issued in sets of 2, 3, or 4 and all are termed as originals and a banker should see that all the originals are received.**

Choose the correct code-
(a) i, ii,
(b) ii, iii
(c) i, iii
(d) i, ii, iii

Answer: C
Explanation:

- **Bills of Lading**: Bills of Lading are of two types - one, the traditional ship bill of lading and the other, the 'Combined Transport Bill': a creation of modern age containerisation of shipments which permits more than one means of carriage and is also known as 'Multimodal Transport'.
- **Bill of lading is a document to title to goods**, i.e., they are representatives of the goods and holder of the same is entitled to get possession of the goods. A bill of lading, to a certain extent is negotiable in as much as bona fide transfer of the same by endorsement entitles the transferee the right to the goods. A bill of lading is issued in sets of 2, 3, or 4 and all are termed as originals. A banker should see that all the originals are received.
- Unless otherwise specified in the LC, a bill of lading must be a 'shipped on board' bill of lading and a 'received for shipment' or 'transportation' bill of lading or a **'charter party' bill of lading is not acceptable.** This is because the shipped bill indicates that the goods have been taken on board of a

specified ship and the journey has commenced, while in the case of received for shipment bill though the goods have been delivered to the transporter the journey is yet to commence.

Hence, C is the correct answer

Pg No. 596 Chapter No. 32, Module B

Q17. Which of the following statements is incorrect regarding Partnership firm?

i. **Two partnerships cannot enter into a partnership**
ii. **There must be an Association of two or more persons**
iii. **There must be an express agreement between the Partners to do business for gain.**
iv. **A society, an association, a club, a joint Hindu Family, a co-ownership are also partnership firm**
v. **Registration of partnership is compulsory**

Choose the correct code-

(a) i, ii, iii, v
(b) ii, iii, v
(c) i, ii
(d) iii, iv, v

Answer: D

Explanation:

Essential ingredients of a partnership firm

a) There must be an Association of two or more persons (does not include firms). Two partnerships cannot enter into a partnership although all the partners of the firms may form a separate partnership, not exceeding the prescribed maximum number. As per Sec. 464 (1) of the Companies Act, 2013 the maximum number that can be prescribed is one hundred. Currently as per the Companies (Miscellaneous) Rules, 2014, the maximum number is 50 for a partnership for the purpose of gain.
b) **There must be an express or implied agreement** between the Partners to do business for gain.
c) There must be a business i.e., trade, occupation, or profession" that must be legal.
d) There must be sharing of profits and losses of the business, except for distinct understanding for some partner sharing only profit but not loss.
e) The business must be carried on either by all or by any of the partners of the firm. **These entities are not partnership: a society, an association, a club, a joint Hindu Family, a co-ownership.**
f) The Partnership Act does not provide for compulsory registration of firms.

Hence, D is the correct answer.

Pg No. 314 Chapter No. 22, Module B

Q18. When a customer deposits money with his bank, the customer becomes a creditor, and the bank becomes a debtor. Which of the following statements is incorrect in this regard?

(a) The creditor has no security
(b) Debtor pays on due date without demand in case of term deposits
(c) The law of limitation applies after the depositor has made a demand for repayment.
(d) The amount can be used by bank for lending and investment

Answer: A

Explanation:

- Deposits of money may be repayable either on demand or if they are term deposits, **on the expiry of the stipulated term or period.**
- **The DICGC insures all deposits such as savings, fixed, current, recurring, etc**.
- Article 22 of the limitation Act,1963 provides limitation for a suit for money deposited under an agreement that it shall be payable on demand, including money of a customer in the hands of his banker so payable. The limitation period of 3 years under Article 22 runs from the **date of demand by the depositor.**
- **Deposits should be only for lending and investment. Companies accepting deposits for trading or manufacturing are not considered as a bank.**

Hence, A is the correct answer

Pg No. 4 Chapter No. 1, Module A

Q19. Under RTI, Competent Authority in the case of authorities established or constituted by or under the Constitution is _______.

(a) President or Governor
(b) Prime Minister
(c) Head of authority
(d) Chief Justice of India or Chief Justice of High Court

Answer: A
Explanation:
Competent authority under RTI Act:

i. the Speaker in the case of the House of the People or the Legislative Assembly of a State or a Union territory having such Assembly and the Chairman in the case of the Council of States or Legislative Council of a State
ii. the Chief Justice of India in the case of the Supreme Court
iii. the Chief Justice of the High Court in the case of a High Court
iv. the administrator appointed under article 239 of the Constitution
v. President or the Governor, as the case may be, in the case of other authorities established or constituted by or under the credit.

Hence, A is the correct answer
Pg No. 298 Chapter No. 21, Module A

Q20. Current account cannot be opened by-
i. Minors
ii. Purdahnashin women
iii. Illiterate persons
iv. Blind persons
Choose the correct code-
(a) i, ii
(b) i, ii, iii
(c) iii, iv
(d) i, ii, iii, iv

Answer: D

Explanation:

Current account is a transactional account, primarily designed to facilitate frequent/regular financial transactions by traders, businesspeople, and entrepreneurs. A current account cannot be opened by:

i. Minors
ii. Purdahnashin women
iii. Illiterate persons
iv. Blind persons

Hence, D is the correct answer

Pg No. 71 Chapter No. 5, Module A

Q21. Micro Credit is not delivered by______.

(a) Regional Rural Banks
(b) Non-Banking Finance Companies
(c) Payment Bank
(d) Co-operative Bank

Answer: C

Explanation:

Micro Credit has been defined as the provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve their living standards. Micro Credit Institutions are those which provide these facilities.

Payments banks are a new model of banks, conceptualised by the Reserve Bank of India (RBI), which cannot issue credit. These banks can accept a restricted deposit. These banks cannot issue loans and credit cards.

Hence, C is the correct answer.

Q22. Which of the following is incorrect regarding central bank digital currency (CBDC)?

(a) It is issued by central bank.
(b) It can be used to make digital payments
(c) It increases the safety and efficiency of payment systems by helping quick settlement of retail payments
(d) None of the above

Answer: D

Explanation:

A central bank digital currency (CBDC) which is also known as **digital fiat currency**, is a digital currency issued and guaranteed by a central bank, which can be used to **make digital payments**. Hence CBDC can be described as a digital currency issued and controlled by the central bank, which is virtually stored and easily accessible to everyone.

The CBDC, as well as physical cash, would be concurrently and legally considered as legal currencies and have a claim on the central bank or government. CBDC **increases the safety and efficiency of payment** systems by helping quick settlement of retail payments and increasing the efficiency of making payments at the point of sale or between two parties (P2P).

RBI announced the launch of the first pilot for retail digital rupee on December 1, 2022. The pilot would cover selected locations in closed user group, comprising of participating customers and merchants. Transaction can be both P2P (Person-to-Person) & P2M (Person-to-Merchant).

Hence, D is the correct answer

Pg No. 821 Chapter No. 47, Module C

Q23. Which of the following statements is incorrect?

(a) Phishing is the fraudulent attempt to obtain sensitive information.
(b) Phishing attempts directed at specific individuals or companies have been termed spear phishing.
(c) Vishing is the illegal access of data via voice over Internet Protocol (VoIP).
(d) Dolphing has been coined for spear phishing attacks directed specifically at senior executives and other high-profile targets.

Answer: D

Explanation:

Phishing: Phishing is the fraudulent attempt to obtain sensitive information such as usernames, passwords, and credit card details, often for malicious reasons, by disguising as a trustworthy entity in an electronic communication.

Spear phishing: Phishing attempts directed at specific individuals or companies have been termed spear phishing. In contrast to bulk phishing, spear phishing attackers often gather and use personal information about their target to increase their probability of success.

Whaling: The term whaling has been coined for spear phishing attacks directed specifically at senior executives and other high-profile targets. In these cases, the content will be crafted to target an upper manager and the person's role in the company. The content of a whaling attack email may be an executive issue such as a subpoena or customer complaint.

Vishing: Vishing is the illegal access of data via voice over Internet Protocol (VoIP). Vishing is IP telephony's version of phishing and uses voice messages to steal identities and financial resources. The term is a combination of 'voice' and 'phishing'.

Hence, D is the correct answer

Pg No. 841 Chapter No. 48, Module C

Q24. Banks shall not be liable for any damage and/or loss of contents of locker arising from_____

i. Dacoity
ii. Flood
iii. Earthquake
iv. Liquid kept in locker by the locker holder which contaminated the contents of the locker

Choose the correct code-

(a) i, ii
(b) ii, iii
(c) iii, iv
(d) ii, iii, iv

Answer: D

Explanation:

Liability of Banks

- The banks should have a detailed Board approved policy outlining the responsibility owed by them for any loss or damage to the contents of the lockers due to their negligence. Banks owe a separate duty of care to exercise due diligence in maintaining and operating their locker or safety deposit systems.
- The duty of care includes ensuring proper functioning of the locker system, guarding against unauthorized access to the lockers and providing appropriate safeguards against **theft and robbery, fire**, etc.
- Banks shall not be liable for any damage and/or loss of contents of locker arising from natural calamities or Acts of God like **earthquake, floods, lightning, and thunderstorm** though they need to take appropriate care to safeguard against these.

Hence, D is the correct answer

Pg No. 217 Chapter No. 15, Module A

Q25. Cash-out at any ATM of more than _____ in a month attracts a flat penalty of 10,000 per ATM.

(a) 10 hours
(b) 10 days
(c) 10 minutes
(d) One week

Answer: A

Explanation:

Scheme of Penalty for non-replenishment of ATMs: Banks/ WLAOS should have a robust system for availability of cash in ATMs with timely replenishment. Cash-out at any ATM of more than **ten hours in a month attracts a flat penalty of 10,000 per ATM.** In case of WLAs, the penalty is charged to the bank meeting cash requirement of that WLA. Bank may recover the penalty from the WLA operator.

Hence, A is the correct answer

Pg No. 237 Chapter No. 17, Module A

Q26. Which of the following is not core banking software?

(a) Finacle
(b) BaNCS
(c) Flexcube
(d) Adobe

Answer: D

Explanation:

Core Banking Solutions (CBS) is a platform where Communication Technology and Information Technology merge to suit core banking needs (information technology is all about how computers work and what they can do, while communication technology is about facilitating communication between people. Communication technology includes not only computers, but also telephones, radios, faxes, and other devices).

Core banking functions differ depending on ling on the specific type of Bank Under CBS the client specific type of Bank. Under CBS, the client software is installed at different branches of the Bank to connect to the central Server for accessing and updating the customer information and their transactions. Branches are connected to the central server through lease lines, MPLS, VSAT, RF, 3G/4G and other networking technologies. Examples of core banking software are: **Finacle (Infosys), BaNCS (TCS), and Flexcube (Oracle's).**

Hence, D is the correct answer

Pg No. 726 Chapter No. 43, Module C

Q27 Which of the following contract requires consideration?

(a) Contract made out of love
(b) Contract of Agency
(c) Commercial Contract
(d) None of the above

Answer: C

Explanation:

An agreement without consideration is void. (Void means, it is of no legal effect and is not enforceable by law.) However, in the following cases an agreement without consideration is valid:

i. An agreement made out of natural love and affection between parties standing in near relation to each other.
ii. Which is in writing and registered.

- Under section 185 of the Indian Contract Act, **no consideration is necessary to create an agency**, i.e., a transaction of agency. For giving a person authority to act as agent, consideration is not necessary.
- A contract of guarantee is made without consideration.

Hence, C is the correct answer

Pg No. 440 Chapter No. 26, Module B

Q28. If a person owes several debts to a lender, any payment made to the lender, where neither party has made any appropriation will be applied towards________.

(a) Discharge of loans in order of time, even if a debt is barred by limitation
(b) Discharge of loan proportionally as per outstanding amount
(c) Discharge of loan in order of quantum
(d) None of the above

Answer: A

Explanation:

Right of Appropriation

In case of his usual business, a banker receives payments from his customer. If the latter has more than one account or has taken more than one loan from the banker, the question of the appropriation of the provisions regarding the right of appropriation of payments in such cases. money subsequently deposited by him arises. Sec. 59 to 61 of the Indian Contract Act, 1872 contain

The debtor can appropriate the payment by

(i) an express intimation or
(ii) under circumstances implying

that the payment is to be applied to the discharge of some particular debt. If the creditor accepts such payment, it must be applied accordingly. In case the customer has deposited amount in bank without giving any specific direction the bank can exercise its right of appropriation and apply it in payment of any loan account.

In the case of debt due with interest, any payment made by the debtor is in the first instance to be applied towards satisfaction of interest and thereafter towards the principal unless there is an agreement to the contrary.

Where neither party makes any appropriation, the payment shall be applied in discharge of debts**, in order of time**, **whether they are or not barred by the limitation of suits**. If the debts are of equal standing, the payment shall be applied in discharge of each proportionately.

Hence, A is the correct answer.

Pg No. 119 Chapter No. 7, Module A

Q29. Which of the following are Parameter/Master Files in core banking solutions?

i. **Master Data of Accounts**
ii. **Authorization rights for exceptional transactions**
iii. **Types of users and their work classes**
iv. **Advances interest rates applicable for various schemes**
v. **Deposit interest rates applicable for various tenors**

Choose the correct code-

(a) i, ii, iii
(b) iv, v, iii
(c) i, ii, iv, v
(d) All of the above

Answer: D

Explanation:

In Master File, all the relevant information related to a particular account should be fed and stored. Some important Master files for a core banking solution are-

i. Master Data of Accounts
ii. General-purpose parameter files
iii. Account types and structure for the General Ledger
iv. Advances interest rates applicable for various schemes.
v. Deposit interest rates applicable for various tenors
vi. List of holidays
vii. Authorization rights for exceptional transactions
viii. Types of users and their work classes

Hence, D is the correct answer.

Pg No. 730 Chapter No. 43, Module C

Q30. Which of the following are the benefits of Cheque Truncation System?

i. **It obviates the need to move the physical instruments across bank branches**
ii. **It provides significant cost savings through consolidation of clearing locations into a few grids**
iii. **It has also increased the liquidity requirements by consolidating several clearing locations.**
iv. **It lowers the risk of loss of instruments in transit**
v. **No outstation cheque collection charges/ Speed Clearing charges are applicable within same CTS grid.**

Choose the correct code-

(a) i, ii, iii
(b) iii, iv, v

(c) i, ii, iv, v
(d) All of the above

Answer: C
Explanation:

- CTS obviates the need to move the physical instruments across bank branches, other than in exceptional circumstances. It benefits the entire system as a whole, the banks and the customer.
- For banks, it provides significant cost savings through consolidation of clearing locations into a few grids reducing the investment and AMC costs on MICR machines, and also obviating the need for inward cheque processing infrastructure at various clearing locations.
- It has also **reduced the liquidity requirements by consolidating several clearing locations.**
- It has eliminated MICR amount encoding, and reconciliation differences, as both MICR and Image data travel together.
- No risk of cheques being lost/ resulted in enhanced security and automation. tampered/pilfered, or of any manipulation of data and image during transit. CTS 2010 standards have
- For customers, there is reduction in the clearing cycle, and lower risk of loss of instruments in transit. In case of need, the information can be retrieved easily. Constraints due to geography or jurisdiction have been removed. There is the benefit of standardized uniform processes and practices.
- No outstation cheque collection charges/ Speed Clearing charges are applicable within same CTS grid.

Hence, C is the correct answer.
Pg No. 101 Chapter No. 6, Module A

Q31. Cash withdrawal a PoS terminals withdrawals through_____ are not allowed.
(a) Debit Card
(b) Credit Card
(c) UPI
(d) Full KYC Prepaid Cards

Answer: B
Explanation:

- Under the facility of cash withdrawal at PoS terminals, cardholders can withdraw cash using their debit cards and full KYC prepaid cards issued by banks and non-banks in India. However, **credit cards cannot be used under this facility.**
- Cash can also be withdrawn at PoS terminals through Unified Payments Interface (UPI) as well as through use of electronic cards that are linked with overdraft facility provided along with Pradhan Mantri Jan Dhan Yojana (PMJDY) accounts.

Hence, B is the correct answer
RBI FAQs on Cash Withdrawal Facility at Point of Sale (PoS) Terminals

Q32. Which of the following statements is incorrect regarding Detection of Counterfeit Notes?
(a) Transactions involving up to 2 counterfeit notes, the notes are stamped and returned to the customer.
(b) Transactions involving up to four pieces of counterfeit notes are consolidated in a statement as per prescribed format and sent by the Nodal Bank Officer to the police authorities.

(c) For every transaction involving five or more pieces of counterfeit notes, a FIR on prescribed format along with the counterfeit notes is filed immediately by the Nodal Bank Officer with the local police authorities or the Nodal Police Station.
(d) A copy of the monthly consolidated report/ FIR is sent to the Forged Note Vigilance Cell at the Head Office.

Answer: A

Explanation

Detection and Impounding Count

Banknotes tendered over the counter should be examined for authenticity through machines. Similarly, banknotes received directly at the back office/ currency chest through bulk tenders should also be examined through machines.

No credit to customer's account is to be given for counterfeit notes detected. **In no case, the Counterfeit Notes should be returned to the tenderer or destroyed.** These shall be stamped as "COUNTERFEIT NOTE" and impounded. Notice to this effect should be displayed prominently for information of the public. Such impounded notes shall be recorded under authentication, in a separate register, and kept in joint custody carefully segregated from the genuine currency notes.

An acknowledgement receipt, with running serial numbers, must be issued to the tenderer. It should be signed by the cashier and the tenderer. It should be issued even if the tenderer is unwilling to countersign it. Incidents of detection of counterfeit notes are to be reported to the Police as follows:

a. Transactions involving up to four pieces of counterfeit notes are consolidated in a statement as per prescribed format and sent by the Nodal Bank Officer to the police authorities or the Nodal Police Station, along with the suspect Counterfeit Notes, at the end of the month.
b. For every transaction involving five or more pieces of counterfeit notes, a FIR on prescribed format along with the counterfeit notes is filed immediately by the Nodal Bank Officer with the local police authorities or the Nodal Police Station.
c. A copy of the monthly consolidated report/ FIR is sent to the Forged Note Vigilance Cell at the Head Office.

Hence, A is the correct answer

Pg No. 112 Chapter No. 6, Module A

Q33. Which of the following are objectives of bank computerisation?

i. **Customer service**
ii. **Decision-making**
iii. **Housekeeping**
iv. **Productivity and profitability**
v. **Reduce bank staff**

Choose the correct code-

(a) i. ii, iii
(b) iii, iv, v, ii
(c) i, ii, iii, iv
(d) All of the above

Answer: C

Explanation:

The four major objectives of bank computerisation are to improve:

(a) Customer service
(c) Decision-making
(b) Housekeeping
(d) Productivity and profitability.
At the Regional and Head Office level, the purpose of computerisation is to store, analyse and retrieve over branches and policy formulation. data received from branches, generate information speedily, this helps in strengthening the internal control.
Hence, C is the correct answer
Pg No. 708 Chapter No. 42, Module C

Q34. What is the limit Priority Sector Lending regarding agriculture Loans to corporate farmers directly engaged in Agriculture and Allied Activities?
(a) 1 crore
(b) 2 crore
(c) 5 crore
(d) 10 crore

Answer: B
Explanation:
The lending to agriculture sector has been defined to include
(ii) Farm Credit (which will include short-term crop loans and medium/long-term credit to farmers)
(iii) Agriculture Infrastructure and
(iv) Ancillary Activities

Loans to corporate farmers, farmers' producer organizations/companies of individual farmers, partnership firms and co-operatives of farmers directly engaged in Agriculture and Allied Activities, viz., dairy, fishery, animal husbandry, poultry, beekeeping, and sericulture up to an aggregate limit of 2 crore per borrower. This ₹ will include:
(v) Crop loans to farmers which will include traditional/non-traditional plantations and horticulture, and loans for allied activities.
(vi) Medium and long-term loans to farmers for agriculture and allied activities (e.g., purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm, and developmental loans for allied activities.)
(vii) Loans to farmers for pre- and post-harvest activities, viz., spraying, weeding, harvesting, sorting, grading, and transporting of their own farm produce.
(viii) Loans up to 50 lakh against pledge/hypothecation of agricultural ₹ produce (including warehouse receipts) for a period not exceeding 12 months.

Hence, B is the correct answer
Master Directions – Priority Sector Lending (PSL) – Targets and Classification

Q35. Which of the following statement is incorrect regarding Wire Transfer?
(a) All Cross-border wire transfers such transactions shall be accompanied by accurate and meaningful originator information such as name, address, and account number
(b) All Domestic wire transfers transactions of 50,000/- and above shall be accompanied by originator information such as name, address, and account number.

(c) If a customer is found to be intentionally structuring wire transfer below 5,00,000/- to avoid reporting or monitoring, its identification should be done
(d) The originator information should be preserved for at least five years by the ordering bank.

Answer: C

Explanation:

Transfer of funds is essential component of the modalities for money laundering, financing of terrorism, and financial crimes. With the advent of technology and its adoption by the financial system, wire transfers have come into prominence. These therefore carry high risk of ML/FT/FC. With a view to mitigate the risks inherent in wire transfers following norms have been prescribed.

(i) **Cross-border wire transfers:** All such transactions (including those through credit or debit card) shall be accompanied by accurate and meaningful originator information such as name, address and account number or a unique reference number (in the absence of account). This does not apply to transfers where both the remitter and beneficiary are banks or financial institutions.

(ii) **Domestic wire transfers:** All such transactions of 50,000/- and above shall be accompanied by originator information such as name, address, and account number.

(iii) **Domestic wire transfer structuring:** If a customer is found to be intentionally structuring wire transfer below 50,000/- to avoid reporting or monitoring, its identification should be done. In case of non-cooperation from the customer, efforts shall be made to establish his identity and STR shall

(iv) **For all wire transfers as per afore said criteria:** The originator information should be preserved for at least five years by the ordering bank.

Hence, C is the correct answer

Pg No. 41 Chapter No. 3, Module A

Q36. Which of the following correctly defines Ethics?

(a) Set of moral standards and values acceptable in a society and guides human behaviour
(b) Principles and ideals, which help in making judgement of what is more important.
(c) It is a thought considered to be true by a person.
(d) It is a tool or means for acquiring terminal values.

Answer: A

Explanation:

Basic values are those which are at the core of being human. Values are stable long- lasting beliefs about what is important to someone. These are qualities one chooses to embody to guide one's actions and conduct.

Merriam-Webster defines 'Ethics' as:

- "The discipline dealing with what is good and bad and with moral duty and obligation".
- "a set of moral principles: a theory or system of moral values".
- "The principles of conduct governing an individual or a group".
- "a set of moral issues or aspects (such as rightness)".

So, ethics is a set of moral standards and values acceptable in a society and guides human behaviour. It holds people from taking decisions that may be harmful to others or society. Ethical principles are universal in nature. Ethics is prescriptive in nature - deals with what must be or ought to be done.

Hence, A is the correct answer

Pg No. 896 Chapter No. 51, Module D

Q37. Which of the following services through websites is not included?

(a) Information dissemination
(b) Query on account balance
(c) Transfer of funds
(d) Recovery of bad loans

Answer: D

Explanation:

Broadly, the levels of banking services offered through the internet can be categorized into three types:

a. The Basic Level Service is the banks' website, which **disseminate information on different products** and services offered to customers and members of the public in general. It may receive and reply to customers' queries through e-mail.
b. The next level is Simple. Transactional Websites allow customers to submit their instructions, applications for different services, **queries on their account balances**, etc. but do not permit any Tol fund-based transactions on their accounts.
c. The third level of Internet banking services offered by Fully Transactional Websites allows the customers to **operate their accounts for the transfer of funds, payment of utility bills, subscription to other products of the bank and to transact purchase and sale of securities, etc**. The above forms of Internet banking services are offered by traditional banks, as an additional method of serving the customer or by new banks, who deliver banking services primarily through the Internet or other electronic delivery channels as the value-added services. Some of these banks are known as 'virtual' banks or 'Internet-only' banks and may not have any physical presence in a country despite offering different banking services. The majority of the Banking services provided at the Bank's branch can be delivered through the internet to the customers.

Hence, D is the correct answer

Pg No. 758 Chapter No. 44, Module C

Q38. Which of the following are necessary characteristics of a cheque?

i. **It must be in writing**
ii. **It should be drawn on banker**
iii. **It contains an unconditional order to pay**
iv. **It is payable on demand**
v. **It does not require acceptance and stamp**

Choose the correct code-

(a) i, ii, iii
(b) ii, iii, iv
(c) i, ii, iv, v
(d) All of the above

Answer: D

Explanation:

Essential characteristics of a cheque-

- It must be in writing
- It should be drawn on banker
- It contains an unconditional order to pay

- The cheque must have an order to pay a certain sum
- It should be signed by the drawer and should be dated
- It is payable on demand
- It may be payable to the drawer himself
- Banker is liable only to the drawer
- It does not require acceptance and stamp

Hence, D is the correct answer

Q39. Which of the following statements are incorrect regarding ethical responsibility of bank employees regarding Information Security?

(a) Any failure of professionals handling the IT desk and data can result in major leakages of sensitive information, with huge losses to the banks, reputation risk, and expensive legal battles.
(b) There should be proper training - orientation and refresher course for all employees to make them understand the importance and criticality of ethical behaviour
(c) Employees should be made aware of the professional obligations relating to information security
(d) All of the above

Answer: D
Explanation:
Ethics of Information Security
The IT team of the bank or financial institution is the custodian of the information of its customers/dealings/ activities. Their work conduct and ethical conduct is of paramount importance for the organisation. Any failure of professionals handling the IT desk and data can result in major leakages of sensitive information, with huge losses to the banks, reputation risk, and expensive legal battles.
Hence awareness of ethical conduct has become very important with every technological advancement. There should be proper training - orientation and refresher course for all employees to make them understand the importance and criticality of ethical behaviour. This applies to the employees posted not only in the IT department, but also in operations and various support functions. The following aspects relating to information security need particular attention:

- Employees made aware of the professional obligations relating to information security
- Advising about various types of prevalent cybercrimes.
- Making the employees (especially the IT employees) aware of the patterns of IT attacks on bank customers/servers/other assets like ATMs, etc. and to familiarize them with the profiles of attackers and patterns of thefts and modus operandi.

Hence, D is the correct answer
Pg No. 943 Chapter No. 55, Module D

Q 40. XYZ enjoys a credit facility of ₹50 lakh against stock of goods at margin of 25%. On 30TH June 2023, stock of ₹100 lakh in hand. What is the drawing power on that date?

(a) 37.50 lakh
(b) 50 lakh
(c) 75 lakh
(d) 25 lakh

Answer: B

Working Capital limit is worked out prior to sanction. Working capital limits are primarily secured against the stock and book debts of the firm or company. It is to be noted that even if the drawing power for some month works out to be more than the sanctioned limit, the maximum withdrawal limit is “Sanctioned Amount”. So, in this case the stocks are worth 100 lakh and after margin of 25% 75 lakh limit remains, but the sanction limit is 50 lakhs.

Hence, B is the correct answer.

Q41. Satyam Computer Services Ltd. (Satyam) incorporated in 1987 for software development and consultancy services, was listed in 1991. In 1996 it promoted four subsidiaries. Satyam Infoway, one of the subsidiaries, was the first Indian IT company listed on the NASDAQ. Global Institutional Investors Survey of 2005 ranked it as 3rd in Corporate Governance.

In December 2008, it announced acquisition of significant stake in Maytas Infrastructure Ltd. (an infrastructure development company) and Maytas Properties Ltd (a real estate company) both promoted by the promoter family of Satyam. The shareholders and the market reacted negatively resulting in the plans being called off immediately. Within a week, the World Bank announced a bar of 8 years on the company for data theft and bribing the staff. Share prices crashed to the lowest in four years. In the following week, four independent Directors resigned.

A whistle-blower alerted a board member about financial misrepresentation. Confession and the Effect- On January 7, 2009, Mr. B. Ramalinga Raju declared that over Rs.7800 crores were diverted from Satyam, and the said acquisition proposals were intended to "fill fictitious assets with real ones". He resigned as the Chairman of the company. The two brothers, Mr. B. Ramalinga Raju and Mr. B. Rama Raju were arrested, and the Central Government appointed new Board of Directors. A week later, the statutory auditors admitted their audit reports being incorrect and based on the wrong financial statements as provided by the management. The incident raised questions about the corporate governance practices followed at the company. Leading clients ended their contract with the company, which was followed by resignation of independent directors and sale of stake in open market by key stakeholders.

Which of the following learning from this case study is incorrect?

(a) Major unethical acts are either initiated or actively supported by the frontline workers
(b) Reputation not only of one company but also of the entire industry is tarnished.
(c) Directors, both independent as well as non-independent, have an important role in ensuring ethical values of a company
(d) Actions taken soon after the crisis event is known are very important and crucial in as much as the future course of the organisation depends entirely on these

Answer: A

Explanation:

Learnings from the Satyam Case Study

Top Management Actions are Crucial - Major unethical acts are either initiated or actively supported by the top management. In such situations, oversight of the independent Directors and scrutiny by the Auditors assume crucial importance in early detection of unethical practices. Employees are a Party for Some Reasons - The execution of acts involving numerous transactions invariably needs a set of employees. These persons for various reasons yield to be a party knowingly to unethical acts. This makes internal checks and controls ineffective.

Reputation is adversely affected - Reputation not only of one company but also of the entire industry is tarnished. After the crisis became public, all the other players were placed under scrutiny by the regulators and skepticism grew among the investor groups.

Professional Ethics of Directors Matter - Directors, both independent as well as non-independent, have an important role in ensuring ethical values of a company. Ethics of these persons determine how they discharge their responsibilities.

Auditors must have Professional Ethics - Best of the auditors with strong audit skills proved to be totally ineffective in detecting unethical or downright fraudulent practices, nay they might have been complicit in these. The result is adverse fallouts for both the auditee firm and the audit firm.

Ensuring Good Corporate Governance - There is a need for strong corporate governance practices across industries. Also, selection of top managers and executives must be done carefully, individuals with high level of credibility and credentials will bring high moral values and standards to the organization.

Post-crisis Handling - Actions taken soon after the crisis event is known are very important and crucial in as much as the future course of the organisation depends entirely on these. If proper actions are taken swiftly, the organization can not only be salvaged but also revived to its pre-event levels. However, if there is lethargy and the actions and the decisions focus only on post-mortem and investigations, the organisation may cease to exist.

Hence, A is the correct answer

Pg No. 904 Chapter No. 51, Module D

Q42. Which of the following statements is correct regarding Pradhan Mantri Employment Generation Programme (PMEGP)?

- **i. KVIC is its nodal agency at National Level**
- **ii. It was introduced by merging Prime Minister Rozgar Yojna and Rural Employment Generation Programme.**
- **iii. Its objective is to generate employment opportunities through new self-employment ventures and micro-enterprises.**
- **iv. Private banks cannot participate in this programme**

Choose the correct code-

(a) i, ii
(b) ii, iii, iv
(c) i, ii, iii
(d) I, ii, iii, iv

Answer: C

Explanation:

In 2008, PMEGP (a credit linked subsidy programme) was introduced by merging Prime Minister Rozgar Yojna and Rural Employment Generation Programme. The programme has been modified and is currently in force for a period of 5 years (FY 2021-22 to 2025-26).

PMEGP is implemented by KVIC, as the Nodal Agency at the National Level. At the state level it is implemented through State KVIC Directorate, State Khadi, and Village Industry Boards (KVIBs), District Industries Centres (DICs) and banks.

Support of other agencies for entrepreneurship development is also enlisted. Coir Board is associated for coir related activities.

Among the financial institutions, all public sector, and regional rural banks; those co-operative banks and **private sector banks that are approved by the SLTC; and SIDBI participate in this Programme.**

Objectives

- To generate employment opportunities through new self-employment ventures, micro-enterprises.
- To bring together dispersed artisans, youth and provide self-employment avenues.
- To provide sustainable employment to arrest migration of youth from rural to urban areas.
- To increase wage earning capacity of workers and artisans and increase employment growth.

Hence, C is the correct answer

Pg No. 694 Chapter No. 40, Module B

Q43. Compute the crop loan limit for first year with the help of the following data-

Scale of Finance for Paddy - ₹43,000/ha

Scale of Finance for Bajra - ₹28000/Ha

Paddy was grown in 1.5 ha and Bajra in 1 ha

Crop Insurance 1000/year

(a) 92,500
(b) 93,500
(c) 1,21,250
(d) 1,20,250

Answer: C

Explanation:

Cost of cultivation

Paddy – 1.5 Ha – 43,000*1.5 = 64,500

Bajra – 1 Ha – 28,000*1 = 28,000

Total cost of cultivation = 92,500

Add: Total post-harvest requirements = 10% of cost of cultivation = 10% of 92,500 = 9250

Add: Towards farm maintenance = 20% of cost of cultivation = 20% of 92,500 = 18,500

Add: Insurance = 1,000

Total crop loan limit for first year = 92500 + 9250 + 18500 + 1000 = 1,21,250

Hence, C is the correct answer.

Pg No. 640 Chapter No. 37, Module B

Q44. What is the maximum age of the Presiding Officer of Debt Recovery Tribunal?

(a) 58 years
(b) 60 years
(c) 65 years
(d) 70 years

Answer: C

Explanation:

- Under Section 4 of the Recovery of Debt and Bankruptcy Act-1993, the DRT shall have only one member (called Presiding Officer).
  - He shall be appointed by the notification of the Central Government.

- The Presiding Officer of one Tribunal can also preside over other Tribunals if the Central Government authorizes it.
- The Presiding Officer will have a **term of 5 years or till the age of 65 years**, whichever is earlier. He shall be eligible for reappointment.
- He should be qualified enough to be the District Judge.

- For cases of recovery of debt greater than 20 Lakh Rs, Banks, and Financial Institutions can approach the DRT. For amounts lower than this, Banks and Financial Institutions approach the Civil Courts.

Hence, C is the correct answer.

Q45. What is the minimum period for a Fixed Deposit?

(a) 7 days
(b) 15 days
(c) 30 days
(d) 180 days

Answer: A

Explanation:

Fixed Deposits

i. These are deposits of specified sum of money placed with the bank for a specific period. For example, a Fixed Deposit of ₹10,000/- placed for 36 months period. Fixed Deposits may be accepted for Days, Months, Years, or their combination, as per the request of customer. The **minimum period for fixed deposits, at present, is 7 days, and the maximum period is normally 120 months.**

ii. Fixed deposits can be accepted for any amount. Fixed deposits of ₹2 crore and above in case of scheduled commercial banks (other than RRBs) and small finance banks, and those of ₹15 lakh and above in case of RRBS have been categorized as 'Bulk Deposits' by RBI.

iii. Bank should issue term deposit receipt indicating therein full details, such as, name(s) of the depositor(s), unique account number, amount deposited, maturity amount, date of issue, period of deposit, due date, applicable rate of interest, whether nomination registered, etc. Term deposits should be freely transferable from one office of a bank to another.

iv. These deposits are repayable to the customer/ renewable as per the instructions of the customer given in the fixed deposit account opening form, on expiry of the period for which the deposit is made. Where such instructions are not obtained, an intimation of maturity date must be sent well in advance, though as a goodwill gesture it may be sent in other cases too.

v. Premature encashment is permitted in case of exigency/need. The interest is paid as applicable for the period for which the deposit was actually with the bank, less some penalty on that rate, as per the bank's policy.

vi. Banks can offer TDs without premature withdrawal option. Provided that the TDs of individuals (held singly or jointly) for ₹15 lakh and below must have premature-withdrawal facility.

Hence, A is the correct answer

Pg No. 75 Chapter No. 5, Module A

Q46. Which of the following statement(s) is/are incorrect regarding Limited Liability Partnerships?

i. **A LLP has at least 3 Designated Partners, appointed as per LLP agreement.**

ii. **Every partner of a LLP is, for the purpose of its business, an agent of the LLP, but not other partners.**
iii. **LLP is a corporate person; hence it is not affected by changes in partners due to any reason, including resignation or death.**
iv. **The partners will be personally liable for any dues that may occur.**
v. **A Limited Liability Partnership (LLP) is formed under the Indian Partnership Act, 2008**

Choose the correct code-

(a) i, ii, iii
(b) ii, v, iv
(c) i, iv, v
(d) i, ii, iii, iv,

Answer: C

Explanation:

- **A Limited Liability Partnership (LLP) is formed under the Limited Liability Partnership Act, 2008.** LLPs have Designated Partners specified in the LLP Agreement.
- A "limited liability partnership" agreement means any written agreement between the partners of the limited liability partnership or between the limited liability partnership and its partners which determines the mutual rights and duties of the partners and their rights and duties in relation to that limited liability partnership.
- **A LLP has at least two Designated Partners**, appointed as per LLP agreement. Designated Partners have to obtain a Designated Partner Identification Number (DPIN).
- Any partner may become a designated partner by and in accordance with the LLP agreement, and a partner may cease to be a designated partner in accordance with it.
- A designated partner is responsible for the doing of all acts, matters and things as are required to be done by the LLP and as may be specified in it.
- Every partner of a LLP is, for the purpose of its business, an agent of the LLP, but not other partners.

Rules for Opening and Operations - LLP's Account

a) For opening an account of LLP Resolution by the Designated Partners is required.
b) LLP is a corporate person; hence it is not affected by changes in partners due to any reason, including resignation or death. So, the existing account can be continued, even if in debit balance.
c) It will be necessary to obtain a Resolution in respect of authorised signatories, if there is any change.
d) **The partners will not be personally liable for any dues that may occur.**

Hence, C is the correct answer

Pg No. 57 Chapter No. 4, Module A

Q47, In a bill of exchange, the number of days of grace is ______- days after the due date on which payment was to be made.

(a) 2
(b) 3
(c) 5
(d) 7

Answer: B

Explanation:

According to the Negotiable Instruments Act, 1181, a bill of exchange is defined as an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument. The term maturity refers to the date on which a bill of exchange or promissory note becomes due for payment. In arriving at maturity date, three days, known as days of grace, must be added to the date on which the period of credit expires.

Hence, B is the correct answer.

Q48. Which of the following statements is/are correct regarding IMPS?

i. **It is managed by the National Payments Corporation of India (NPCI) and is built upon the existing National Financial Switch (NFS)network.**
ii. **Different MMIDs can be linked to the same Mobile Number.**
iii. **It is channel independent and can be initiated from Branch, Mobile/Internet/ATM/channels**
iv. **While initiating an IMPS transaction using either ATM or an Internet channel, mobile banking registration for a remitting customer is not mandatory.**
v. **There may be cases where Remitter is enabled on Mobile Banking, but Beneficiary mobile number is not registered with any bank account. In such case IMPS transactions are not allowed.**

Choose the correct code-

(a) i, ii, iii, v
(b) ii, iii, iv, v
(c) i, ii, iii, iv
(d) All of the above

Answer: A

Explanation:

IMPS is an instant payment inter-bank robust electronic funds transfer system in India. IMPS offers an inter-bank electronic fund transfer service that could be accessed on multiple channels like Mobile, Internet, ATM, SMS. The service is available 24x7 throughout the year including bank holidays. **It is managed by the National Payments Corporation of India (NPCI) and is built upon the existing National Financial Switch (NFS)network.**

The eligible criteria for the Banks who can participate in IMPS is that the entity should have valid banking or prepaid payment instrument license from Reserve Bank of India to participate in IMPS. The IMPS procedural guidelines are framed under the provisions of the Payment and Settlement System Act 2007 and are binding on all members of IMPS. IMPS provides a robust & real-time fund transfer that offers an instant, 24 × 7, interbank electronic fund transfer service that could be accessed on multiple channels like Mobile, Internet, ATM, SMS, Branch and USSD (*99#). IMPS allows transferring of funds instantly within banks across India. Transactions made through IMPS are not only safe but also economical. The objectives of IMPS are:

a. To facilitate mobile payment systems to be inter-operable across banks and mobile operators in a safe and secured manner
b. Enable customers to use mobile devices as a channel for accessing their bank accounts and remitting by funds
c. To make payment simpler just with the mobile number of the beneficiary
d. To sub-serve the goal of the Reserve Bank of India (RBI) in the digitization of retail payments
e. To build the foundation for a full range of mobile-based Banking services.

There may be cases where Remitter is enabled on Mobile Banking, but Beneficiary mobile number is not registered with any bank account. In such cases, IMPS funds transfer has been made possible using Beneficiary account number and IFS code as well, in addition to Beneficiary mobile number and MMID. Interbank settlement of IMPS transactions is done through settlement cycles. The salient features of IMPS are:

1. Funds can be instantly transferred across accounts of member banks
2. It is available 24 × 7 on all days, including bank holidays
3. It is safe and secure, easily accessible, and cost-effective
4. It is channel independent and can be initiated from Branch, Mobile/Internet/ATM/channels
5. On a successful transaction, both sender and receiver receive confirmation through SMS. Authentication of IMPS transactions:

While initiating an IMPS transaction using either ATM or an Internet channel, mobile banking registration for a remitting customer is not mandatory. Similarly, for customers receiving money using an account number/IFSC or using the AADHAAR number, mobile banking registration is not mandatory.
Hence, A is the correct answer
Pg No. 792 Chapter No. 46, Module C

Q49. Which of the following statements is incorrect?
(a) Modem is a computer hardware device that converts data from a digital format into a format suitable for an analog transmission medium such as telephone or radio.
(b) Switch is a hardware component, and it connects multiple devices together on a single network and routes the information.
(c) Firewall is a network security system that monitors and controls incoming and outgoing network traffic based on predetermined security rules.
(d) Bridge is a networking device, it forwards data packets between computer networks. It perform the traffic directing functions on the Internet.

Answer: D
Explanation:

- **Modems:** A modulator-demodulator or modem is a computer hardware device that converts data from a digital format into a format suitable for an analog transmission medium such as telephone or radio.
- **Switch:** It is a hardware component. It connects multiple devices together on a single network and routes the information.
- **Bridge:** It is a hardware device that creates a single, aggregate network from multiple networks. Function of Bridge is different than that of Router. Routing allows multiple networks to communicate independently and yet remain separate, whereas bridging connects two separate networks as if they were a single network
- **Routers**: **A router is a networking device, it forwards data packets between computer networks. Routers perform the traffic directing functions on the Internet.** Data sent through the internet, such as a web page or email, is in the form of data packets. A packet is typically forwarded from one router to another router through the networks that constitute an internet until it reaches its destination node.
- **Firewall:** It is a network security system that monitors and controls incoming and outgoing network traffic based on predetermined security rules. A firewall typically establishes a barrier between a trusted network and an untrusted network, such as the Internet.

Hence, D is the correct answer
Pg No. 715 Chapter No. 42, Module C

Q50. A ______ is a sequence of numbers and letters used to check data for errors.
(a) Checksum
(b) Audit
(c) Honeypot
(d) Encryption

Answer: A
Explanation:
The checksum is generated to ensure the integrity of data stored in a computer file. A checksum is a number calculated on the basis of certain key data items of the file. In a branch banking environment, the checksum generated at the time of closing of an application on the previous day is tallied with that generated at the time of day-begin function on the next day. Checksum usually involves at least the account number, balances and names of the account holders or account number.
Hence, A is the correct answer
Pg No. 835 Chapter No. 48, Module C

Q51. Which of the following statements is correct regarding Cash credit?
i. **It is an arrangement by which a banker allows the borrower to borrow money up to the sanctioned limit.**
ii. **It is a prevalent mode of lending for financing capital expenditure**
iii. **The usual balance in the account in case of cash credit is in credit**
iv. **The contract of cash credit can be express or implied.**

Choose the correct code:
(a) i, ii, iii
(b) i, ii, iv
(c) i, iv
(d) ii, iii

Answer: C
Explanation:
- **Cash credit and overdraft facilities are arrangements by which a banker allows the borrower to borrow money up to the sanctioned limit.** These are popular modes of borrowing by the commercial and industrial concerns in India, on account of the inherent advantage in it.
- **The cash credit facility is most prevalent mode of lending for working capital** where the bank finance is regular source of funding. Term loans can be used for financing capital expenditure
- **The usual balance in the account in case of cash credit is in debit** i.e., borrowed by the customer, and occasionally it may get into credit i.e., deposit by the customer.
- In this facility, a customer need not borrow the whole amount of the limit right in the beginning, and at any point of time. They also offer the customer the flexibility of drawing only such amounts as required and when required. This effectively reduces the cost of borrowing for the borrower as the interest is charged on the actual amount drawn on a day-to-day basis.

- The drawings are linked to the level of current assets based on which the extent of drawings are regulated, i.e., drawing power. Thus, the amount that a customer can draw viz. the drawing power is determined from the market value of current assets less margin amount at the prescribed rate.
- Cash credit is a contract of lending between a bank and its borrower. **The contract of cash credit or overdraft can be express or implied.**

Hence, C is the correct answer

Pg No. 325 Chapter No. 22, Module B

Q52. Which of the following statements is correct regarding NRE and NRO accounts?

i. They can be in the form of savings, current, recurring, fixed deposit account.

ii. Joint accounts are permitted with a resident relative on 'former or survivor' basis.

iii. Minimum tenor of Fixed Deposit is 1 year

iv. Foreign national of non-Indian origin visiting Indian can open these accounts.

Choose the correct code-

(a) i, ii

(b) iii, iv

(c) i, ii, iii

(d) ii, iii, iv

Answer: A

Explanation:

Special types of bank accounts have been permitted to be maintained in India by NRIs and PIOs. These have certain distinct features so as to serve the dual purpose of managing the country's foreign exchange resources and meet peculiar needs of NRI/ PIO diaspora. These accounts are:

i. Non-Resident (External) Rupee Account Scheme

ii. Foreign Currency (Non-resident) Account (Banks) Scheme

iii. Non-Resident (Ordinary) Account Scheme

- Both Non-Resident (External) Account and Non-Resident (Ordinary) (NRO) accounts can be in the form of savings, current, recurring, fixed deposit account. Joint accounts are permitted with a resident relative on 'former or survivor' basis.
- Minimum tenor of NRE Fixed Deposit is 1 year
- **Minimum tenor of NRO Fixed Deposit is 7 days**
- NRE Account can be maintained by NRIs and PIOs
- NRO Accounts can be maintained by any person resident outside India and a foreign national of aa non-Indian origin visiting India.

Hence, A is the correct answer

Pg No. 145 Chapter No. 9, Module A

Q53. Which of the following statements is/are correct regarding Simple Mortgage?

i. The mortgagor does not deliver possession of the mortgaged property to the mortgagee.

ii. The mortgagor doesn't bind himself personally to pay the mortgage money.

iii. The mortgagee has no power to sell the property without the intervention of the Court.

iv. Registration is mandatory if the principal amount secured is ₹1000 and above.

v. **In case there is shortfall in the amount recovered even after sale of the mortgaged property the mortgagor continues to be personally liable for the shortfall.**

Choose the correct code-

(a) i, ii, iii
(b) ii, iii, iv, iv
(c) i, iii, v
(d) i, ii, v

Answer: C

Explanation:

According to Sec. 58(b) of the Transfer of Property Act, a simple mortgage is a transaction whereby, 'without delivering possession of the mortgaged property, the mortgagor binds himself personally to pay the mortgage money and agrees, expressly or impliedly, that in the event of his failing to pay according to his contract, the mortgagee shall have a right to cause the mortgaged property to be sold by a decree of the Court in a suit and the proceeds of the sale to be applied so far as may be necessary in payment of the mortgage money."

Such a transaction is called a simple mortgage and the mortgagee a simple mortgagee.

Essentials of a simple mortgage:

i. The mortgagor does not deliver possession of the mortgaged property to the mortgagee.
ii. **The mortgagor binds himself personally to pay the mortgage money.**
iii. The mortgagor agrees that in the event of his failing to pay according to his contract, the mortgagee shall have a right to get the mortgaged property sold and recover his dues.

Features of simple mortgage:

i. The mortgagee has no power to sell the property without the intervention of the Court.
ii. In case there is shortfall in the amount recovered even after sale of the mortgaged property the mortgagor continues to be personally liable for the shortfall.
iii. The mortgagee has no right to get any payments out of the rents and produce of the mortgaged property.
iv. The mortgagee is not put in possession of the property.
v. **Registration is mandatory if the principal amount secured is ₹100 and above.**

Hence, C is the correct answer

Pg No. 460 Chapter No. 26, Module B

Q54. A ________generally consists of the concerted efforts of a person/persons to prevent an internet site or service from functioning efficiently mainly through flood of incoming messages to the target system

(a) Distributed Denial of service
(b) Ransomware
(c) Whaling
(d) Phishing

Answer: A

Explanation:

Distributed denial of service (DDoS): A denial-of-service attack (DoS attack) generally consists of the concerted efforts of a person/persons to prevent an internet site or service from functioning efficiently.

A DoS attack is an incident in which a user or organization is deprived of the services of a resource they would normally expect to have. In a distributed denial-of-service (DDoS) attack, large numbers of compromised systems (sometimes called a Botnet) attack a single target, thereby causing a denial of service for users of the targeted system. The flood of incoming messages to the target system essentially forces it to shut down, thereby denying the service of the system to legitimate users.

Hence, A is the correct answer

Pg No. 841 Chapter No. 48, Module C

Q55. Which of the following request can be approved by a bank employee regarding access of locker by a woman named Mrs. C?

(a) She wants to name both her children as nominees in her singly operated locker.
(b) She wants compensation for damage to contents of locker arising out of an earthquake
(c) She wants to cancel the nomination done earlier for the locker facility.
(d) All of the above

Answer: C

Explanation:

Nomination Facility for Locker

Sec. 45 - ZC to Sec. 45 -ZF of the BR Act deal with the nomination facilities in lockers services.

- **(a) For a singly operated locker, nomination can be made in favour of only one individual.**
- (b) Two or more joint hirers can nominate one or more persons
- (c) Photograph(s) of the nominee(s) may be obtained at the option of the customer(s).
- (d) Nomination forms have been prescribed under the Rules. In case of thumb impressions, attestation by two witnesses is required.
- (e) Acknowledgment of the form for nomination/cancellation/ variation should be given.

Liability of Banks

The banks should have a detailed Board approved policy outlining the responsibility owed by them for any loss or damage to the contents of the lockers due to their negligence. Banks owe a separate duty of care to exercise due diligence in maintaining and operating their locker or safety deposit systems. The duty of care includes ensuring proper functioning of the locker system, guarding against unauthorized access to the lockers and providing appropriate safeguards against theft and robbery, fire, etc. **Banks shall not be liable for any damage and/or loss of contents of locker arising from natural calamities or Acts of God like earthquake, floods, lightning, and thunderstorm though they need to take appropriate care to safeguard against these.**

Hence, C is the correct answer

Pg No. 214 Chapter No. 15, Module A

Q56. Which of the following statement(s) is/are incorrect regarding Integrated Ombudsman Scheme 2021?

i. **The Ombudsman is a senior official appointed by central government to redress customer complaints against deficiency in certain banking services.**
ii. **Primary (Urban) Cooperative Banks are not covered under this scheme.**
iii. **All complaints under IOS 2021 are received at the CRPC, Delhi.**
iv. **General grievances against Management or Executives of a Regulated Entity are not covered by the scheme**

Choose the correct code-

(a) i, ii, iii
(b) ii, iii, iv
(c) i, iv
(d) All of the above

Answer: A

Explanation:

The RBI - Integrated Ombudsman Scheme 2021

- It integrates the erstwhile three Ombudsman schemes of RBI namely,
  - the Banking Ombudsman Scheme, 2006.
  - the Ombudsman Scheme for Non-Banking Financial Companies, 2018; and
  - the Ombudsman Scheme for Digital Transactions, 2019.
- It covers all entities regulated by RBI. This Scheme provides cost-free redress of customer complaints involving deficiency in services rendered by the entities regulated by RBI, if not resolved to the satisfaction of the customers or not replied within a period of 30 days by the regulated entity.
- The Ombudsman is a senior official appointed by RBI to redress customer complaints against deficiency in certain banking services. As at November 2021, 22 Ombudsmen were appointed with their offices located at the RBI offices mostly in the state capitals.
- **RB-IOS, 2021 covers all commercial banks, Non-Banking Financial Companies (NBFCs), Payment System Participants, most Primary (Urban) Cooperative Banks, and Credit Information Companies.**

Organisational Aspects

The organizational arrangements of Ombudsmen are made by the RBI.

a) **Appointment of Ombudsmen:** RBI may appoint its officers as Ombudsmen to carry out the functions under the Scheme. RBI may also appoint Deputy Ombudsman. These appointments can be for maximum three years at a time. Their offices can be at any place considered necessary by RBI.
b) **Central Receipts and Processing Centre (CRPC):** All complaints under IOS 2021 are received at the **CRPC, Chandigarh**, unlike earlier when the complaint was to be made to the BO having territorial jurisdiction over the bank's office connected with the grievance. The CRPC forwards the complaint to the concerned Ombudsman.
c) **Powers and Jurisdiction:** RBI specifies the territorial authority of each Ombudsman. The ombudsman handles the complaints forwarded by the CRPC. Any complaint received directly at the ombudsman's office is also forwarded first to the CRPC.
d) **Modes of satisfaction of complaints:** The ombudsmen facilitate resolution of complaints preferably by agreement or through conciliation and mediation between the bank and the aggrieved parties. Failing a mutual agreement, the BO settles the complaint by passing an Award as per the provisions of the Scheme, unless it is required to be rejected.

Grounds for non-maintainability of a Complaint

Any complaint for deficiency in service in following matters will not be covered:

a) commercial judgment/commercial decision of a Regulated Entity
b) a dispute between a vendor and a Regulated Entity in an outsourcing contract
c) a grievance not addressed to the Ombudsman directly
d) general grievances against Management or Executives of a Regulated Entity
e) a dispute in an action in compliance with orders of a statutory or law enforcing authority.

f) a service not within the regulatory purview of RBI.
g) a dispute between Regulated Entities; and
h) a dispute involving the employee-employer relationship of a Regulated Entity.

Hence, A is the correct answer
Pg No. 263 Chapter No. 19, Module A

Q57. Which of the following statement(s) is/are incorrect regarding Small Prepaid Payment Instruments (PPIs) with cash loading facility?

- **i. Only banks can issue PPIs**
- **ii. The total amount loaded during the financial year shall not exceed Rs.10,000**
- **iii. These PPIs can be used only for purchase of goods and services**
- **iv. These PPIs shall be converted into full-KYC PPIs within a period of 24 months from the date of issue of the PPI**
- **v. They are non-reloadable**

Choose the correct code-

(a) i, ii, iii
(b) i, ii, v
(c) iii, iv, v
(d) i, iv, v

Answer: B
Explanation:
Small Prepaid Payment Instruments (Minimum Details Prepaid Payment Instruments):
These are issued by banks and non-banks after obtaining minimum details of the PPI holder. These are used only for purchase of goods and services. Funds transfer or cash withdrawal from such PPIs shall not be permitted. Small PPIs can be used at a group of identified merchant locations/establishments which have a specific contract with the issuer (or contract through a payment aggregator/payment gateway) to accept the PPIs as payment instruments. The features of these instruments are:
(i) PPIs upto Rs.10,000/- (with cash loading facility)

a) **Bank and non-banks shall be permitted to issue such PPIs** after obtaining minimum details of the PPI holder;
b) Minimum details shall necessarily include a mobile number verified with One Time Password (OTP) and a self-declaration of name and unique identity/identification number of any 'mandatory document' or 'Officially Valid Document (OVD)' or any such document with any name listed for this purpose in the Master Direction on KYC, as amended from time to time;
c) Such PPIs shall be reloadable in nature;
d) Amount loaded in such PPIs during any month shall not exceed Rs.10,000/- and **the total amount loaded during the financial year shall not exceed Rs.1,20,000/-;**
e) Amount outstanding at any point of time in such PPIs shall not exceed Rs.10,000/-
f) Total amount debited from such PPIs during any month shall not exceed Rs.10,000/;
g) These PPIs shall be used only for purchase of goods and services. Cash withdrawal or funds transfer from such PPIs shall not be permitted;
h) There shall be no separate limit for purchase of goods and services using PPIs; PPI issuer may decide limit for these purposes within the overall PPI limit;

i) These PPIs shall be converted into full-KYC PPIs within a period of 24 months from the date of issue of the PPI, failing which no further credit shall be allowed in such PPIs. However, the PPI holder shall be allowed to use the balance available in the PPI;
j) This category of PPI shall not be issued to the same user in future using the same mobile number and same minimum details;
k) There shall be no separate limit for purchase of goods and services using PPIs; PPI issuer may decide limit for these purposes within the overall PPI limit;

Hence, B is the correct answer
Pg No. 754 Chapter No. 44, Module C

Q58. Which of the following statements is incorrect regarding Bills used for Bill Finance?'

(a) Bills drawn or made in India and made payable in or drawn upon any person resident in India are inland bills.
(b) A usance bill is a bill payable otherwise than on demand and specifies normally a time for payment of the of the value it represents.
(c) A bill of exchange accompanying documents of title to goods is called clean bills.
(d) Demand Bill as an instrument payable on demand and no time for payment is specified therein.

Answer: C
Explanation:
'Bills' used under bill finance can be classified depending upon the place where drawn, period and their nature as under:

1. **Inland bills -** Bills drawn or made in India and made payable in or drawn upon any person resident in India are inland bills. The necessary requisites of inland bills are (a) it must be drawn and made payable in India; (or) (b) it must be drawn in India upon some person resident in India, (though it may be made payable in a foreign country).
2. **Foreign Bills** - As per Sec. 12 of NI Act, Foreign Bills are: (a) Bills, drawn outside India and made payable in or drawn upon any person, resident in any country outside India; (b) Bills drawn outside India and made payable in or drawn upon any person, resident in India.
3. **Demand bills** - Sec. 19 of NI Act defines 'Demand Bill' as an instrument payable on demand and no time for payment is specified therein. 'Demand Bill' is also called 'sight bill', and the payee is entitled to the value of the bill on demand and on presentation.
4. **Usance Bills:** A usance bill is a bill payable otherwise than on demand, and specifies normally a time for payment of the of the value it represents. These are also called 'Bills payable after sight'. The drawer draws a bill of exchange and specifies a time within which the payment shall be made and presents the same to drawee for acceptance. Once the drawee accepts the bill, the drawer at the time or date specified on bill for payment can present the same to drawee and demand payment. The date specified for payment is called 'maturity/due date'.
5. **Clean Bills: A clean bill is a bill of exchange drawn as per the requirements of the NI Act and is not supported by documents of title to goods**. Clean bills are drawn normally to effect discharge of a debt or claim. Clean bills also arise when the goods covered by the bill are sent directly to the buyer due to mutual consent e.g., local bills and supply bills.
6. **Documentary Bills**: A bill of exchange accompanying documents of title to goods is called 'Documentary Bill'. These bills are drawn to claim price of goods supplied.
   i. Bills drawn with an instruction to deliver documents against payment (D.P. Bills)
   ii. Bills drawn with instruction to deliver documents against acceptance (D.A. Bills)

Hence, C is the correct answer
Pg No. 608 Chapter No. 34, Module B

Q59. Alexa and Siri are examples of____.
(a) Virtual Reality
(b) Augmented Reality
(c) Chatbots
(d) Digital Currency
Answer: C
Explanation:
- Chatbots are software applications that mimic written or spoken human speech for the purposes of simulating a conversation or interaction with a real person. A Chabot can be deployed for customer service, as a standalone application or on a website.
- Conversational agents are becoming much more common partly due to the fact that barriers to entry in creating chatbots (i.e. sophisticated programming knowledge and other highly specialized technical skills) are becoming increasingly unnecessary. Chatbots are driven by artificial intelligence, voice recognition, natural language processing etc.
- Some real-life examples are virtual assistants such as Google Now, Apple's Siri, and Microsoft's Cortana.

Hence, C is the correct answer
Pg No. 819 Chapter No. 47, Module C

Q60. Honeypot in cyber security is an example of____
(a) Virus
(b) Malware
(c) Security Mechanism
(d) Threat actor
Answer: C
Explanation:
- A honeypot is a security mechanism that creates a virtual trap to lure attackers. An intentionally compromised computer system allows attackers to exploit vulnerabilities so you can study them to improve your security policies.
- It's a sacrificial computer system that's intended to attract cyberattacks, like a decoy. It mimics a target for hackers, and uses their intrusion attempts to gain information about cybercriminals and the way they are operating or to distract them from other targets.

Hence, C is the correct answer.

Q61. _____is a network security system that monitors and controls incoming and outgoing network traffic based on predetermined security rules.
(a) Firewall
(b) Chatbots
(c) Payment Gateway
(d) Honeypot

Answer: A

Explanation:

Firewall: It is a network security system that monitors and controls incoming and outgoing network traffic based on predetermined security rules. A firewall typically establishes a barrier between a trusted network and an untrusted network, such as the Internet. At its most basic, a firewall is essentially the barrier that sits between a private internal network and the public Internet.

Hence, A is the correct answer
Pg No. 715 Chapter No. 42, Module C

Q62. Which of the following statement is incorrect regarding Post parcel receipts.

(a) It is not a document to title to goods
(b) It shows evidence that the goods have been entrusted for transportation
(c) It is used when documents are sent in large quantities
(d) It is similar in nature to Airway Bill

Answer: C
Explanation:
Post Parcel Receipt and Courier Receipts: When the goods to be sent are **in small quantity,** then they can be sent through post or courier. The document issued by the postal department, or the courier are similar in nature to the airway bill. They are **not title to goods** and only **evidence that the goods have been entrusted for transportation** to either the postal department or the courier company and mostly the goods are addressed directly to the buyer.
Hence, C is the correct answer
Pg No. 596 Chapter No. 32, Module B

Q63. Banks protect their assets from cyber threats using the following except____.

(a) Intruder Protection Systems
(b) Intruder Detection Systems
(c) Next Generation Firewalls
(d) Load Balancing Systems

Answer: D
Explanation:
Perimeter protection: Apart from physical security, to secure the critical systems of banks from cyber threats, one should have **Firewalls, Intruder detection systems, Intrusion preventive systems**, and Virus and DDOS solutions installed. They should provide online access to customers only through web servers so that there is no direct connection between the Internet and intranet. It facilitates a high level of control and in-depth monitoring using logging and auditing tools.
Load balancing is a technique used to distribute network traffic across a pool of servers known as a server farm. It optimizes network performance, reliability, and capacity, reducing latency as the demand is equally distributed among multiple servers and computer resources.
Load balancing uses an appliance -- either physical or virtual – to identify in real time which server in a pool can best meet a given client request, while ensuring heavy network traffic doesn't unduly overwhelm a single server.

In addition to maximizing network capacity and ensuring high performance, load balancing provides failover. If one server fails, a load balancer immediately redirects its workloads to a backup server, thus mitigating the effect on end users.

Hence, D is the correct answer

Pg No. 843 Chapter No. 48, Module C

Q64. Lok Adalats may deal with matters if______

i. **the disputes the parties agree to refer case to Lok Adalat**
ii. **the dispute which, in the opinion of the Court, is appropriate for the Lok Adalat.**
iii. **where in respect of a potential dispute, the authority or committee organizing Lok Adalat on receipt of an application from anyone of the parties is of the opinion that the matter needs to be determined by the Lok Adalat**

Choose the correct code-

(a) i, ii
(b) ii, iii
(c) i, iii
(d) All of the above

Answer: D

Explanation:

Lok Adalats shall deal with the following types of cases or matters, viz.,

a. the disputes the parties agree to refer;
b. the disputes where one of the parties makes an application to the court to refer to Lok Adalat. In this case the court shall give an opportunity to the other party before deciding the case to be referred to the Lok Adalat;
c. the dispute which, in the opinion of the Court, is appropriate for the Lok Adalat.
d. Where in respect of a potential dispute, the authority or committee organizing Lok Adalat on receipt of an application from anyone of the parties is of the opinion that the matter needs to be determined by the Lok Adalat, may refer such matter to the Lok Adalat for determination.

Hence, D is the correct answer

Pg No. 560 Chapter No. 29, Module B

Q65. Which of the following measures can be taken to manage Conflict of Interest?

i. **full disclosures to the affected parties**
ii. **Setting up institutional controls and mechanisms**
iii. **Identifying and preventing such conflicts**

Choose the correct code-

(a) i, ii
(b) ii, iii
(c) i, iii
(d) All of the above

Answer: D

Explanation:

The dictionary meaning of conflict of interest is "a situation in which a person is in a position to derive personal benefit from actions or decisions made in their official capacity". It is expected that the top management recognises such conflicts of interests and take some definite pre-emptive measures so that they do not result in inappropriate or adverse consequences on the banks and some or all stakeholders. Conflict of interests may occur between: A bank and its client/clients; Among the employees of a bank; Employee of a bank and a client; Between a given bank and one or more of its clients; Provision of bank's services to two or more clients.

Many of these conflicts can be resolved internally by the banks. Some options available to deal with the conflicts are: Identifying and preventing such conflicts; Setting up institutional controls and mechanisms for handling these as per the degree of potential risks; full disclosures to the affected parties so that they are aware of the potential impact.

Hence, D is the correct answer

Pg No. 924 Chapter No. 53, Module D

Q66. Which of the following type of cable is used for wired LAN connection?

(a) Cat5e

(b) Can5e

(c) RAM6a

(d) Rod5a

Answer: A

Explanation:

Local Area Network (LAN)

- A computer network is an interconnected system of autonomous computers. Each system is capable of independent operation and communication with other systems. Thus, a computer network is a data communication network mainly used to share data, hardware and software resources and improve the flow of information within an organisation or beyond.
- The computer network that links computers, network devices and peripherals within a localized area, say, within a building, is known as LAN. Computers and related equipment can be connected through nodes placed anywhere in the network.
- Generally, LAN will not extend beyond 100 meters for **Cat5e cables**. However, the distance and the number of nodes supported vary depending on the medium used to establish the network.

Hence, A is the correct answer

Pg No. 712 Chapter No. 42, Module C

Q67. ________ is the implementing agency of Prime Minister's Employment Generation Programme (PMEGP).

(a) KVIC

(b) SIDBI

(c) SLTC

(d) MUDRA

Answer: A

Explanation:

In 2008, PMEGP (a credit linked subsidy programme) was introduced by merging Prime Minister Rozgar Yojna and Rural Employment Generation Programme. The programme has been modified and is currently in force for a period of 5 years (FY 2021-22 to 2025-26).

PMEGP is implemented by **KVIC (Khadi & Village Industries Commission),** as the Nodal Agency at the National Level. At the state level it is implemented through State KVIC Directorate, State Khadi, and Village Industry Boards (KVIBs), District Industries Centres (DICs) and banks.

Hence, A is the correct answer

Pg No. 694 Chapter No. 40, Module B

Q68. Which of the following is the main objective of Natural Language Processing?

(a) Eliminate the need for humans in computing
(b) give computers the ability to interpret, manipulate, and comprehend human language
(c) provide human-like interactions with software and offer decision support for specific tasks and replacement for humans
(d) All of the above

Answer: B

Explanation:

NLP combines computational linguistics—rule-based modeling of human language—with statistical, machine learning, and deep learning models. Together, these technologies enable computers to process human language in the form of text or voice data and to 'understand' its full meaning, complete with the speaker or writer's intent and sentiment.

NLP drives computer programs that translate text from one language to another, respond to spoken commands, and summarize large volumes of text rapidly—even in real time.

Hence, B is the correct answer

Chapter No. 47, Module C

Q69. Which of the following is the objective of Artificial Intelligence?

i. **Automate mundane and repetitive tasks**
ii. **To create robotic machines**
iii. **Provide humanized experience that is customized to individual customers**
iv. **To replace human intelligence**

Choose the correct code-

(a) i, ii, iii
(b) ii, iii, iv
(c) ii, iv
(d) All of the above

Answer: A

Explanation:

Artificial intelligence (AI) is an area of computer science that emphasizes the creation of intelligent machines, software that work and react like humans. Some of the focused areas in the use of artificial intelligence are speech recognition, cognitive analytics, deep learning, planning and problem-solving. AI has the potential of transforming customer experiences and establishing entirely new business models in banking. To achieve the highest level of results, there needs to be a collaboration between humans and machines that will provide a **humanized experience that is customized to the individual customer.**

Artificial Intelligence can be used to learn from customer behaviour and offer personalized services for each customer focused on their specific requirements. The key components of AI are machine learning, computer vision, natural language progression and natural language generation. AI can also be deployed to enhance data security, decision-making speed and accuracy, and employee output. Banks can also use machine learning to re-engineer back-office processes. AI is being used in Banks for predictive analysis, voice recognition., risk management, fraud prevention, wealth management etc. AI-driven banking mobile apps are being used to meet the user's expectations with personal, contextual, and predictive services.

Hence, A is the correct answer

Pg No. 818 Chapter No. 47, Module C

Q70. Which of the following is not one of the 7 C's of credit appraisal?

(a) Character
(b) Capital
(c) Constitution
(d) Conditions

Answer: C

Explanation:

Aspects of Appraisal (7 C's)

There are four cardinal parameters of lending. These are as follows:

a) Evaluation of creditworthiness of the borrower,
b) Considering the purpose of the loan,
c) Verifying the cash flows and source of repayment, and
d) Assessing the security/collateral security.

For satisfying these parameters holistically, it is important to look into following aspects: **Creditworthiness, Character, Capacity, Capital, Collateral, Conditions, and Cash flows**. These are called **7 C's of appraisal.**

Hence, C is the correct answer

Pg No. 336 Chapter No. 23, Module B

Q71. Which of the following is not a network device used in LAN?

(a) Switch
(b) Hub
(c) Gateway
(d) HSM

Answer: D

Explanation:

HSM stands for Hardware Security Module and is a very secure dedicated hardware for securely storing cryptographic keys. It can encrypt, decrypt, create, store and manage digital keys, and be used for signing and authentication. The purpose is to safeguard and protect sensitive data.

Switch, Hub, Bridge, Routers, Gateways, Firewall, WAP, Repeaters, Modem are the main network devices used in LAN.

Hence, D is the correct answer.

Pg No. 715 Chapter No. 42, Module C

Q72. In TReDS, Factoring Unit can be created by _______.

(a) seller

(b) buyer
(c) central government
(d) Both A and B

Answer: D

Explanation:

- A Factoring Unit (FU) is a standard nomenclature used in TReDS for invoice(s) or bill(s) of exchange. Each FU represents a confirmed obligation of the corporates or other buyers, including Government Departments and PSUs.
- In TReDS, FU can be created **either by the MSME seller or the buyer**. If MSME seller creates it, the process is called factoring; if the same is created by corporates or other buyers, it is called reverse factoring.

Hence, D is the correct answer

Pg No. 670 Chapter No. 39, Module B

Q73. Which of the following are the features of a Cash Recycler Machine?

i. It lets one deposit and withdraws cash
ii. They have capabilities of sorting out damaged, soiled and counterfeit notes
iii. Cardless transaction up to 20,000/- per day are allowed
iv. Cash deposit is made with debit card

Choose the correct code-

(a) i, ii, iii
(b) iii, iv
(c) i, ii, iv
(d) All of the above

Answer: D

Explanation:

Cash Recycler machine is a self-service terminal that lets one **deposit and withdraws cash**. The customer's account is immediately credited or debited in real-time on a successful transaction, and an acknowledgement slip is issued confirming the transaction. Transactions can be done through Debit Card for cash withdrawal, and a transaction receipt is given with an updated account balance. Some features of Cash Recyclers are:

(1) Cash recyclers can accept cash from customers and dispense it as well.
(2) They ensure the genuineness of currency.
(3) Counterfeit notes are recognised.
(4) Cash deposit is made with debit card
(5) Cardless transaction up to 20,000/- per day.

Cash recycling reduces cash management costs for banks and provides ATM users with valuable functionality. Perhaps the most significant impact of Cash Recyclers is their capabilities of **sorting out damaged, soiled and counterfeit notes.**

Hence, D is the correct answer

Pg No. 741 Chapter No. 44, Module C

Q74. _____ is the investigation and prosecuting authority for money laundering crime.

(a) Financial Intelligence Unit-India

(b) Enforcement Directorate
(c) Special Courts
(d) Central Bureau of Investigation

Answer: B

Explanation:

Specific institutional framework has also been put in place for dealing with money laundering crime in India -

1. **Financial Intelligence Unit-India** (FIU-Ind) has been set up for receiving information about various financial transactions from certain businesses, including banks and financial institutions. FIU-India also has supervisory powers over the business entities that are subject to PMLA.
2. **Enforcement Directorate (ED) is the investigation and prosecuting authority for money laundering crime.** The powers of ED include tracking and attaching assets related to money laundering.
3. Special Courts are set up for adjudication of cases pertaining to money laundering crime. The adjudicating authority has powers to freeze the assets and even confiscate the assets proved to be related to money laundering.
4. The Regulators of various business activities, covered under PMLA, issue operating instructions and guidelines for the businesses regulated by them for discharging their obligations under the PMLA and PMLR.

Hence, B is the correct answer

Pg No. 17 Chapter No. 2, Module A

Q75. Custodial services provided by the bank include which of the following services?

- **i. Safe custody of articles**
- **ii. Safekeeping of securities**
- **iii. Holding documents safely**
- **iv. Reporting of marketable securities**

Choose the correct code-

(a) i, ii, iii
(b) ii, iii, iv
(c) i, ii
(d) All of the above

Answer: D

Explanation:

A custodian bank is a financial institution that **holds customers' securities for safekeeping** to prevent them from being stolen or lost. The custodian may **hold stocks, bonds, or other assets in electronic or physical form on behalf of its customers.**

Services provided by a bank as a custodian are usually the **settlement, safekeeping and reporting of customers' marketable securities and cash**. A custody relationship is contractual, and the services that are performed for a customer differs. Banks render custody services to a variety of customers, including mutual funds and investment managers, bank fiduciary, retirement plans, and agency accounts, bank commercial security accounts, insurance companies, corporation, endowments and foundations, and private banking **clients**. Banks that are not significant custodians provide custody services for their customers through an arrangement with a large custodian bank.

Hence, D is the correct answer

Pg No. 217 Chapter No. 15, Module A

Q76. Banking Services through smart watches, Google glasses is possible due to____.

(a) Wireless Technology
(b) Mobile Technology
(c) Artificial intelligence
(d) Information Technology

Answer: A

Explanation

Banking services through smartwatches and devices like Google Glass are made possible primarily due to wireless technology. These devices rely on wireless connections, such as Bluetooth or Wi-Fi, to communicate with other devices and access the internet. Wireless technology enables them to connect to smartphones or the internet, allowing users to access banking services and information remotely.

While mobile technology, artificial intelligence, and information technology also play important roles in enabling such services, the fundamental capability to connect and communicate wirelessly is the key factor that allows these devices to access and provide banking services on the go.

Hence, A is the correct answer

Pg No. 822 Chapter No. 47, Module C

Section – 2

Sno.	**Topic**	**Type of Question**
1.	Documentation	Loan documentation doesn't vary according to___
2.	Validation of Credit Proposal	Measures taken for validation of credit proposal
3.	Loan Documentation	Execution and filling of Loan documents used by banks
4.	NRE account	Which NRE account opened at a branch is non-compliant with RBI directives?
5.	Numerical Working Capital	Working Capital, Stocks value given. Need to calculate Drawing power
6.	Agriculture infrastructure loan	Sanctioned limit per borrower
7.	Accounting Disclosures	Banks comply with which standards
8.	Executor	Case study on savings account opened by executor of estate
9.	Guarantee	Situation where surety is discharged
10.	Correspondent Banking	Correspondent & Respondent Banks and Money Laundering/Financial Terrorism
11.	Bill of Exchange- endorsement	Case Study- ABC Ltd. has received a bill for ₹5 cr made by LMN Ltd on PQR Ltd due on 30th June 2023. ABC Ltd endorsed the bill in favour of XYZ

		Ltd. On 30th June 2023, bill was paid for full amount. Which of the following statement is correct regarding the above statements?
12.	NBFCs	How NBFCs have competitive edge over banks

Section- 3

22. Letter of Credit
23. Warehouse Receipts
24. Product Seller under Consumer Protection Act, 2019
25. Work Ethics
26. Ethical responsibility of Banks
27. Value Added Services
28. Cyber Security
29. Account Aggregator
30. National Financial Switch
31. AML teams
32. Demand Promissory Note
33. Currency Declaration Form

EduTap

JAIIB OCTOBER 2023 EXAM

AFM

RECOLLECTED QUESTIONS

WITH

DETAILED EXPLANATION

Preface

The document gives a fair idea of the kind of questions that were asked in JAIIB October 2023 Accounting & Financial Management for Bankers (AFM) 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. Consider the two lists given below and match the correct items:

LIST I	LIST II
1. Debit in Real Account	**A. Income earned**
2. Credit in Real Account	**B. Business acquired asset**
3. Debit in Nominal Account	**C. Business disposed off asset**
4. Credit in Nominal Account	**D. Expense incurred**

(a) 1 – C; 2 – B; 3 – D; 4 - A
(b) 1 – B; 2 – C; 3 – D; 4 - A
(c) 1 – B; 2 – C; 3 – A; 4 – D
(d) 1 – A; 2 – D; 3 – C; 4 – B

Answer: B

Explanation:

<u>RULES FOR DEBIT AND CREDIT</u>

Real Account

- When a business acquires an asset, it increases its assets. This is recorded with a debit to the asset account.
- When a business disposes of an asset, it decreases its assets. This is recorded with a credit to the asset account.

Nominal Account

- When a business earns income, it increases its equity. This is recorded with a credit to the income account.
- When a business incurs an expense, it decreases its equity. This is recorded with a debit to the expense account.

Pg No. 103, Chapter No. 3, Module A

Q2. Balances of which of the following accounts are transferred to Balance Sheet at the end of the accounting period?

(a) All assets & liabilities accounts
(b) All income & expenses accounts
(c) Tangible assets and income accounts
(d) All liabilities and expenses

Answer: A

Explanation

Preparation of Final Accounts

- The balances of all assets and liabilities accounts are transferred to the balance sheet at the end of the accounting period.
- Income and expenses accounts are temporary accounts, meaning that their balances are transferred to the Trading and Profit & Loss Statement.

Hence option A is the correct answer.

Pg No. 245, Chapter No. 13, Module B

Q3. Which of the following statements is/are correct regarding functions of Back Office in a bank?

I. **Back office functions consist of administrative functions and support personnel.**
II. **Computerisation eliminated Back Office as part of branch.**
III. **One of the important functions of the Back office is to reconcile the accounting entries especially the inter office entries.**
IV. **In treasury operations, the Back office performs no major role.**

(a) II and III
(b) I and IV
(c) II and IV
(d) I and III

Answer: D

Explanation

- The back office is an essential part of any bank, and it plays a vital role in supporting the front office. The back office is responsible for a wide range of tasks, including:
    - Processing transactions
    - Reconciling accounts
    - Maintaining records
    - Providing administrative support
    - Managing risk
    - Reconciliation of accounting entries, especially inter office accounts
    - Treasury operations.

Hence, Statement I and III is correct.

- The back office also plays a key role in ensuring that the bank complies with all applicable laws and regulations.
- Computerization has certainly changed the way that the back office operates, but it has not eliminated the need for back office personnel. In fact, computerization has made the back office more efficient and productive. **Hence, statement II is incorrect.**
- The back office plays a major role in treasury operations. The back office is responsible for processing transactions, reconciling accounts, and managing risk. The back office also works closely with the front office to develop and implement new treasury products and services. **Hence, statement IV is incorrect.**

Pg No. 204, Chapter No. 10, Module A

Q4. Which among the following companies are required to present consolidated financial statements at the end of accounting period?

(a) A company that controls one or more entities
(b) A government company
(c) A registered company
(d) A statutory company

Answer: A

Explanation

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated financial statements are the overall financial statements of any entity with multiple divisions, including the parent company and all subsidiaries that are controlled by the parent company.

- As per Companies Act 2013, Section 129(3) requires a company having subsidiary(s) to prepare consolidated financial statement of all the subsidiary(s) in the same form and manner as that of its own and to lay such consolidated financial statement before the Annual General Meeting of the company for adoption.

Hence option A is correct.
Page 301, Chapter No. 15, Module B

Q5. What is the current yield on a bond if its par value is ₹100, coupon rate is 8% and market value of the bond is ₹80?
(a) 6%
(b) 10%
(c) 12%
(d) 14%
Answer: B
Explanation

- The current yield of a bond is calculated by dividing the annual coupon payment by the bond's current market value.

$$\text{Current Yield on Bond} = \frac{Coupon\ Payment}{Market\ Price\ of\ Bond} = \frac{Coupon\ Rate \times Par\ Value}{Market\ Price\ of\ Bond}$$

- In this case, the annual coupon payment is ₹100 * 8% = ₹8.
- Therefore, the current yield of the bond is ₹8 / ₹80 = 0.1 or 10%.

Hence option B is correct.
Pg No. 448, Chapter No. 22, Module C

Q6. Consider the following information about a company as on 31.03.23 and calculate Net Profit After Tax for the company for the accounting period:
- **Gross Profit : ₹4,00,000**
- **Interest Expense : ₹20,000**
- **Dividend Income : ₹1,00,000**
- **Administration Expense : ₹80,000**
- **Depreciation Expense : ₹1,00,000**
- **Taxes Paid : ₹75,000**

(a) ₹3,00,000
(b) ₹1,25,000
(c) ₹2,25,000
(d) None of the above
Answer: C
Explanation
To calculate Net Profit After Tax (NPAT), we start with Gross Profit and subtract all expenses and taxes.
Net Profit After Tax = Gross Profit + Other Incomes – Other Expenses – Taxed Paid
= Gross Profit - Interest Expense - Administration Expense - Depreciation Expense - Taxes Paid + Dividend Income
= ₹4,00,000 - ₹20,000 - ₹80,000 - ₹1,00,000 - ₹75,000 + ₹1,00,000
= ₹2,25,000

Therefore, the Net Profit After Tax for the company for the accounting period is ₹2,25,000.
Hence option C is correct.
Pg No. 240 - 243, Chapter No. 13, Module B

Q7. A bond has a Macaulay duration of 7 years and a YTM of 10%. Calculate the modified duration of the bond.

(a) 5.86 years
(b) 6.36 years
(c) 6.86 years
(d) None of the above

Answer: B
Explanation
Modified Duration
The formula for calculating modified duration is:

Modified Duration = Macaulay Duration / (1 + YTM)

where:
YTM is the yield to maturity (the total return)

- Thus, modified duration of bond = 7 years / (1 + 0.1) = 7/1.1 = **6.36 years**

Pg No. 452, Chapter No. 22, Module C

Q8. Under which Section of the Income Tax Act, the deductions in respect of interest on deposits in case of senior citizens are allowed?

(a) 80 TTA
(b) 80 C
(c) 80 TTB
(d) 80 RRB

Answer: B
Explanation

- The deduction in respect of interest on deposits in case of senior citizens is allowed under Section 80 TTB of the Income Tax Act.

Hence option C is the correct answer.
Pg No. 541, Chapter No. 29, Module D

Q9. Which among the following is not a type of business entity?

(a) Sole Banker
(b) Partnership firm Private Limited Company.
(c) Limited liability partnership
(d) Private Limited Company

Answer: A
Explanation

- Sole Banker is not a type of business entity.

Hence option A is the correct answer
Pg No. 594, Chapter No. 42, Module D

Q10. Which among the following are not considered by banks for sanctioning term loans?

(a) Purchase of land, building and machinery

(b) Current assets

(c) Office equipment

(d) All of the above

Answer: D

Explanation

- Banks provide term loans normally for acquiring the fixed assets like land, building, plant and machinery, infrastructure etc. (personal loans, consumption loans, educational loans etc. being exceptions) while the working capital loans are provided for sustaining the working capital, i.e. current assets level.
- In exceptional cases, banks provide term loans for current assets also. This is called Working Capital Term Loans (WCTL).

Pg No. 492, Chapter No. 25, Module C

Q11. When the drawer of a bill is unable to make payment on the due date, the bill is said to be ____.

(a) discounted

(b) dishonoured

(c) noted

(d) retired

Answer: B

Explanation

- When the drawee of the bill is unable or refuses to make payment on the due date, the bill is said to be dishonoured.

Hence option B is correct.

Page No. 179, Chapter No. 8, Module A

Q12. What does a highly geared firm indicate?

(a) High level of activity with low level of capital employed.

(b) Higher debt capital as compared to equity capital.

(c) Profit margin being higher than industry average.

(d) Turnover higher than competitor.

Answer: B

Explanation

- A highly geared firm indicates a higher debt capital as compared to equity capital.
- In the capital structure of a firm, if the ratio of debt capital is very high, it is called highly leveraged or highly geared firm.
- If the ratio of debt capital is low; it is called a low leveraged or low geared firm.

Hence option B is correct.

Page No. 473, Chapter No. 24, Module C

Q13. A sells goods to B on credit for ₹10,000 and draws a bill on B. B accepted the bill. In this context, which of the following statements is not correct?

(a) A is the payee.

(b) A is the drawer.

(c) B is the drawee.

(d) It is an unconditional promise by B to pay A.

Answer: D

Explanation

- A bill of exchange is a negotiable instrument that contains an unconditional order in writing from one person (the drawer) to another person (the drawee) to pay a certain sum of money to a specified person (the payee) or to the bearer of the instrument.
- In this case, A sells goods to B on credit and draws a bill on B. This means that **A is the drawer**, **B is the drawee**, and **A is also the payee**. The **bill is an unconditional order (not a promise)** by A to B to pay A certain sum of money on a specified date or on demand.
- However, the statement **"It is an unconditional promise by B to pay A" is not correct**. The bill is a promise by B to pay A, but it is not unconditional. B can refuse to pay the bill if he has a valid defense, such as if the goods that A sold to him were defective.

Page No. 176 - 177, Chapter No. 8, Module A

Q14. Consider the two lists given below and match the correct items:

LIST I	LIST II
1. Value accounting	**A. Considers the current market value of assets & liabilities.**
2. Inflation accounting	**B. Corrects the distortions in reported results due to price change.**
3. Fair value accounting	**C. Includes cost accounting & budgeting.**
4. Management accounting	**D. Capture individual contribution of a product.**

(a) 1 – B; 2 – C; 3 – D; 4 – A

(b) 1 – D; 2 – B; 3 – A; 4 – C

(c) 1 – D; 2 – A; 3 – B; 4 – C

(d) 1 – A; 2 – D; 3 – C; 4 – B

Answer: B

Explanation:

Value accounting

- A product is a result of various individual contributions.
- Value accounting is used to evaluate and capture these individual contributions, whether this contribution is tangible or intangible and is normally mentioned as a %age for each contributor.

Inflation accounting

- It is a method of accounting that adjusts financial statements for the effects of inflation.
- This is done by restating assets and liabilities at their current cost or fair value.
- Inflation accounting is useful for companies that operate in high-inflation environments, as it provides a more accurate picture of the company's financial performance.

Fair value accounting

- It is a method of accounting that measures assets and liabilities at their current market value.
- This is in contrast to traditional accounting, which measures assets and liabilities at their historical cost.

Management accounting

- Management accounting is a branch of accounting that focuses on providing information to internal users, such as managers and executives.
- Management accounting information is used for a variety of purposes, such as planning and budgeting, decision-making, and performance measurement.

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

Q15. While preparing a trial balance, asset accounts show ______, liabilities account show ______, income accounts show _______, expense accounts show ______.

(a) debit ; credit ; debit ; credit
(b) credit ; credit ; debit ; debit
(c) credit ; debit ; credit ; debit
(d) debit ; credit ; credit ; debit

Answer: D

Explanation

While preparing a trial balance,

- Asset accounts show debits.
- Liabilities accounts show credits.
- Income accounts show credits.
- Expense accounts show debits.

Pg No. 102, Chapter No. 3, Module A

Q16. Which of the following statements is correct about Marginal Costing?

(a) Only semi variable cost is considered as marginal cost.
(b) Marginal contribution of a product or department is considered for calculating its profitability.
(c) Fixed costs are taken into account for calculating the product cost.
(d) Marginal costing involves only cost recording.

Answer: B

Explanation

Option A is an incorrect statement.

- Variable and semi variable costs are considered to be the marginal cost.

Option B is a correct statement.

- Marginal contribution of a product or department is taken into account for calculating its profitability.

Option C is an incorrect statement.

- Fixed costs are not taken into account for calculating the product cost and are charged to revenue of the period in which they are incurred.

Option D is an incorrect statement.

- Marginal costing involves both cost recording and cost reporting.

Hence option B is correct.

Pg No. 600, Chapter No. 34, Module D

Q17. Which among the following cannot be considered as Current Assets?

(a) Bills receivable
(b) Cash & cash equivalents
(c) Investment property
(d) Inventory

Answer: C

Explanation

- Current assets are assets that can be converted into cash within one year or one operating cycle. Investments are typically long-term assets that are held for more than one year.
- The other options are all examples of current assets:
- Bills receivable are short-term promissory notes that are due to be paid within one year.
- Cash & cash equivalents are assets that can be easily converted into cash, such as cash in the bank, checks, and money market funds.
- Inventory is merchandise that is held for sale in the normal course of business.

Hence option C is correct.

Pg No. 294 - 296, Chapter No. 15, Module B

Q18. A commercial paper cannot be issued by

I. **Companies including NBFCs & All India Financial Institutions subject to conditions.**
II. **Any other body corporate with a minimum net worth of 100 crore.**
III. **Co-operative societies with a minimum net worth of 25 crore.**
IV. **Limited Liability Partnerships with a minimum net worth of 50 crore.**

(a) I and II
(b) II and III
(c) III and IV
(d) I and IV

Answer: C

Explanation

<u>**Eligibility for Issue of CP**</u>

- Companies, including NBFCs and AIFIs are permitted to raise short term resources through CP.
- Any other body corporate with a minimum net worth of 100 crore or higher.
- Any other entity specifically permitted by the Reserve Bank.
- Co-operative societies/unions and limited liability partnerships with a minimum net worth of 100 crore or higher. **Hence, statements III and IV are incorrect.**

Hence option C is correct.

Pg No. 516, Chapter No. 27, Module C

Q19. Which of the following statements are correct regarding lease agreements?

I. **It is a legal & binding contract.**

II. It guarantees the lessee use of property and guarantees the lessor regular payments for a specified period.
III. It can be for residential or commercial purposes.
IV. Only companies are allowed to enter into lease contracts.

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

Answer: C

Explanation

<u>Statement I is correct.</u>

- Lease agreements are legal and binding contracts containing the terms on which one party agrees to allow use of its property by another party.

<u>Statement II is correct.</u>

- Lease agreements guarantee the lessee use of property and the lessor regular payments for a specified period, in exchange for allowing use of its property.

<u>Statement III is correct.</u>

- Lease agreements can be for residential or commercial purposes.

Statement IV is incorrect.

- Both individuals and businesses can enter into lease contracts.

Thus, the correct answer is option C.
Pg No. 500 - 501, Chapter No. 26, Module C

Q20. Applying Absorptions Costing method, calculate the number of units sold if the variable cost per unit is ₹200 and the cost including fixed overheads is ₹280 per unit. Assume budgeted production is equal to actual production & sales. The fixed overheads are ₹40 lakhs. Also determine the sales price/unit if the margin of safety has to be 20%.

(a) 14,286 ; 300
(b) 50,000 ; 300
(c) 50,000 ; 350
(d) None of the above

Answer: C

Explanation

Let the number of units sold = n
Fixed overheads = ₹40 lakhs
Cost per unit including fixed overheads = ₹280 per unit = Variable cost per unit + Fixed overheads per unit

⇨ ₹280 - Variable cost per unit = Fixed cost per unit
⇨ ₹280 - ₹200 = ₹80 per unit = Fixed cost per unit

This means that if the units are priced at ₹280/unit, then entire cost of fixed overheads is recovered.

⇨ Number of units sold (n) = Fixed overheads – Fixed cost per unit
⇨ ₹40,00,000 / ₹80 = **50,000 units**

Now, if the margin of safety is 20% or 0.2.

⇨ Margin of safety = (Estimated Sales – Breakeven sales)/Estimated sales

But, estimated sales = 50,000 x Sales price & Breakeven sales = 50,000 x ₹280/unit

⇨ (Estimated Sales - 1,40,00,000)/ Estimated sales = 0.2

⇨ Estimated Sales = 1,75,00,000

Sales price per unit = ₹1,75,00,000 / 50,000 = **₹350 / unit**

Thus, The correct answer is option C.

Pg No. 604 - 605, Chapter No. 34, Module D

Q21. "Fixed assets are not recorded in the account books at their current market value. Transactions are not recorded at their future value. Unrealized gains are ignored."

This is done based on which of the following accounting concepts or principles?

(a) Money measurement concept

(b) Revenue realization concept

(c) Business entity concept

(d) Cost concept

Answer: D

Explanation

Withdrawal of Rs. 2000 notes

- The accounting concept that is described in the statement is the cost concept.
- The cost concept states that assets should be recorded at their historical cost, which is the amount that was paid to acquire them. This concept is based on the idea that historical cost is the most objective and verifiable measure of value.

Hence option D is correct.

Pg No. 81, Chapter No. 2, Module A

Q22. Which budget is prepared according to the capacity or efficiency of the unit to which they are related ?

(a) Production budget

(b) Basic budget

(c) Flexible budget

(d) Overhead budget

Answer: C

Explanation

- A flexible budget is designed to adjust based on the actual level of activity or output. It is flexible because it can be adapted to different levels of production, sales, or other activities. This type of budget allows for more accurate cost and revenue projections under varying conditions, making it useful in situations where capacity or efficiency can change.

Hence option C is correct.

Pg No. 611, Chapter No. 35, Module D

Q23. Which among the following statements regarding inventory valuation is/are correct?

1. **There is no need for any specific inventory valuation method if the cost of materials remains the same throughout the year.**
2. **Ind AS 2 permits the use of only LIFO or Weighted Average Cost Method.**
3. **Under Weighted Average Cost, the Average Weighted Cost of acquisition is calculated and is applied to closing stock.**

4. **Under LIFO, it is assumed that the material which was received the last, is issued first.**
   (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: C

Explanation

<u>Statement I is correct.</u>

- If the cost of materials remains the same throughout the year, a **specific inventory valuation method is not necessary to determine the cost of goods** sold and the value of closing stock. Methods like FIFO (First-In, First-Out), LIFO (Last-In, First-Out), or Weighted Average Cost are commonly used for inventory valuation.

<u>Statement II is incorrect.</u>

- Ind AS 2, which is the Indian Accounting Standard related to inventory, **does not permit the use of LIFO** (Last-In, First-Out). It allows the use of various methods, including **FIFO**, **Weighted Average Cost**, and specific identification, but not LIFO.

<u>Statement III is correct.</u>

- Under the Weighted Average Cost method, the average cost of materials acquired during the accounting period is calculated and then applied to both the cost of goods sold and the value of the closing stock.

<u>Statement IV is correct.</u>

- Under the LIFO (Last-In, First-Out) method, it is assumed that the most recently acquired inventory is the first to be used or sold.
- This is in contrast to the FIFO method, where the earliest acquired inventory is assumed to be used or sold first.

Thus, the correct answer is option C.

Pg No. 239 - 240, Chapter No. 13, Module B

Q24. Which among the following is not a type of personal account?

(a) Interest Paid account
(b) Capital account
(c) Santosh's account
(d) Rent outstanding account

Answer: D

Explanation

- Interest paid account is a nominal account representing expenditures done as interest payments.
- Rest all the accounts are personal accounts.

Hence option A is correct.

Pg No. 101, Chapter No. 3, Module A

Q25. What is the journal entry for the following scenario:

"A company needs to record interest due to be received but not actually received by the company"?

(a) 'Interest a/c' debit & credit 'Bank a/c'

(b) 'Interest a/c' debit & credit 'Interest Due but nor Received a/c'.
(c) 'Bank a/c' debit & credit 'Interest a/c'
(d) 'Interest Due but not Received a/c' debit & credit 'Interest a/c'.

Answer: D

Explanation

- 'Interest a/c' is a nominal account representing the income received as interest. This account is credited when the interest income is due.
- 'Interest Due but not Received a/c' is a type of asset that represents the due interest income which is not actually received. This account is debited whenever there is an outstanding interest income to be received.

Hence option D is correct.

Pg No. 103 - 104, Chapter No. 3, Module A

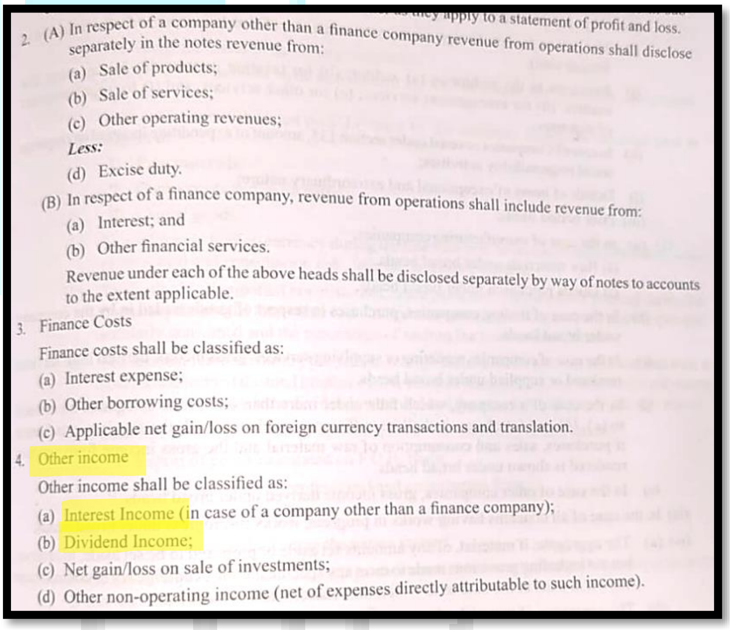
Q26. Under which head would 'Interest income' & 'Dividend income' for a company other than finance company, be classified in Profit & Loss statement?

(a) Other income
(b) Other non-operating income
(c) Other operating revenue
(d) Sale of service

Answer: A

Explanation

- Interest income and dividend income are generally classified as other income in the profit and loss statement of a company other than a finance company. Other income is a category that includes all income that does not arise from the company's core operations. This could include income from investments, interest income, rental income, and other miscellaneous income.
- The other options are not correct:
  - Other operating revenue is revenue that is generated from the company's core operations.
  - Other non-operating income is income that is generated from activities that are not related to the company's core operations.
  - Sale of service is a specific type of revenue that is generated from the sale of services.



... as they apply to a statement of profit and loss.

2. (A) In respect of a company other than a finance company revenue from operations shall disclose separately in the notes revenue from:
(a) Sale of products;
(b) Sale of services;
(c) Other operating revenues;
Less:
(d) Excise duty.
(B) In respect of a finance company, revenue from operations shall include revenue from:
(a) Interest; and
(b) Other financial services.
Revenue under each of the above heads shall be disclosed separately by way of notes to accounts to the extent applicable.

3. Finance Costs
Finance costs shall be classified as:
(a) Interest expense;
(b) Other borrowing costs;
(c) Applicable net gain/loss on foreign currency transactions and translation.

4. Other income
Other income shall be classified as:
(a) Interest Income (in case of a company other than a finance company);
(b) Dividend Income;
(c) Net gain/loss on sale of investments;
(d) Other non-operating income (net of expenses directly attributable to such income).

Hence option A is correct.

Pg No. 299, Chapter No. 15, Module B

Q27. A has drawn a bill on B for ₹5000 & thereafter endorses the bill to C. What is the journal entry made in the books of A on endorsement?

(a) 'C's a/c' debit & credit 'Bills Receivable a/c'
(b) 'C's a/c' debit & credit 'Bills Payable a/c'.

(c) 'Bills Payable a/c' debit & credit 'C's a/c'
(d) 'Bills Receivable a/c' debit & credit 'C's a/c'.

Answer: A

Explanation

- The journal entry in the books of A on endorsement of the bill to C is:

  C's A/c Dr.
  To Bills Receivable A/c

- This is because A is transferring the ownership of the bill to C. Therefore, A's Bills Receivable account is credited and C's account is debited.

Hence option A is correct.

Pg No. 181, Chapter No. 8, Module A

Q28. The costing system where all direct or indirect costs related to operations, processes or products are allocated to the products is known as ___________.

(a) Standard costing
(b) Absorption costing
(c) Direct costing
(d) Marginal costing

Answer: B

Explanation

- The costing system where all direct or indirect costs related to operations, processes, or products are allocated to the products is known as "**Absorption costing**."
- Absorption costing is a method of costing that includes **all manufacturing costs, both fixed and variable, in the cost of a product.** This means that both the direct costs of materials and labor, as well as the indirect costs of factory overhead, are allocated to products.

Hence option B is correct.

Pg No. 181, Chapter No. 8, Module A

Q29. The rules and criteria based on which events are recorded in accounts are called ___________.

(a) Accounting and auditing standards
(b) Accounting standards
(c) ICAI standards
(d) None of the above

Answer: B

Explanation

- The rules and criteria based on which events are recorded in accounts are called **accounting standards**.
- Accounting standards are a set of rules and guidelines that establish how financial transactions should be recorded and reported.
- These standards are developed by accounting organizations, such as the Financial Accounting Standards Board (FASB) in the United States and the International Accounting Standards Board (IASB) internationally.

Hence option B is correct.

Pg No. 10 - 11, Chapter No. 1, Module A

Q30. What is the amount of simple interest if the principal amount invested is ₹1,60,000 at the rate of 10% p.a. for the period of 30 months?

(a) ₹16,000
(b) ₹35,000
(c) ₹40,000
(d) None of the above

Answer: C

Explanation

- To calculate simple interest, you can use the formula:

  Simple Interest (SI) = (Principal Amount × Rate × Time) / 100

- Here, the Principal Amount = ₹1,60,000 ; Rate = 10% ; Time = 30 months or 2.5 years.
- Putting these values in the formula, SI = (1,60,000 x 0.10 x 2.5) = ₹40,000

Hence option C is correct.

Pg No. 422 - 423, Chapter No. 21, Module C

Q31. RBI has asked to make a provision of ______ against the aggregate net debit balance in the inter-branch account in respect of entries outstanding for more than ________ months.

(a) 100% ; 6
(b) 50% ; 4
(c) 25% ; 3
(d) 75% ; 5

Answer: C

Explanation

- RBI (Reserve Bank of India) has asked to make a provision of "**100%**" against the aggregate net debit balance in the inter-branch account in respect of entries outstanding for more than "**6**" months.

Hence option A is correct.

Pg No. 210, Chapter No. 10, Module A

Q32. Interest accrued but not due on borrowings is classified under which head in the Balance Sheet?

(a) Other Current Assets
(b) Other Current Liabilities
(c) Non-Current Liabilities
(d) Non-Current Assets

Answer: B

Explanation

- Interest accrued but not due on borrowings is typically classified under "Other Current Liabilities" in the Balance Sheet.

Hence option A is correct.

Pg No. 292, Chapter No. 15, Module B

Q33. Consider the information given below:

– **Balance in cash book : ₹9000**

– **Dividend collected but not recorded in cashbook : ₹1000**
– **Rent paid but not recorded in cashbook : ₹3000**
– **Cheque issued but not presented to bank for payment : ₹2000**

What is the correct set of calculations to find out the corrected cashbook balance?

(a) 9000 + 1000 – 3000 – 2000
(b) 9000 – 1000 + 3000 + 2000
(c) 9000 + 1000 – 3000 + 2000
(d) 9000 – 1000 + 3000 + 2000

Answer: C

Explanation

To find the corrected cashbook balance, you need to adjust the initial balance in the cash book by taking into account the additional transactions. Here are the correct calculations:

- Starting balance in cash book: ₹9,000
- Add: Dividend collected but not recorded in cash book: ₹1,000
- Subtract: Rent paid but not recorded in cash book: ₹3,000
- Add: Cheque issued but not presented to the bank for payment: ₹2,000

Hence option C is correct.

Pg No. 132 - 135, Chapter No. 4, Module A

Q34. Which among the following is not a step in the Net Present Value (NPV) Method for investment appraisal?

(a) Setting up an Internal Rate of Return.
(b) Discounting all the future cash flows.
(c) Estimating all future net cash flows.
(d) Subtracting the Present value of the future net cash flows from the initial cost of investment.

Answer: A

Explanation

<u>Net Present Value Method for Investment Appraisal</u>

- The Net Present Value (NPV) Method for investment appraisal is a method that calculates the present value of all future cash flows from an investment and subtracts the initial cost of the investment. The NPV method is one of the most widely used methods for evaluating investment opportunities, as it takes into account the time value of money.
- The steps in the NPV method are as follows:
  - Estimate all future net cash flows from the investment.
  - Discount all the future cash flows to the present value using a discount rate.
  - Subtract the present value of the future cash flows from the initial cost of the investment.

Hence option A is correct.

Pg No. 486 - 487, Chapter No. 25, Module C

Q35. Which among the following are the functions of a financial management executive?

I. **To ensure the optimum utilization of funds.**
II. **To take sound Capital Investment decisions.**
III. **To decide on optimum capital structure.**

IV. To ensure high employee attendance.
V. To ensure timely filing of regulatory returns.
(a) I, II, III and IV
(b) I, II, III and V
(c) II, III, IV and V
(d) I, III, IV and V

Answer: B

Explanation

The functions of a financial management executive include:

- To ensure the optimum utilization of funds. This means that the financial manager must ensure that the company's funds are used in a way that maximizes profits and minimizes costs.
- To take sound capital investment decisions. This involves identifying and evaluating investment opportunities, and making recommendations to the board of directors on which investments to make.
- To decide on optimum capital structure. This involves determining the mix of debt and equity that the company should use to finance its operations.
- To ensure timely filing of regulatory returns. This is important to avoid fines and penalties from government agencies.

The other option, to ensure high employee attendance, is not a function of a financial management executive.

Hence option B is correct.

Pg No. 396, Chapter No. 19, Module C

Q36. The method of Activity Based Costing (ABC) is based on
(a) Process
(b) Cost Unit
(c) Cost Driving Activity
(d) Cost Center

Answer: C

Explanation

The method of Activity Based Costing (ABC) is based on Cost Driving Activity.

Activity-Based Costing (ABC) is a costing method that assigns overhead costs to activities, and then assigns those activity costs to products and services based on their consumption of those activities. ABC is based on the idea that overhead costs are caused by activities, and that products and services consume activities in different proportions.

Hence option C is correct.

Pg No. 561, Chapter No. 31, Module D

Q37. An asset shall be classified as 'Current Asset' when it satisfies which of the following criteria?
I. It is held primarily for the purpose of trading.
II. It is expected to be realized within 12 months after the reporting date.
III. It is expected to be realized in the company's normal operating cycle.
IV. It is cash or cash equivalent unless it is restricted from being used to settle a liability for at least 12 months after the reporting date.

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

Answer: D

Explanation

An asset shall be classified as Current Asset when it satisfies any of the following criteria:

- It is **held primarily for the purpose of trading**. This means that the assets are intended to be sold in the near future.
- It is **expected to be realized within 12 months** after the reporting date. This means that the asset is expected to be converted into cash or used up within one year.
- It is **expected to be realized in the company's normal operating cycle**. The operating cycle is the time it takes for a company to convert its cash into inventory, sell the inventory to customers, and collect the cash from the customers. If the asset is expected to be converted into cash or used up within the operating cycle, then it is classified as a current asset.
- It is **cash or cash equivalent** unless it is re**stricted from being used to settle a liability for at least 12 months** after the reporting date. Cash equivalents are short-term investments that are highly liquid and can be easily converted into cash.

Hence option D is correct.
Pg No. 289, Chapter No. 15, Module B

Q38. Which among the following methods are not used to calculate the cost of material in process costing?

(a) Weighted Average Costs
(b) First In First Out
(c) Standard Costs
(d) Last In First Out

Answer: D

Explanation

- The method not typically used to calculate the cost of materials in process costing is "Last In First Out" (LIFO).
- In process costing, the common methods for calculating the cost of materials are weighted average costs, first-in-first-out (FIFO), and standard costs.
- LIFO is a method more commonly associated with periodic inventory valuation rather than process costing.

Hence option D is correct.
Pg No. 578, Chapter No. 32, Module D

Q39. Which among the following statements is/are correct with regards to Ind AS 7?

I. Under Direct Method, major classes of gross cash receipts and payments are disclosed.
II. Under Indirect Method, profit or loss is adjusted for the effects of transactions of non-cash nature.
III. Cash flows exclude movements between items that constitute cash and cash equivalents.
IV. A single transaction may include cash flows that are classified differently.

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

Answer: D

Explanation

<u>The following statements about Ind AS 7 are correct:</u>

- Under Direct Method, major classes of gross cash receipts and payments are disclosed. This means that the company discloses the major categories of cash inflows and outflows, such as cash from operating activities, cash from investing activities, and cash from financing activities.
- Under Indirect Method, profit or loss is adjusted for the effects of transactions of non-cash nature. This means that the company adjusts the profit or loss for non-cash transactions, such as depreciation and amortization, to arrive at the cash flows from operating activities.
- Cash flows exclude movements between items that constitute cash and cash equivalents. This means that the company does not include movements between cash and cash equivalents in the cash flow statement.
- A single transaction may include cash flows that are classified differently. This is because a single transaction may involve both cash flows from operating activities and cash flows from investing or financing activities. For example, if a company sells a piece of equipment, the cash flow from the sale of the equipment would be classified as a cash flow from investing activities, but the cash flow from the gain on the sale of the equipment would be classified as a cash flow from operating activities.

Hence option D is correct.

Pg No. 316, Chapter No. 16, Module B

Q40. An operating cycle is the time between the acquisition of assets and _________.

(a) Their realization as cash or cash equivalents.
(b) Their sale.
(c) Their conversion into final goods.
(d) Their conversion into Work-In-Progress.

Answer: A

Explanation

- The operating cycle is the time between the acquisition of assets and their realization as cash or cash equivalents. It is a measure of how quickly a company can convert its assets into cash.

The other options are not correct:

- Their sale: The sale of an asset is not the same as its realization. For example, a company may sell an asset on credit, in which case it will not receive the cash for the asset until a later date.
- Their conversion into final goods: The conversion of an asset into a final good is only one step in the operating cycle. The company must also sell the final good and collect the cash from the customer.
- Their conversion into Work-In-Progress (WIP): The conversion of an asset into WIP is also only one step in the operating cycle. The company must also complete the WIP and sell it as a final good to realize the cash from the asset.

Hence option A is correct.

Pg No. 289, Chapter No. 15, Module B

Q41. Which among the following derivates are traded Over the Counter (OTC)?

I. Swaps

II. Futures

III. Forwards

IV. Options

(a) I and III

(b) II and IV

(c) II and III

(d) I and IV

Answer: A

Explanation

Swaps and forwards are traded over the counter (OTC), while futures and options are traded on exchanges.

- **Swaps** are financial contracts in which two parties agree to exchange cash flows based on an underlying asset, such as interest rates, currencies, or commodities. Swaps are typically traded over the counter (OTC), meaning that they are not traded on an exchange.
- **Futures** are financial contracts that obligate the buyer to purchase an asset or the seller to sell an asset at a predetermined price on a future date. Futures are traded on exchanges.
- **Forwards** are like futures contracts, but they are not traded on exchanges. Forwards are also typically customized to meet the needs of the two parties involved.
- **Options** are financial contracts that give the buyer the right, but not the obligation, to buy or sell an asset at a predetermined price on or before a future date. Options are traded on exchanges and OTC.

Hence option A is correct.

Pg No. 526 - 529, Chapter No. 28, Module C

Q42. To bring uniformity in approach followed by the banks, as also to align the expectations on Internal Audit function with the best practices, RBI has issued instructions to the banks. Which of the following statements are correct about these instructions?

I. The 'Head of Internal Audit (HIA)' shall be a senior executive of the bank.

II. The Board of Directors should prescribe a minimum period of service for staff in the Internal Audit function.

III. Head of Internal Audit shall be appointed for a reasonably long period, preferably for a minimum of three years.

IV. The Audit Committee of the Board must meet the Head of Internal Audit twice per year.

(a) I, II and III

(b) II, III and IV

(c) I, III and IV

(d) I, II, III and IV

Answer: A

Explanation

To bring uniformity in approach followed by the banks, as also to align the expectations on Internal Audit function with the best practices, RBI has issued instructions to the banks, which are as under:

- **Authority, Stature and Independence** - Head of Internal Audit (HIA) shall be **a senior executive** of the bank who shall have the ability to exercise independent judgement. The HIA as well as the internal audit function shall have the authority to communicate with any staff member and have access to all records or files. **Hence, statement I is correct.**
- **Competence** - Requisite professional competence, knowledge and experience of each internal auditor may include banking operations, accounting, information technology, data analytics and forensic investigation, among others. **Hence, statement II is correct.**
- **Staff Rotation** - Except for the entities where the internal audit function is managed by career internal auditors, the **Board should prescribe a minimum period of service for staff** in the Internal Audit function.
- **Tenor for appointment of Head of Internal Audit** - Except for the entities where the internal audit function is a specialised function and managed by career internal auditors, the HIA shall be appointed for a **reasonably long period**, preferably for a **minimum of three years**. **Hence, statement III is correct.**
- **Reporting Line** - The HIA shall directly report to either the Audit Committee of the Board (ACB) / MD & CEO or Whole Time Director (WTD). **The ACB shall meet the HIA at least once in a quarter (four times a year). Hence, statement IV is correct.**

Hence option A is correct.

Pg No. 218 - 219, Chapter No. 11, Module A

Q43. Which of the following statements is not correct with regards to AS 7?

(a) The recognition of revenue and expenses by reference to the stage of completion of a contract is often referred to as the percentage of completion method.

(b) Construction contracts do not include contracts for destruction or restoration of assets.

(c) An enterprise should disclose the amount of contract revenue recognised in the period.

(d) None of the above

Answer: B

Explanation

- Option B is not correct because AS 7 defines construction contracts to include contracts for the rendering of services which are directly related to the construction of the asset, for example, those for the services of project managers and architects.
- Therefore, construction contracts can include contracts for destruction or restoration of assets, as long as these services are directly related to the construction of the asset.

Hence option B is correct.

Pg No. 16 - 17, Chapter No. 1, Module A

Q44. Which of the following statements is not correct with regards to Partnership firms?

(a) There can be a maximum of 10 members in a partnership firm.

(b) Partnership is the relation between 2 or more persons.

(c) Partnerships are not suitable for making large investments.

(d) The liability of each partner is unlimited.

Answer: A

Explanation

<u>Option A is not correct</u>.

- The Central Government has prescribed **maximum number of partners in a firm to be 50** vide Rule 10 of the Companies (Miscellaneous) Rules,2014. Thus, in effect, a partnership firm cannot have more than 50 members.
- The remaining statements are correct.

Hence option A is correct.

Pg No. 393, Chapter No. 19, Module C

Q45. Which of the following statements is not correct with regard to AS 16 on Borrowing costs?

(a) Income on the temporary investment must be deducted from borrowing costs incurred.
(b) Capitalisation of borrowing costs is not halted if development is suspended.
(c) A qualifying asset is an asset that necessarily takes a substantial period to get ready for its intended use or sale.
(d) Borrowing costs attributable to acquisition of any qualifying asset should be capitalised.

Answer: B

Explanation

- Option B is incorrect because AS 16 states that capitalization of borrowing costs should be halted if development of the qualifying asset is suspended. This is because capitalization of borrowing costs is only appropriate for assets that are under development. If development of the asset is suspended, then the asset is not yet under development and therefore, capitalization of borrowing costs should be halted.
- The other statements are all correct:
  - Income on the temporary investment must be deducted from borrowing costs incurred. This is correct because AS 16 states that income on the temporary investment of borrowed funds should be deducted from borrowing costs incurred. This is because the income from the temporary investment reduces the overall cost of borrowing.
  - A qualifying asset is an asset that necessarily takes a substantial period to get ready for its intended use or sale. This is correct because AS 16 defines a qualifying asset as an asset that necessarily takes a substantial period to get ready for its intended use or sale. Examples of qualifying assets include land under development, construction in progress, and inventories of manufactured goods.
  - Borrowing costs attributable to acquisition of any qualifying asset should be capitalised. This is correct because AS 16 states that borrowing costs incurred in connection with the acquisition of a qualifying asset should be capitalized.

Hence option B is correct.

Pg No. 23 - 24, Chapter No. 1, Module A

Q46. A Bill of Exchange was drawn on 13 May 2023 for a period of 1 month. What is the due date of the bill (assume all days are working)?

(a) 16 June 2023
(b) 17 June 2023

(c) 13 June 2023
(d) 15 June 2023

Answer: A

Explanation

- The term of the bill is 1 month, and 3 days of grace are also added to calculate the final maturity date.

Hence option B is correct.

Pg No. 179, Chapter No. 8, Module A

Q47. Which among the following statements are correct about the asset classification norms for banks?

I. Securities 'held for trading' are to be sold within 90 days.
II. The securities 'held to maturity' need not be marked to market.
III. Securities 'held to maturity' should not exceed 20% of the total investments.
IV. Mutual Units are classified as non-SLR investments.

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

Answer: B

Explanation

- As per new RBI guidelines, all investments made by banks are divided in 3 categories, viz.
  - **Held to maturity**: should not exceed 25 per cent of the total investments. **(Hence, statement III is incorrect.)**
  - **Available for sale:**
  - **Held for Trading**: to be sold within 90 days. **Hence, statement I is correct.**
- The securities "held to maturity" need not be marked to market. The remaining two categories are marked to market. **Hence, statement II is correct**
- Apart from Government securities and some other securities approved by RBI, rest all the investments in securities by banks are 'Non-SLR securities' which includes mutual funds, shares, bonds etc. **Hence, statement IV is correct.**

Hence option B is correct.

Pg No. 355, Chapter No. 17, Module B

Q48. The sources for financing working capital do not include

(a) Certificate deposits
(b) Forfaiting
(c) Accruals
(d) Trade Credit

Answer: A

Explanation

The sources for financing working capital include

1. Firm's own working capital funds
2. Accruals
3. Trade Credit
4. Working Capital Advance by Commercial Banks/ Financial Institutions

5. Public Deposits
6. Inter-Corporate Deposits
7. Rights Debentures for Working Capital
8. Commercial Paper
9. Factoring
10. Forfaiting

Hence option A is correct.

Pg No. 513 - 514, Chapter No. 27, Module C

Q49. The income from performing assets is recognized on _____ basis and interest income from non-performing assets is recognized on _____ basis.

(a) Cash ; accrual
(b) Cash ; cash
(c) Accrual ; cash
(d) Accrual ; accrual

Answer: C

Explanation

The income from performing assets is recognized on accrual basis and interest income from non-performing assets is recognized on cash basis.

Hence option C is correct.

Pg No. 354, Chapter No. 17, Module B

Q50. Which among the following is a non-fund based facility extended by banks?

(a) Bills discounting
(b) Term loans
(c) Overdraft
(d) Bank guarantees

Answer: D

Explanation

Bank guarantees are a non-fund based facility extended by banks. Bank guarantees are typically used by businesses to secure contracts or to guarantee payments to third parties. For example, a contractor may require a bank guarantee from a subcontractor before starting work on a project.

- **Fund-based facilities** are those in which the bank provides a loan to the customer. Examples of fund-based facilities:
    - Bill discounting
    - Term loans
    - Overdraft
    - Cash credit
    - Working capital loans
    - Project loans
- **Non-fund based facilities** are those in which the bank provides a guarantee to the customer on behalf of a third party. Examples of non-fund-based facilities:
    - Bank guarantees
    - Letters of credit

- Standby letters of credit

Hence option D is correct.
Pg No. 515, Chapter No. 27, Module C

Q51. A credit purchase of ₹590 was wrongly recorded in the books of accounts as ₹950. What is the type of error done?
(a) Compensating error
(b) Error of commission
(c) Error of omission
(d) Error of principle

Answer: B
Explanation
An error of commission is an error that is made when recording a transaction in the accounting records. This type of error can be caused by a variety of factors, such as a clerical error, a misunderstanding of the accounting rules, or even fraud.

<u>**The other types of errors are:**</u>

- **Compensating error:** This type of error occurs when two errors are made that offset each other. For example, if a credit purchase is recorded as a debit purchase and a debit purchase is recorded as a credit purchase, then these two errors would offset each other.
- **Error of omission**: This type of error occurs when a transaction is not recorded at all. For example, if a sale is not recorded in the sales journal, then this would be an error of omission.
- **Error of principle**: This type of error occurs when a transaction is recorded incorrectly because of a misunderstanding of the accounting rules. For example, if a depreciable asset is recorded as an expense instead of an asset, then this would be an error of principle.

Hence option B is correct.
Pg No. 146, Chapter No. 5, Module A

Q52. TCS under GST is collected by
(a) E-Commerce operators
(b) Central and state governments
(c) Dealers
(d) Customers

Answer: A
Explanation
Tax Collected at Source (TCS) under GST means the tax collected by an e-commerce operator from the consideration received by it on behalf of the supplier of goods, or services who makes supplies through the operator's online platform.
Hence option A is correct.
Pg No. 550, Chapter No. 30, Module D

Q53. A car is purchased at a cost of ₹10 lakh on 1 October 2020. The useful life of the car is 10 years and the scrap value if zero. The car is depreciated on the straight-line basis. What is the book value of the car on 31 March 2023?
(a) 7 lakh

(b) 7.69 lakh
(c) 7.5 lakh
(d) 8 lakh

Answer: C

Explanation

The book value of the car on 31 March 2023 is **7.5 lakh**.

Under the **Straight Line Depreciation method**,

Annual depreciation amount = (₹10 lakh – 0)/ 10 years = **1 lakh per year**

As on 31 March 2023, the car has been used for 2.5 years. Thus, depreciation is 2.5 lakhs.

Book value of car = 10 lakh – 2.5 lakh = ₹7.5 lakh

Hence option C is correct.

Pg No. 160, Chapter No. 6, Module A

Q54. Which among the following statements are correct about bond price volatility?

I. The sensitivity of the bond price to changes in the interest rates is called 'Bond Volatility'.
II. Interest rate risk is a function of interest rate elasticity.
III. Interest rate elasticity is always a negative number.
IV. Duration and interest rate elasticity of a bond are inversely related.

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

Answer: C

Explanation

Statement I is correct.

- Sensitivity of bond price to changes in interest rates is called 'Bond Volatility'.

Statement II is correct.

- Interest rate risk is a function of the interest rate elasticity (IE).
- **IE** = $\frac{\textit{Percentage change in price for bond in period t}}{\textit{Percentage change in yield to maturity for bond}}$.

Statement III is correct.

- Interest rate elasticity is always a negative number, due to the inverse relationship between YTM and price of a bond.

Statement IV is incorrect.

- IV. Duration and interest rate elasticity of a bond are directly related.

Hence option C is correct.

Pg No. 453, Chapter No. 22, Module C

Q55. Which accounting standard classifies the lease agreements into Finance and Operating lease?

(a) Ind AS 115
(b) Ind AS 116
(c) Ind AS 109
(d) None of the above

Answer: B

Explanation

The answer is (b) Ind AS 116.

- Ind AS 116, Leases, classifies lease agreements into finance leases and operating leases. A finance lease is a lease that transfers substantially all the risks and rewards of ownership to the lessee. An operating lease is a lease that does not transfer substantially all the risks and rewards of ownership to the lessee.

Hence option C is correct.

Pg No. 506, Chapter No. 26, Module C

Q56. Which of the following statements is not correct about foreign exchange transactions?

(a) Foreign exchange is needed for international trade.

(b) Foreign exchange rates in India are decided by RBI.

(c) Banks act as channels for foreign exchange transactions by means of bookkeeping entries.

(d) The currency of another country is referred to as foreign currency.

Answer: B

Explanation

The incorrect statement is option B - "Foreign exchange rates in India are decided by RBI".

- Foreign exchange rates are typically **determined by the foreign exchange market**, where various factors such as supply and demand for different currencies, economic conditions, interest rates, and government policies influence the exchange rates.
- In India, the **Reserve Bank of India (RBI) can intervene** in the foreign exchange market to stabilize the exchange rate or implement specific policies, but it **doesn't directly set exchange rates**.

The other statements are generally correct:

- Foreign exchange is needed for international trade as it involves the exchange of one country's currency for another to facilitate trade transactions.
- Banks act as channels for foreign exchange transactions by means of bookkeeping entries, as they help individuals and businesses convert one currency into another and provide various foreign exchange services.
- The currency of another country is referred to as foreign currency, as it is not the official currency of the country where the transaction is taking place.

Hence option B is correct.

Pg No. 462, Chapter No. 23, Module C

Q57. Which of the following statements is not correct about Plain Vanilla Interest Rate Swaps?

I. There is no restriction on the minimum or maximum size of notional principal amounts.

II. Banks do not offer these products to corporates for hedging their own balance sheet exposures.

III. Banks should ensure adequate infrastructure and risk management systems before venturing into market making activities.

IV. The Benchmark rate should necessarily evolve on its own in the market and require market acceptance.

(a) I, II and III

(b) II, III and IV

(c) I, III and IV

(d) I, II, III and IV

Answer: C

Explanation

A Plain Vanilla Swap is the simplest form of Interest rate swap where a fixed rate is exchanged for a floating rate or vice versa on a given notional principal at pre-agreed intervals, during the life of the contract. **Important RBI guidelines regarding interest rate swaps are as under**:

- Banks can use IRS as a product for their own balance sheet management or for market making.
- Banks may also offer these products to corporates for hedging their own balance sheet exposures. **Hence, statement II is incorrect.**
- Banks should ensure adequate infrastructure and risk management systems before venturing into market making activities. **Hence, statement III is correct.**
- The Benchmark rate should necessarily evolve on its own in the market and require market acceptance. **Hence, statement IV is correct.**
- The parties are free to use any domestic money or debt market rate as benchmark rate provided the methodology of computing the rate is objective, transparent and mutually acceptable.
- There is no restriction on the minimum or maximum size of notional principal amounts. **Hence, statement I is correct.**
- There is no restriction on the tenor as well.
- Banks are required to maintain capital for FRAS and IRS.

Hence option C is correct.

Pg No. 530, Chapter No. 28, Module C

Q58. A has drawn a bill on C for ₹1 lakh & thereafter endorses the bill to Y. What is the journal entry made in the books of C on endorsement?

(a) 'A's a/c' debit & credit 'Bills Receivable a/c'

(b) 'A's a/c' debit & credit 'Bills Payable a/c'

(c) 'Bills Payable a/c' debit & credit 'Y's a/c'

(d) None of the above

Answer: D

Explanation

- When the bill is drawn by A on C, accounting entries are made by both A and C.
- But when the bill is endorsed by A in favour of Y, an accounting entry is made by A as:

Y's a/c	**Dr.**	**₹1,00,000**
To Bills Receivable		**₹1,00,000**

- But there is no need for C to record this endorsement in their account books. B is a acceptor and he has to pay the bill on due date to whoever comes to him.

Hence option D is correct.

Pg No. 181, Chapter No. 8, Module A

Q59. Which among the following transactions require adjustment entries to be passed in the accounting books?

I. Expenses incurred but not paid.

II. Expenses paid in advance but not incurred.

III. Income accrued but not received.
IV. Income not accrued but received in advance.

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

Answer: A

Explanation

- All of the transactions listed in the question require adjustment entries to be passed in the accounting books, in order to ensure that revenues and expenses are matched to the correct accounting period.

Hence option A is correct.

Pg No. 237, Chapter No. 13, Module B

Q60. Which among the following activities might result in generation of cash for an enterprise?

I. Dividend payment to shareholders.
II. Increase in current assets.
III. Purchase of machinery.
IV. Increase in current liability.

(a) II and IV
(b) III and IV
(c) I and IV
(d) II and III

Answer: A

Explanation

Among the activities provided, the ones that might result in the generation of cash for an enterprise are:

II. Increase in current assets

- Cash is a current asset which might increase due to the sale of goods or fixed assets. This will lead to cash generation.

IV. Increase in current liability

- Enterprise may take a short-term loan to generate cash which will lead to increase in current liability.

Hence option A is correct.

Pg No. 312, Chapter No. 16, Module B

Q61. What is the basis of classification of companies into 'Companies Limited by Guarantee'?

(a) Asset
(b) Liability
(c) Incorporation
(d) Ownership

Answer: B

Explanation

- The basis of classification of companies into 'Companies Limited by Guarantee' is: (b) Liability.
- In companies limited by guarantee, the liability of members is limited to the amount they agree to guarantee in the event the company is wound up. This means that members of such companies do

not have to contribute beyond the specified guaranteed amount, and their personal assets are not at risk to cover the company's debts.

Hence option B is correct.

Pg No. 254, Chapter No. 14, Module B

Q62. ______ contains the control account of all personal ledgers, the profit and loss account and different assets and liability accounts.

(a) Current Account Ledger
(b) Loan Ledger
(c) General Ledger
(d) Investment Ledger

Answer: C

Explanation

- General Ledger contains the control account of all personal ledgers, the profit and loss account and different assets and liability accounts.

Hence option B is correct.

Pg No. 327, Chapter No. 17, Module B

Q63. A firm makes sales of ₹790 lakhs, and the break-even sales volume is ₹500 lakhs. Calculate the margin of safety.

(a) 34.58%
(b) 35.61%
(c) 36.71%
(d) 38.46%

Answer: C

Explanation

- To calculate the margin of safety, we can use the following formula:

  Margin of safety = (Actual sales - Break-even sales) / Actual sales * 100

  Margin of safety = (790 lakhs - 500 lakhs) / 790 lakhs * 100

  Margin of safety = 36.71%

- Therefore, the margin of safety for the firm is 36.71%. This means that the firm can afford a decrease in sales of 36.71% before it starts to lose money.

Hence option C is correct.

Pg No. 604, Chapter No. 34, Module D

Q64. Which of the following is/are a factor of depreciation?

1. **Cost of the assets**
2. **Residual cost of assets**
3. **Estimated years of useful life**

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

Answer: D

Explanation

The factors of depreciation are as follows:

- **Cost of the assets**: The initial cost of acquiring the asset is an important factor in determining the depreciation expense. The higher the cost of the asset, the larger the depreciation amount over its useful life.
- **Residual cost of assets**: The residual value, also known as salvage value or scrap value, represents the estimated value of the asset at the end of its useful life. The residual value is subtracted from the initial cost to calculate the depreciable base of the asset.
- **Estimated years of useful life**: The estimated useful life of an asset is the period over which it is expected to generate economic benefits for the company. It represents the length of time over which the asset is expected to be used, after which it is considered fully depreciated. The estimated years of useful life directly impact the depreciation expense, as it determines the allocation of the asset's cost over its expected life.

Hence option D is correct.

Pg No. 159, Chapter No. 6, Module A

Q65. By looking at a Programme Budget, we can easily find out which of the following?

1. **What is not being carried out.**
2. **At what cost it is being carried out.**
3. **What are the expected results.**

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

Answer: B

Explanation

<u>**Programme Budgeting**</u>

- A budget prepared for a specific activity or program is called a Programme Budget.
- This budget includes the estimates/targets related to the functions pertaining only to that specific activity or programme. For example: a management institute, conducting a special programme for middle-level executives of large companies, prepares a budget of revenue and expenditure of conducting only that programme, rather than having a budget covering all the programme of the Institute.
- By looking at a Programme Budget, **it can be easily found out, in considerable detail, what precisely will be carried out, at what cost and with what expected results**.

Hence option B is correct.

Pg No. 616, Chapter No. 35, Module D

Q66. Application of convention of _______ directs to

1. **Creation of provision for doubtful assets.**
2. **Creation of contingency reserve.**
3. **Value the stock in hand at lower of the cost or market value.**
4. **Show the joint life policy at surrender value on the assets side of the balance sheet.**

(a) Objectivity
(b) Materiality
(c) Conservatism
(d) None of the above

Answer: C

Explanation

The convention of conservatism is an accounting principle that states that accountants should err on the side of caution when making accounting judgments. This means that accountants should choose the accounting method that is least likely to overstate assets and income, and most likely to overstate liabilities and expenses.

The following statements apply the convention of conservatism:

- **Create a provision for doubtful assets**: This is an allowance that is created to reduce the value of accounts receivable to reflect the likelihood that some of the receivables will not be collected.
- **Create a contingency reserve**: This is a reserve that is created to provide for unexpected losses or expenses in the future.
- **Value stock in hand at the lower of cost or market value**: This ensures that the value of inventory on the balance sheet is not overstated.
- **Show a joint life policy at surrender value on the assets side of the balance sheet**: This is because the surrender value is the guaranteed minimum amount that can be received from the policy, and it is therefore the most conservative value to use.

Hence option C is correct.

Pg No. 86, Chapter No. 2, Module A

Q67. The journal entry on forfeiture of shares is

(a) Share Capital A/c Dr.
To Calls in Arrears A/c
To Forfeited Shares A/c

(b) Calls in Arrears A/c Dr.
To Share Capital A/c
To Forfeited Shares A/c

(c) Forfeited Shares A/c Dr.
To Calls in Arrears A/c
To Share Capital A/c

(d) Calls in Arrears A/c Dr.
Forfeited Shares A/c Dr.
To Share Capital A/c

Answer: A

Explanation

The journal entry on forfeiture of shares is

Share Capital A/c Dr.
To Calls in Arrears A/c
To Forfeited Shares A/c
(Shares forfeited for non-payment of allotment money and calls made)

Hence option A is correct.

Pg No. 264, Chapter No. 14, Module B

Q68. What will be the journal entry using the suspense account to rectify the following mistake?
"An amount of ₹6000 remained to be included in the list of sundry debtors."

(a) Suspense A/c Dr. ₹6000
To Sundry Debtors A/c ₹6000

(b) Suspense A/c Dr. ₹6000
To Cash A/c ₹6000

(c) Sundry Debtors A/c Dr. ₹6000
To Suspense A/c ₹6000

(d) Sundry Debtors A/c Dr. ₹6000
To Cash A/c ₹6000

Answer: C

Explanation

The correct journal entry to rectify the mistake of an amount of ₹6000 remaining to be included in the list of sundry debtors is:

Suspense A/c Dr. ₹6000
To Sundry Debtors A/c ₹6000

This entry recognizes the ₹6000 as a debt owed to the company and transfers it from the Suspense Account to the Sundry Debtors Account, correcting the initial omission.

Hence option C is correct.

Pg No. 152 - 153, Chapter No. 5, Module A

Q69. A purchased raw material worth 22 lakh on credit basis from B. What is the journal entry to record this?

(a) B's A/c Dr. ₹22,00,000
To Sales A/c ₹22,00,000

(b) Purchase A/c Dr. ₹22,00,000
To B's A/c ₹22,00,000

(c) B's A/c Dr. ₹22,00,000
To Purchase A/c ₹22,00,000

(d) Sales A/c Dr. ₹22,00,000
To B's A/c ₹22,00,000

Answer: B

Explanation

The correct journal entry to record the purchase of raw materials worth ₹22 lakh on credit basis from B is:

Purchase A/c Dr. ₹22,00,000
To B's A/c ₹22,00,000

This journal entry increases the asset account, Purchase A/c, and the liability account, B's A/c, by the amount of ₹22,00,000. This is because the company has acquired an asset, raw materials, on credit from B.

Hence option B is correct.

Pg No. 104 - 105, Chapter No. 3, Module A

Q70. When the drawee is unable to meet the bill on due date and asks for a new bill, it is known as

(a) Endorsement
(b) Honour
(c) Renewal
(d) Retirement

Answer: C

Explanation

When the drawee is unable to meet the bill on the due date and asks for a new bill, it is known as Renewal.

Hence option C is correct.

Pg No. 180, Chapter No. 8, Module A

Q71. When does the liability to pay GST arise?

1. **Receipt of payment**
2. **Issue of invoice**
3. **Completion of supply**

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

Answer: C

Explanation

The liability to pay GST arises on the **earliest of the following dates**:

- **Receipt of payment**: When the supplier receives payment for the goods or services supplied.
- **Issue of invoice**: When the supplier issues an invoice to the customer for the goods or services supplied.
- **Completion of supply:** When the goods are delivered to the customer or the services are completed, whichever is earlier.

Hence option D is correct.

Pg No. 550, Chapter No. 30, Module D

Q72. Linear programming is ______.

(a) Reporting method
(b) Distribution channel
(c) Statistical and graphic technique
(d) None of the above

Answer: C

Explanation

- Linear programming is a mathematical modelling technique for optimizing a linear objective function, subject to linear equality and inequality constraints.

Hence option C is correct.

Pg No. 565, Chapter No. 31, Module D

Q73. A lessee can be defined as a person who

(a) Gives a property on lease.
(b) Takes a property on lease.
(c) Buys a property.
(d) Sells a property.

Answer: C

Explanation

- A lessee is a person who takes a property on lease.

Hence option B is correct.

Pg No. 500, Chapter No. 26, Module C

Q74. Calculate the break even point in terms of sales volume if the sale price of ₹100/unit, if, total fixed cost is ₹2,00,000 and the P/V ratio is 80%?

(a) 1500 units
(b) 2000 units
(c) 2500 units
(d) 3000 units

Answer: C

Explanation

To calculate the break-even point in terms of sales volume, we can use the following formulae:

Break-even point (units) = Fixed cost / (Contribution margin per unit)

Contribution Margin = Sales Price per Unit x P/V Ratio

Using the data given in the question:

Contribution Margin = ₹100 * 80% = ₹100 * 0.80 = ₹80 per unit

BE point (no. of units) = ₹2,00,000 / ₹80 = 2500 units

Therefore, BE point in terms of sales volume = 2500 units

Hence option B is correct.

Pg No. 602 - 604, Chapter No. 34, Module D

Q75. Compound interest for one year is calculated with the help of which of the following formulas in case the interest is compounded quarterly?

(a) $P(1+r)$
(b) $P(1+r)^4$
(c) $P(1+r/2)^2$
(d) $P(1+r/4)^4$

Answer: D

Explanation

The compound interest formula for one year when the interest is compounded quarterly is:

$A = P(1 + r/4)^4$

where:

A is the final amount
P is the principal amount
r is the annual interest rate
4 is the number of compounding periods per year

Hence option D is correct.

Pg No. 424, Chapter No. 21, Module C

Q76. Mr. Madhav, from whom an amount of ₹5000 was due, became insolvent and only 50% was recovered from him. Pass a journal entry to record the same.

(a) Madhav's A/c Dr. ₹5000
To Cash A/c ₹2500
To Bad Debts A/c ₹2500

(b) Madhav's A/c Dr. ₹2500
Cash A/c Dr. ₹2500
To Bad Debts A/c ₹2500

(c) Bad Debts A/c Dr. ₹2500
Cash A/c Dr. ₹2500
To Madhav's A/c ₹5000

(d) Bad Debts A/c Dr. ₹5000
To Cash A/c ₹2500
To Madhav A/c ₹2500

Answer: C

Explanation

When Mr. Madhav becomes insolvent, and you can only recover 50% of the due amount, you should record this as a bad debt expense in your books. The journal entry to record this would be as follows:

- Decrease the Accounts Receivable (the amount due from Mr. Madhav) by ₹5,000.
- Record the Bad Debt Expense for the portion that is not recoverable, which is 50% of ₹5,000 (₹2,500).
- Recognize the cash received, which is 50% of the due amount (₹2,500).

Bad Debts A/c	Dr.	₹2500
Cash A/c	Dr.	₹2500
To Madhav's A/c		₹5000

Hence option C is correct.

Pg No. 102 - 104, Chapter No. 3, Module A

Q77. Which among the following is not a category of standards used in standard costing?

(a) Advanced standards
(b) Basic standards
(c) Ideal standards
(d) Currently attainable standards

Answer: A

Explanation

Advanced standards are not typically considered a category of standards used in standard costing. The common categories of standards in standard costing are:

- **Basic standards**: These are predetermined standards set based on careful analysis of past performance and future expectations. Basic standards provide a stable benchmark for assessing performance.
- **Ideal standards**: Ideal standards represent the most efficient levels of performance and are often considered as "perfect" or best-case scenarios. They are used as a motivational tool to encourage continuous improvement.

- **Currently attainable standards**: Currently attainable standards reflect the expected performance levels that can be realistically achieved under existing conditions, such as current technology, materials, and methods. They are considered a more practical benchmark for performance evaluation.

Hence option A is correct.

Pg No. 590, Chapter No. 33, Module D

Q78. A reserve specifically represented by earmarked investments is termed as a _______.

(a) Fund

(b) Capital

(c) Surplus

(d) Liability

Answer: A

Explanation

- A reserve specifically represented by earmarked investments is termed as a fund.
- Funds are typically established for specific purposes, such as to finance future capital expenditures or to provide for employee retirement benefits.
- Earmarked investments are investments that have been specifically designated to support a particular fund.

Hence option A is correct.

Pg No. 291, Chapter No. 15, Module B

Q79. Guds Ltd. Purchases a bolt production machine. This machine can manufacture 10 lakh bolds after which it will have to be scrapped. The purchase price of the machine is ₹1 lakh. Scrap value is ₹10,000. During the first year of production, the machine produced 4 lakh bolts. The depreciation amount in the first year will be _______ applying the 'Units of Production Method'.

(a) ₹36,000

(b) ₹24,000

(c) ₹42,000

(d) ₹18,000

Answer: A

Explanation

To calculate the depreciation amount for the first year using the Units of Production Method, you need to determine the depreciation cost per unit produced. The formula for this method is as follows:

Depreciation cost per unit = (Cost of the asset - Estimated scrap value) / Total estimated units of production

In this case:

- Cost of the machine = ₹1,00,000
- Estimated scrap value = ₹10,000
- Total estimated units of production = 10,00,000 bolts
- Now, you can calculate the depreciation cost per unit:
  Depreciation cost per unit = (₹1,00,000 - ₹10,000) / 10,00,000 = ₹90,000 / 10,00,000 = ₹0.09 per bolt

- Since the machine produced 4,00,000 bolts in the first year, you can calculate the depreciation for the first year:

Depreciation for the first year = ₹0.09 per bolt × 4,00,000 bolts = ₹36,000

Hence option A is correct.

Pg No. 163, Chapter No. 6, Module A

Q80. What is the required rate of return on the company's equity, if the expected return on portfolio of equity shares is 12% p.a. (risk free return is 9% p.a. and the beta of company's share price is 1)?

(a) 15%
(b) 20%
(c) 12%
(d) 8%

Answer: C

Explanation

The required rate of return on the company's equity can be calculated using the Capital Asset Pricing Model (CAPM):

Required Rate of Return on Equity = Risk-Free Rate + [Beta x (Market Return - Risk-Free Rate)]

Given:

Risk-Free Rate = 9%
Beta = 1
Market Return = 12%

Calculation:

Required Rate of Return on Equity = 9% + 1 * (12% - 9%) = 12%

Therefore, the required rate of return on the company's equity is 12%.

Hence option C is correct.

Pg No. 478 - 479, Chapter No. 24, Module C

Section- 2

Sno.	**Topic**	**Type of Question**
1.	Net Income Approach on Capital Structuring	Question was based on parameters included in the Net Income Approach.
2.	Items in Balance Sheet	Match type questions about contingent gains and losses, extraordinary items and events happening after the balance sheet date.
3.	Weighted Average Cost of Capital	Impact on value of firm and WACC as debt increases.
4.	Closing cash balance	Numerical on calculating closing cash balance.
5.	Rule of 72	Numerical question
6.	Turnover Ratio	Statement based question
7.	Absorption costing	Numerical to calculate sale price per unit.
8.	Partnership firms	Statement based question

9.	Revenue expenditure	Statement based question
10.	Inventory valuation	Statement based question
11.	Finance lease	Statement based question
12.	Share Capital	Statement based question
13.	AS 22	Match type question
14.	Cost Volume Profit Analysis	Numerical question
15.	Forex Transactions	Numerical question to calculate forward points.
16.	Journal entries	Many questions to make journal entries.
17.	Agency problem	Statement based question about ways to mitigate agency problems.
18.	Taxation	Statement based question on taxation provisions for companies.
19.	Revenue receipt	Statement based question on features associated with revenue receipts.
20.	Rectification entries	Questions asking for rectification entries using suspense account.
21.	Basic Accountancy Concepts	Few ‘0.5-mark questions’ in every shift related to basic concept and principles of accounting.
22.	Straight line method of depreciation	Statement based theoretical question
23.	Financial accounting vs Cost accounting	Statement based question
24.	Interest rate swaps	Statement based question
25.	Balance Sheets of Banks	Statement based question

Section- 3

34. Long term use of funds
35. Features of Accounting in Banks
36. Types of Budgets
37. Features of Cheque
38. Adjustment entries
39. Call and put options
40. Causes of variance
41. Sweat equity
42. Liquidity ratio
43. Credit voucher
44. Identification of type of errors
45. Loan syndication
46. Puttable bonds
47. Adjustment entries
48. Inter Office account

49. Trial balance
50. Budgetary Control System
51. Composite voucher
52. Bonus issue of shares
53. Cost of Capital
54. Risk Return Trade Off
55. Accounting standard for leases
56. Bills of exchange
57. One person company
58. Balancing of Accounts

JAIIB OCTOBER 2023 EXAM

RBWM

RECOLLECTED QUESTIONS

WITH

DETAILED EXPLANATION

Preface

The document gives a fair idea of the kind of questions that were asked in JAIIB October 2023 Retail Banking & Wealth Management (RBWM) 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.

Q1.Which of the following is NOT an alternative asset?

(a) Fine Wines

(b) Rare Stamps

(c) Blue chip stocks

(d) Art & Antiques

Answer: Option C

Explanation:

Page 455 – Chapter 23 – Module D

Blue chip stocks are not alternative assets as they are **traditional, widely traded**, and typically found in standard investment portfolios.

Alternative assets are non-traditional assets with potential economic value that typically do not appear in a standard investment portfolio. Due to the unconventional nature of these assets, valuing some of them can be challenging for most people. Examples of alternative assets include:

- Art and Antiques
- Precious Metals
- Fine Wines
- Rare Stamps
- Coins
- Sports Cards
- Other Collectibles

Q2.Why does a bank calculate Fixed Obligation to Income Ration (FOIR)?

(a) To encourage excessive borrowings

(b) To ensure a minimum net take-home pay is maintained after loan repayments

(c) To increase interest rates on loans

(d) To assess the borrower's credit history

Answer: Option B

Explanation: Page 76 – Chapter 5 – Module B

In order that the loan repayment does not result in any difficulty for lifestyle, banks calculate Fixed Obligation to Income Ratio (FOIR), for borrowers from the salaried class in order to ensure that a minimum net take home pay is maintained after all the deductions including the loan repayment is made. This ensures that people do not resort to excessive borrowings.

Q3.Which of the following is NOT an element of Portfolio Management?

(a) Asset Allocation

(b) Diversification

(c) Accounting services

(d) Rebalancing

Answer: Option C

Explanation:

Page 483 – Chapter 24 – Module D

Accounting services are not an element of portfolio management; the core elements are:

Asset Allocation: Creating a well-balanced mix of assets, including stocks, bonds, cash, and alternative investments like real estate, to manage risk and align with an investor's risk profile.

<u>Diversification:</u> Spreading investments across various securities and asset classes to capture returns from different sectors over time while reducing volatility, as predicting winners and losers consistently is challenging.

<u>Rebalancing:</u> Regularly readjusting the portfolio to its original target allocation, typically on an annual basis, to maintain the desired asset mix and manage risk, which often involves selling high-priced securities and reallocating to lower-priced ones.

Q4. Which of the following statements regarding demat account are correct?

Q5. Consider the following statements regarding 'channel experience' in retail banking

I. Young and tech-savvy customers prefer direct channels

II. Conservative customers prefer remote channels

(a) I only
(b) II only
(c) Both I and II
(d) Neither I nor II

Answer: Option D

Explanation: Page 356 – Chapter 18 – Module C

Customer satisfaction needs to be achieved through various channels, offering customers choices to find the optimal channel mix for maximum satisfaction. **Multi-channel distribution** is a practice adopted by almost all banks to enhance the overall customer experience. Each channel, whether direct or remote, has its advantages and disadvantages and depends on the preferences of different customer segments. Direct channels might be the preferred choice for **conservative customers**, whereas younger, **tech-savvy customers** may opt for remote channels.

Q6. Which of the following statements is true?

I. National Financial Switch allows a bank to network its ATMs so that customers can withdraw cash from the ATMs of their bank only.

II. Cash Tree and INFINET are networking arrangements under National Financial Switch.

(a) I only
(b) II only
(c) Both I and II
(d) Neither I nor II

Answer: Option C

Explanation: Page 360 – Chapter 18 – Module C

Previously, there were restrictions on ATM usage by customers. Customers were only permitted to access ATMs of the bank where they held their accounts, limiting them to using their own bank's on-site or off-site ATMs. However, there was a subsequent change, and customers were granted the ability to withdraw cash from ATMs of other banks and even from white label ATMs. To enable this, a **common networking arrangement called the "National Financial Switch" was introduced** for ATM operations. Two essential networking arrangements, known as **"Cash Tree" and "INFINET,"** initiated by the National Financial Switch, offered networking facilities that spanned across different banks. Banks that are members of this network can provide this facility to their customers.

Hence, Statement I is false and Statement II is true.

Q7.What is the primary use of a credit score?

A) To determine an individual's age

B) To evaluate a person's past credit history and credit discipline

C) To assess a person's physical fitness

D) To calculate a person's tax liability

Answer: Option B

Explanation: Page 120 – Chapter 7 – Module B

A credit score is a statistical analysis of a person's past credit history, reflecting their credit discipline. It is evaluated based on their interactions with various credit products, including home loans, auto loans, credit cards, personal loans, and overdrafts. Credit scores can be generated by credit institutions or even by individuals themselves. The Reserve Bank of India (RBI) has mandated that all Credit Information Companies (CICs) in the country must provide a Free Full Credit Report (FFCR) to individuals, free of charge, upon request, once a calendar year, provided their credit history is available. This regulation came into effect on January 1, 2017.

A credit score essentially captures a "snapshot" of a consumer's credit report and, through advanced analytics, converts this information into a **3-digit number** that indicates the **level of risk the individual poses in a specific transaction**. Credit scores typically range from 300 to 900. The RBI has directed that the Credit Information Report (CIR) furnished to Credit Institutions should encompass all available credit information across various modules.

Q8.What is the interest in Sovereign Gold Bonds?

(a) 2.5% per annum, paid yearly

(b) 2.5% per annum, paid half-yearly

(c) 5% per annum, paid yearly

(d) 2.5% per annum, paid half-yearly

Answer: Option B

Explanation: Page 544 – Chapter 26 – Module D

Sovereign Gold Bonds (SGBs) are government securities denominated in grams of gold, serving as a convenient alternative to physical gold ownership. Investors need to purchase these bonds with cash, and upon maturity, they will be redeemed for cash. These bonds are issued by the Reserve Bank of India on behalf of the Government of India.

The quantity of gold for which the investor pays is safeguarded, as they receive the prevailing market price upon redemption or premature redemption. SGBs provide a superior option to holding physical gold, eliminating the risks and costs associated with storage. Investors can be confident about the market value of gold at maturity, along with periodic interest. The **bonds accrue interest at a fixed rate of 2.50 percent per annum** on the initial investment amount, paid in half-yearly intervals, with the final interest payment made at maturity along with the principal amount.

Q9.What is the maximum carpet area for a house constructed for the Economically Weaker Sections (EWS) category under the PM Awas Yojana?

(a) 30 sq. m

(b) 60 sq. m

(c) 120 sq. m

(d) 150 sq. m

Answer: Option A

Explanation: Page 172 – Chapter 9 – Module B

Parameters	CLSS for EWS and LIG		CLSS for MIG	
	EWS	LIG	MIG-I	MIG-II
Maximum Loan amount eligible for subsidy	₹6 lakh	₹6 lakh	₹9 lakh	₹12 lakh
	The beneficiaries can avail a higher amount of loan than the maximum amount eligible for subsidy. The rest of the loan amount will be non-subsidised.			
Max. Carpet area	30 sq. m	60 sq. m	120 sq. m	150 sq. m

Q10. Which of the following statements regarding PM Awas Yojana is NOT correct?

(a) Under the scheme only Scheduled Commercial Banks and Housing Finance companies can be called the Primary Lending institutions (PLIs) for disbursing loans.

(b) Housing and Urban Development Corporation and National Housing Bank have been identified as Central Nodal Agencies (CNA).

(c) Based on the loan disbursed by a PLI to beneficiaries, the CAN will release the subsidy amount to PLI directly based on the claims submitted in the total loans disbursed.

(d) All are correct

Answer: Option A

Explanation: Page 171 – Chapter 9 – Module B

Statement I is incorrect. In order to expand institutional credit flow to the housing needs of urban poor, credit linked subsidy scheme (CLSS) is being implemented - under the program Housing for All by 2022) through Primary Lending Institutions (PLI). PLIS include Scheduled Commercial Banks, Housing Finance Companies, Non-banking financial company – MFI or any other institutions as identified the ministries.

Statement II is correct. HUDCO and NHB have been identified as Central Nodal Agencies under PM Awas Yojana.

Statement III is correct. Based on the loan disbursed by a PLI to beneficiaries, the CAN will release the subsidy amount to PLI directly based on the claims submitted in the total loans disbursed.

Q11. What is a Real Estate Investment Trust (REIT)?

(a) A type of mutual fund that invests in real estate.

(b) A government program that subsidizes real estate investments.

(c) A financial institution that provides loans for real estate development.

(d) An organization that owns and manages real estate properties to generate a regular income stream.

Answer: Option D

Explanation: Page 462 – Chapter 23 – Module D

A Real Estate Investment Trust (REIT) can be described as an **organization that owns and operates real estate properties to generate a regular income stream**. REITs manage real estate portfolios, including leasing services and mortgages, to generate rental income. The income earned from these real estate investments is then distributed among the investors in the form of dividends. REITs operate through a collective pooling of resources, making it possible for small investors to invest in real estate, which typically demands significant capital for meaningful returns.

Q12. What distinguishes UPI Lite from traditional UPI transactions?

(a) Higher transaction fees
(b) Dependency on Remitter bank's core banking systems in real time
(c) Utilization of NPCI Common Library (CL) application
(d) Exclusively designed for transactions above ₹500

Answer: Option D

Explanation:

UPI LITE is a new payment solution that leverages the trusted NPCI Common Library (CL) application to process **low value transactions that have been set at below ₹ 500.** The solution runs off existing UPI ecosystem protocols for mobile phones to ensure commonality, compliance and system acceptance. UPI LITE experience is intended to be a customer-friendly approach to enabling low value transactions without utilizing a Remitter bank's core banking systems in real-time, while providing adequate risk mitigation.

Q13. What is the primary function of a Direct Selling Agent (DSA) in the banking industry?

(a) Providing financial advice to customers.
(b) Operating bank branches in remote areas.
(c) Sourcing business for banks on a fee basis.
(d) Offering investment services to high-net-worth individuals.

Answer: Option C

Explanation: **Page 400 – Chapter 19 – Module C**

The concept of Direct Selling Agents (DSAs) was originally introduced by foreign banks and has been effectively adopted by new-generation private sector banks. DSAs are agencies appointed by banks to **source business for them on a fee basis**. For banks that lack a significant branch network and geographical coverage to reach a large customer base, they often rely on DSAs to source business on behalf of the bank and to handle the initial customer acquisition procedures. DSAs, strategically positioned across various geographic areas, simplify these tasks for the banks. DSAs primarily focus on sourcing credit cards and retail loans.

Q14. Which of the following statements accurately describes close-ended mutual funds?

(a) They allow investors to buy and redeem units at any time.
(b) They primarily invest in government bonds for fixed returns.
(c) They have a lock-in period during which investors cannot redeem units.
(d) They focus on specific industry sectors for higher returns.

Answer: Option C

Explanation: Page 461 – Chapter 23 – Module D

Categories Based on Investment Objectives:

- **Equity Mutual Funds**: Invest in stock markets for potentially higher returns over the long term.
- **Debt Mutual Funds**: Invest in debt instruments like government bonds, offering fixed-rate returns.
- **Balanced Mutual Funds**: Combine equities and debt to balance risk exposure.
- **Sectoral Funds**: Focus on specific industry sectors for returns tied to sector performance.
- **ELSS (Equity Linked Savings Schemes)**: Tax-saving funds with a mandatory 3-year lock-in period.

Categories Based on Structure:

- **Open-Ended Funds**: Offer flexibility for investors to buy and redeem units at any time.

- **Close-Ended Funds**: Have a lock-in period, often 1 to 3 years, before investors can redeem units.

Q15. Which of the following statements regarding 'capital gains tax' are correct?

I. In the case of inherited assets, the holding period of previous owner is not included.

II. Inherited assets are characterised as long term assets if held for a period of more than 12 months.

(a) I only

(b) II only

(c) Both I and II

(d) Neither I nor II

Answer: Option D

Explanation: Page 543 – Chapter 25 – Module D

Long-term Capital Asset: All assets held for a period more than that applicable period for STCG as mentioned above will be classified under long-term capital asset. In such, cases, capital assets such as land, building, and house property shall be considered as long-term capital if the owner holds it for 24 months or more. Similarly, equity or preference shares, securities, units of UTI or equity-oriented MFs, and Zero-coupon bonds would be considered as long-term assets in case they are held for more than 12 months. Rest all assets if held for more than 36 months, are also considered long-term assets.

In the case of **inherited assets, the holding period of the previous owner is included** when determining whether an asset is a short-term or long-term capital asset. In the case of bonus shares or rights shares, the holding period is calculated from the date of allotment of bonus shares or rights shares, respectively.

Q16. Which of the following statements regarding 'PM Awas Yojana' are correct?

I. The maximum tenure for the subsidy is 10 years.

II. Interest subsidy for EWS category is 6.5%

(a) I only

(b) II only

(c) Both I and II

(d) Neither I nor II

Answer: Option B

Explanation: Page 171 – Chapter 9 – Module B

Parameters	CLSS for EWS and LIG		CLSS for MIG	
	EWS	LIG	MIG-I	MIG-II
Beneficiary	A beneficiary family will comprise husband, wife, unmarried sons and/or unmarried daughters. The beneficiary family should not own a pucca house (an all-weather dwelling unit) either in his/her name or in the name of any member of his/her family in any part of India. An adult earning member (irrespective of marital status) can be treated as a separate household subject to; He/she does not own a pucca (an all-weather dwelling unit) house in his/her name in any part of India. In the case of a married couple, either of the spouses or both together in joint ownership will be eligible for a single house, subject to income eligibility of the household under the Scheme.			
Income criteria	upto ₹3 lakh	₹3 lakh to ₹6 lakh	₹6 lakh to ₹12 lakh	₹12 lakh to ₹18 lakh
Interest subsidy	6.5%	6.5%	4%	3%
Maximum loan tenure considered for interest subsidy	20 Years	20 Years	20 Years	20 Years
	Loan tenure can be longer than the tenure fixed for subsidy, depending on the products designed by the PLIs.			

Q17. What is the primary purpose of Customer Relationship Management (CRM)?

(a) To decrease customer engagement.

(b) To build long-term, profitable relationships with specific customers.
(c) To offer a one-size-fits-all approach to products and services.
(d) To minimize interaction with customers.

Answer: Option B

Explanation: Page 411 – Chapter 20 – Module C

Customer Relationship Management (CRM) CRM is essentially about maintaining a 360-degree view of customers and their profiles, continuously tracking their requirements, providing relevant products and services, and cross-selling as their needs evolve to ensure lasting satisfaction. The key objectives of effective CRM include:

1. Building long-term, profitable relationships with specific customers.
2. Gaining a deep understanding of customers to foster close relationships.
3. Offering the best-suited products and services in a dynamic manner.
4. Achieving lifetime value from customers.

Q18. Income tax is based on income earned in which year?

(a) Financial Year
(b) Calendar Year
(c) Assessment Year
(d) Fiscal Year

Answer: Option A

Explanation: Page 495 – Chapter 25 – Module D

A Financial Year is the year in which income is earned, and the Assessment Year is when the income is assessed for tax purposes, and all taxes are paid, including filing tax returns. The Assessment Year follows the Financial Year, both beginning on April 1st and ending on March 31st. During the Assessment Year, the income earned in a specific Financial Year is subject to taxation and assessment.

Q19. Which of the following is a trigger for Operating Risk?

(a) Customer fails to pay
(b) Losing money due to wrong strategy
(c) Change in market prices
(d) Processing failures and frauds

Answer: Option D

Explanation: Page 118 – Chapter 7 – Module B

The types of risks and the triggers in risk analysis are mentioned below:

- Credit Risk – Customer fails to pay
- Business Risk – Losing money due to wrong strategy
- Market Risk – Change in market prices
- Operating Risk – Processing failures and frauds

Q20. Which of the following is NOT a characteristic of investment?

(a) Return
(b) Risk
(c) Taxability
(d) Liquidity

Answer: Option C

Explanation: Page 474 – Chapter 24 – Module D

1. **Return:** The primary objective of any investment is to generate a return, which can be in the form of regular income (e.g., interest, dividends, rent) or an increase in the investment's value (capital appreciation). The level of risk associated with the investment determines the expected return.
2. **Risk:** Risk is an inherent aspect of investment and refers to the variability in returns due to potential capital loss or the non-payment of income. In general, investments with higher risk profiles are expected to yield higher returns, while lower risk investments typically offer lower returns.
3. **Safety:** The safety principle in investment emphasizes that investors should receive their original principal amount back at maturity without incurring any loss in value or hindrances.
4. **Liquidity:** Liquidity refers to the ease with which an investor can sell their investment in the market when needed, without incurring significant transaction costs, time, or effort.

Q21. ____________________ Portfolio Management involves the PMS suggesting investment ideas, while the investor makes the final decisions and timing.

(a) Active
(b) Passive
(c) Discretionary
(d) Non-discretionary

Answer: Option D

Explanation: Page 485 – Chapter 24 – Module D

Active Portfolio Management involves striving to outperform a market index by actively buying and selling securities based on research, but it carries a higher level of risk.

Passive Portfolio Management aims to mimic an index's performance by investing in the same securities with minimal turnover and lower transaction costs, resulting in slightly lower returns but reduced variance.

Discretionary Portfolio Management gives the portfolio manager complete control to choose strategies aligned with the Investment Policy Statement, suitable for clients with limited investment knowledge.

Non-discretionary Portfolio Management has the PMS suggesting investment ideas, with the investor making the final decisions and timing, serving in an advisory role, and focusing on defining investment objectives, asset allocation, and rebalancing the portfolio.

Q22. What is the primary role of a Portfolio Manager in the context of Portfolio Management Service (PMS)?

(a) Providing legal advice to clients
(b) Achieving the highest possible risk
(c) Achieving the required rate of return within desired risk levels
(d) Conducting market research for investment decisions

Answer: Option C

Explanation: Page 484 – Chapter 24 – Module D

A Portfolio Manager provides a vital service through Portfolio Management Service (PMS) with the primary goal of achieving the **desired rate of return while managing risk**. They construct investment portfolios consisting of various asset classes, including stocks, fixed income, commodities, real estate, structured products, and cash. As licensed investment professionals, they specialize in analyzing an investor's objectives and possess comprehensive knowledge of market instruments, making them well-equipped to make informed investment decisions. PMS is typically offered to **High Net-Worth Individuals** (HNIs) and tailored to match an investor's specific return expectations and risk tolerance.

Q23. Arrange the following verifications for the approval process of retail loans:

I. House visit to ensure residential address

II. Credit Report verification

III. Verification of KYC

IV. Verification of PAN number from IT website

(a) III-II-IV-I

(b) II-IV-III-I

(c) I-III-II-IV

(d) III-IV-II-I

Answer: Option D

Explanation: Page 75 – Chapter 5 – Module B

Given the large number of applicants for retail loans and the aggressive marketing of retail loans by banks, conducting due diligence on applicants is of utmost importance. By the end of the verification process, the bank should be able to confirm the authenticity of the provided information and the applicant's eligibility for the loan. The details to be verified include:

- Verification of KYC with relevant documents, including cross-verification of information in various documents, along with personal visits or inspection reports.
- Verification of the PAN number using the IT website.
- Verification of income documents, such as ITR, salary slips, bank statements, etc.
- Verification of the credit report from Credit Information Companies.
- Conducting house visits to confirm the residential address.
- Telephonic verification of the individual at their office/business phone numbers.

Q24. In the context of wealth management, what does "Assets Under Management (AUM)" refer to?

(a) The fees charged for financial services

(b) The total wealth of the wealth management advisor

(c) The client's financial liabilities

(d) The total value of assets that a wealth management firm manages on behalf of clients

Answer: Option D

Explanation: Page 452 – Chapter 23 – Module D

Assets Under Management (AUM) represents the **total value of assets managed by a wealth management firm** on behalf of their clients. Wealth management takes a holistic approach to address the complex needs of affluent clients, offering a range of financial services, including investment advice, estate planning, accounting, retirement, and tax services. The fees for these comprehensive wealth management services are commonly based on the client's assets under management (AUM).

In essence, Wealth Management Services can be divided into three stages:

1. Wealth management combines multiple financial services to cater to the requirements of affluent clients.

2. A wealth management advisor, a high-level professional, manages an affluent client's wealth holistically, often charging a single fee for their services.
3. This service is typically tailored for individuals with substantial wealth and diverse financial needs.

Q25. Which of the following are features of wealth management?

I. Comprehensive financial services

II. Tailored advice for affluent clients

III. Fixed fee structure

(a) I and II only

(b) II and III only

(c) I and III only

(d) I, II, and III

Answer: Option D

Explanation: Page 452 – Chapter 23 – Module D

Wealth management services can be summarized in three stages.

- Wealth management is an investment advisory service that integrates various financial services to cater to the requirements of affluent clients.
- A wealth management advisor is a top-tier professional who holistically manages the wealth of affluent clients, typically for a fixed fee.
- This service is generally suitable for affluent individuals with a wide range of diverse financial needs.

Q26. What is the key difference between the Financial Year (FY) and the Assessment Year (AY) in the context of taxation?

(a) FY starts on April 1st, while AY starts on January 1st.

(b) FY is when taxes are paid, and AY is when income is earned.

(c) FY is when income is assessed, and AY is when taxes are filed.

(d) FY is the year income is earned, and AY is the year income is assessed for tax and taxes are paid.

Answer: Option D

Explanation: Page 495 – Chapter 25 – Module D

A Financial Year is the year in which income is earned, and the Assessment Year is when the income is assessed for tax purposes, and all taxes are paid, including filing tax returns. The Assessment Year follows the Financial Year, both beginning on April 1st and ending on March 31st. During the Assessment Year, the income earned in a specific Financial Year is subject to taxation and assessment.

Q27. Which of the following statements is not correct?

(a) Internal marketing information typically includes data on sales turnover and accounts receivable.

(b) The Marketing Intelligence System primarily relies on data from internal sources such as company reports.

(c) Marketing Research System collects data specifically for solving marketing problems, including consumer behavior and competition.

(d) The Marketing Management and Science System aims to optimize the use of data for complex marketing activities.

Answer: Option B

Explanation: Page 439, Chapter 22 – Module C

Option B is not correct because the **Marketing Intelligence System primarily relies on external** sources for information, such as newspapers and magazines, rather than internal sources like company reports.

- **Internal Marketing Information:** This component involves data obtained from within the organization, such as sales turnover, costs, and accounts receivable. Salesmen's reports are also valuable sources of information.
- **Marketing Intelligence System:** This component focuses on external information sources, such as newspapers, magazines, and annual reports from industry associations. It provides insights into changes in the marketing environment and market trends.
- **Marketing Research System:** This system is dedicated to collecting specific information to address marketing problems, including consumer behavior, competition, and product development. Data is collected through methods like surveys and interviews, and conclusions are drawn from the analysis.
- **Marketing Management and Science System:** This component integrates and optimizes the use of data from the previous components across various sectors. It helps manage complex marketing activities, handle the influx of information, and facilitates prompt decision-making to gain a competitive edge.

Q28. Which of the following payment systems can be used by individuals without a bank account to deposit cash?

(a) RTGS
(b) IMPS
(c) UPI
(d) NEFT

Answer: Option D

Explanation: page 216 – chapter11 – Module B

To become part of the NEFT funds transfer network, a bank branch needs to be NEFT-enabled. Individuals, firms, or corporations with accounts at a bank branch can use NEFT to transfer funds. **Even individuals without a bank account** (referred to as walk-in customers) can deposit cash at NEFT-enabled branches with instructions to transfer funds using NEFT. However, cash remittances for such customers are limited to less than 250,000/- per transaction. These customers must provide comprehensive details, including their full address and telephone number. NEFT allows originators or remitters to initiate fund transfer transactions, even if they do not have a bank account. The remittance through NEFT/RTGS is carried out through the Structured Financial Messaging System (SFMS).

Q29. What is the maximum transaction limit per day for a single bank account linked to BHIM?

(a) 10,000 per day
(b) 20,000 per day
(c) 30,000 per day
(d) 1,00,000 per day

Answer: Option B*

Explanation: Page 385 – Chapter 18 – Module C

A user can send up to **20,000 per transaction** and a maximum of 40,000 per day for one bank account. This limit is applicable per bank account linked to BHIM

***Note** – As per the **update** on BHIM website the limit has been changed to **Rs. 1,00,000** per transaction and Rs. 1,00,000 per day – applicable per bank account linked to BHIM.

Q30. Which of the following statements regarding Co-lending by Banks and NBFCs are NOT correct?

(a) Co-lending aims to enhance the flow of credit to underserved and unserved sectors.

(b) All registered NBFCs are eligible counterparts in the Co-lending Model.

(c) Banks and NBFCs are required to formulate board-approved policies for Co-lending

(d) The bank's contribution in co-lending should be a minimum of 80% with a maximum direct exposure of 20%.

Answer: Option D

Explanation: Page 403 – Chapter 19 – Module C

The Reserve Bank of India (RBI) issued guidelines on Co-Lending by Banks and NBFCs to the sector through circular FIDD. CO.Plan.BC.No.8/04.09.01/2020-21, dated November 05, 2020. These guidelines primarily aim to enhance the flow of credit to underserved and unserved sectors of the economy and provide funds to the ultimate beneficiaries at an affordable cost. This is achieved by leveraging the lower cost of funds from banks and the wider reach of Non-Banking Finance Companies (NBFCs).

The new initiative is named the "Co-Lending Model" (CLM), under which banks are permitted to co-lend with all RBI-registered NBFCs, including Housing Finance Companies (HFCs), based on prior agreements.

As per the RBI guidelines, both banks and NBFCs are required to create board-approved policies for participating in the CLM and make these policies available on their respective websites. The term 'NBFC' in this context includes both NBFCs (Partner Financial Institute (F)) and Housing Finance Companies (HFCs).

- Eligible Counterparties: All Registered NBFCs
- Eligible Asset Classes: All loans that qualify for Priority Sector Advances, as per the existing Master Circular/Directions on Priority Sector issued by RBI
- **Bank's Contribution:** The bank is required to retain a **minimum of 20%** by way of direct exposure, allowing for a **maximum direct exposure of 80%.**

Q31. Which of the following best defines global wealth management?

(a) Wealth management services provided to individuals only

(b) Comprehensive financial services including investment, accounting, estate planning

(c) Localized financial planning for specific regions

(d) Financial services for small businesses only

Answer: Option B

Explanation: Page 452 – Chapter 23 – Module D

Wealth management is a professional service provided by wealth managers, encompassing various financial aspects, including investment planning, accounting, tax planning, estate planning, retirement planning, portfolio and financial services management. These services are typically offered to individuals, business owners, or corporations for a single fee. When these professional services are extended to businesses or organizations at an international level, they are referred to as **global wealth management.**

Q32. What is the income limit for eligibility under the Central Sector Interest Subsidy (CSIS) scheme?

(a) 2.5 lakh per year
(b) 4.5 lakh per year
(c) 6.5 lakh per year
(d) 8.5 lakh per year

Answer: Option B

Explanation: Page 180 – Chapter 9 – Module B

The Government of India has approved a scheme to provide full interest subsidy during the period of moratorium, which includes the course period plus one year, on Education Loans obtained from Scheduled Banks under the Model Education Loan Scheme of the Indian Banks Association. This subsidy is available to students from Economically Weaker Sections who are pursuing approved courses in technical and professional fields at recognized institutions in India. The scheme's benefits are applicable to students from economically weaker sections with an annual gross parental family income upper **limit of 4.5 lakh per year from all sources.**

Q33. Which of the following statements are correct regarding Sovereign Gold Bonds?

I. Interest on Bonds as well as capital gains are exempted.
II. The maximum subscription limit for individuals is 4kg.
III. The Bond is issued by Reserve Bank of India on behalf of Government of India.

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

Answer: Option C

Explanation: Page 544 – Chapter 26 – Module D

Sovereign Gold Bonds (SGBs) are government securities denominated in grams of gold. They serve as alternatives to holding physical gold. Investors are required to pay the issue price in cash, and the bonds will be redeemed in cash upon maturity. These bonds are issued by the **Reserve Bank of India on behalf of the Government of India**.

The Bonds are issued in denominations of one gram of gold and in multiples thereof. The minimum investment in the Bond shall be one gram, with a maximum subscription limit of **4 kg for individuals**, 4 kg for Hindu Undivided Families (HUFs), and 20 kg for trusts and similar entities as specified by the government.

Interest on the Bonds will be subject to taxation in accordance with the provisions of the Income-tax Act, 1961 (43 of 1961). However, the capital gains tax arising from the redemption of SGB by an individual has been exempted.

Q34. Which of the following is a function of the middle office in an Investment Bank?

(a) Generating revenue through trading activities
(b) Producing research reports on firms and industries
(c) Ensuring the bank's compliance with risk management and financial control
(d) Providing supporting activities for front office operations

Answer: Option C

Explanation: Page 479 – Chapter 24 – Module D

Investment banks are typically divided into three main offices or segments:

1. **Front Office:** The front office is where an Investment Bank generates its revenue. It comprises three primary divisions, which are:
    - Investment Banking: This division is responsible for services like mergers and acquisitions, capital raising, and advisory services.
    - Sales & Trading: The sales and trading department involves activities related to buying and selling financial products in the markets.
    - Research: The research department produces various research reports on firms or industries to provide valuable insights to clients and traders.
2. **Middle Office:** The primary function of the middle office is to ensure that the investment bank does not engage in activities that could be harmful to the bank's financial health. This includes functions such as risk management, financial control, corporate treasury, corporate strategy, and compliance. The middle office plays a crucial role in overseeing the risk associated with capital raising to ensure that the bank does not take on excessive risk when underwriting certain securities.
3. **Back Office:** The back office provides essential support functions such as operations and technology to the front office. These support activities enable the front office to perform the necessary tasks for generating revenue and serving the investment bank's clients effectively.

Q35. Which of the following statements are correct regarding Equity Linked Savings Schemes (ELSS)?

I. ELSS is a type of mutual fund that offers tax benefits under Section 80C of the Income Tax Act.

II. ELSS investments come with a lock-in period of 3 years.

III. ELSS primarily invests in fixed income securities.

(a) I and II only

(b) I and III only

(c) II and III only

(d) I and III only

Answer: Option A

Explanation: Page 461 – Chapter 23 – Module D

Equity Linked Savings Schemes (ELSS): These are commonly known as tax-saving funds. Investments made in ELSS funds are eligible for income tax exemptions **under Section 80C**. However, it's important to note that ELSS funds come with a mandatory **lock-in period of 3 years.**

Q36. Which of the following is NOT a service offered by Investment Banks?

(a) Underwriting for capital raising

(b) Mergers & Acquisitions (M&A) advisory

(c) Sales & Trading in the secondary market

(d) Asset Management for individual investors

Answer: Option D

Explanation: Page 478 – Chapter 24 – Module D

Full-Service Investment Banks offer a range of comprehensive financial services, including:

1. **Underwriting**: The capital raising and underwriting groups facilitate connections between investors and companies seeking to raise funds or go public through the IPO process. This function primarily serves the primary market or "new capital."

2. **Mergers & Acquisitions** (M&A): These banks provide advisory services to both buyers and sellers involved in business transactions, managing the entire M&A process from start to finish.
3. **Sales & Trading**: Investment banks match buyers and sellers of securities in the secondary market. Sales and trading groups not only act as intermediaries for clients but may also engage in trading using the firm's own capital.
4. **Equity Research**: The equity research group conducts in-depth analysis and coverage of securities, offering valuable insights to investors for making informed investment decisions and supporting stock trading activities.
5. **Asset Management**: Investment banks manage investments for a diverse range of investors, including institutions and individuals, with various investment styles.

Q37. Which of the following is NOT considered a capital asset?

(a) Land
(b) Patents
(c) Money in a bank account
(d) Vehicles

Answer: Option C

Explanation: Page 512 – Unit 25 – Module D

Capital assets include land, buildings, house property, vehicles, patents, trademarks, leasehold rights, machinery, jewelry, etc. They also encompass rights related to an Indian company, as well as rights of management or control, and other legal rights.

Q38. Which of the following statements are correct regarding PMJJBY?

I. Participants must be in the age group of 18 to 50 years.
II. Premium - The annual premium is 436 rupees per member.
III. PMJJBY provides life insurance coverage for death.

(a) I and II
(b) II and III
(c) I and III
(d) All of the above

Answer: Option D

Explanation: Page 532 – Chapter 26 – Module D

Pradhan Mantri Jeevan Jyoti Bima Yojana - PMJJBY

PMJJBY is an insurance scheme that provides life insurance coverage for death due to any reason. It offers one-year coverage, which is renewable on an annual basis. The scheme is administered through LIC and other life insurance companies that are willing to offer the product under similar terms and have necessary approvals and tie-ups with banks for this purpose.

Scope of coverage: All individual account holders of participating banks in the age group of **18 to 50 years** are eligible to join. If an individual holds multiple bank accounts in one or different banks, they can only enroll in the scheme through one bank account. Aadhar is the primary KYC for the bank account.

Enrollment period: To avail the coverage for the period from 1st June to 31st May, subscribers must enroll and provide their auto-debit consent by 31st May of the policy-commencing year. Those who join subsequently can do so by paying the full annual premium for prospective coverage.

Benefits: A sum of 2 lakh rupees is payable upon the member's death due to any cause.

Premium: The annual premium is 436 rupees per member.

Q39. Which of the following statements regarding contactless cards are correct?

I. These cards work on Near Field Communication Technology

II. The maximum transaction value for a contactless card is capped at Rs. 1,00,000.

III. The customer can pay through a contactless card without entering a PIN (for amount under Rs. 5000)

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

Answer: Option C

Explanation: Page 207 – Chapter 10 – Module B

These cards work on **Near-Field Communication (NFC) technology**, which employs radio transmission to ascertain contact when the cards are tapped or waved near a terminal. A contactless card is a quicker method of making payments with a credit or debit card for purchases under 5000/- at participating stores. Instead of inserting (or swiping) the card at the checkout counter, you can simply wave or tap the card on the contactless terminal and make a **payment without needing to enter a PIN** (for amounts under 5000/-). These cards utilize Near-Field Communication (NFC) technology, which employs radio transmission to establish a connection when the cards are tapped or waved near a terminal. . The maximum **transaction value for a contactless transaction is limited to 5000/-,** further reducing potential losses. Additionally, in case of card loss or theft, cardholders are protected provided they report it to the issuing bank promptly.

Q40. In case of unauthorized transactions, a bank is not liable if:

(a) The customer reports the unauthorized transaction promptly.
(b) The customer shares their payment credentials.
(c) The transaction value is high.
(d) The customer is not aware of the transaction.

Answer: Option B

Explanation: Page 390 – Chapter 18 – Module D

Limited Liability of a Customer

A customer shall be liable for losses incurred due to unauthorized transactions in the following cases:

- **When the loss results from negligence by a customer, such as sharing payment credentials, the customer will be responsible for the entire loss until reporting the unauthorized transaction to the bank**. Any losses occurring after reporting the unauthorized transaction shall be borne by the bank.
- In cases where the responsibility for the unauthorized electronic banking transaction neither lies with the bank nor with the customer but with another entity within the system, and when there is a delay (of four to seven working days after receiving communication from the bank) on the part of the customer in notifying the bank of such a transaction, the customer's liability per transaction shall be limited to the transaction value or the amount mentioned below, whichever is lower.

Q41. Which of the following is not a method of using UPI 123PAY?

(a) UPI Payment through Pre-defined IVR Number

(b) Payment through Missed Call
(c) Payment through UPI mobile app
(d) Feature Phone with Payment Functionality by OEM

Answer: Option C

Explanation: Page 388 – Chapter 18 - Module C

UPI 123PAY is an instant payment system for feature phone users to securely access UPI payment services. It offers **four primary methods** for engagement:

1. **UPI Payment through Pre-defined IVR Number**: Users make secure calls from their feature phones, and some banks have integrated with IVR payments.
2. **Payment through Missed Call**: Feature phone users can access their bank accounts and make transactions by giving a missed call at the merchant's location. The process includes bill token creation, missed call, and authentication with a UPI PIN.
3. **Feature Phone with Payment Functionality by OEM**: Solution providers partner with feature phone manufacturers to create native payment apps, allowing basic payment functionality.
4. **Proximity Sound-Based Technology and Voice-Based Payments**: This method employs proximity sound-based payments supported by Tonetag and NSDL Payment Bank, using sound waves for contactless, offline, and proximity communication.

UPI 123PAY provides feature phone users with innovative and secure options for accessing UPI services and making payments.

Q42. What is group insurance?

(a) Insurance products for individual customers
(b) Insurance policies that provide coverage for a specific and defined group
(c) Insurance products with flexible premiums
(d) Insurance products for high-risk individuals

Answer: Option B

Explanation: Page 531 – Chapter 26 – Module D

Group insurance products are provided by life insurers for specific and defined groups, offering competitive premiums compared to regular policies. According to IRDA guidelines, groups must be uniform and clearly defined, with each member adhering to the group definition. Deviations from the specified group are not permitted.

Key features of group insurance products offered by banks are as follows:

i. Banks provide various group insurance covers as an added value to their product offerings.

ii. These group covers for life insurance are extended to individuals who have taken specific products from the bank.

iii. Group insurance covers are available for customers holding different types of accounts, including Savings, Current, and Loan Accounts, as well as Term and Recurring Deposits.

iv. The offered group covers typically fall into two categories. The first type provides a fixed cover amount in case of natural or accidental death, with the premium charged annually.

v. The second type offers dynamic coverage for borrowal accounts, reducing in line with the loan repayment. This coverage is available for retail and housing loans with mortgage backing, with a single premium covering the loan repayment period. The cover amount is limited to the regular outstanding in the loan account.

vi. Banks provide these covers to enhance product value, improve customer satisfaction, and mitigate risks for the customer, serving as a protection measure for the account holder's family.

Q43. Which of the following statements is incorrect regarding the opening and operation of bank deposit accounts by minors?

(a) Minors above the age of 10 years may be allowed to open and operate savings bank accounts independently.
(b) Banks may set limits on the age and amount up to which minors are allowed to operate deposit accounts independently.
(c) Banks are required to strictly follow a uniform procedure for opening accounts by minors.
(d) Upon attaining majority, the erstwhile minor needs to confirm the balance, provide fresh operating instructions, and update specimen signatures if the account was operated by a guardian.

Answer:

Explanation: Page 142 – Chapter 8 – Module B

A savings /fixed / recurring bank deposit account can **be opened by a minor of any age through his/her natural or legally appointed guardian**.

Minors above the age of 10 years may be allowed to open and operate savings bank accounts independently, if they so desire. Banks may, however, keeping in view their risk management systems, **fix limits** in terms of age and amount up to which minors may be allowed to operate the deposit accounts **independently**. They can also decide, in their own discretion, as to what **minimum documents are required for opening of accounts** by minors.

On attaining majority, the erstwhile minor should confirm the balance in his/her account and if the account is operated by the natural guardian / legal guardian, fresh operating instructions and specimen signature of erstwhile minor should be obtained and kept on record for all operational purposes.

Q44. Which of the following statements regarding the new tax regime are correct?

I. It is compulsory for Individuals and HUF to forego permissible exemptions and adopt the new tax regime.

II. The tax slab for income more than Rs. 15 lakh is the same as the tax slab for the old regime.

(a) I only
(b) II only
(c) Both I and II
(d) Neither I nor II

Answer: Option B.

Explanation: Page 504 – Chapter 25 – Module D

I. Statement I is not correct. It is optional for Individuals and HUF to forego permissible exemptions and adopt the new tax regime.

II. Statement II is correct. The tax slab for income exceeding Rs. 15 lakh is the same in both the new regime and the old regime i.e. 30%.

Hence, the correct answer is Option B.

Q45. Which of the following statements is incorrect regarding tax benefits associated with a home loan?

(a) Tax deduction on payment of interest is under Section 24.

(b) Tax deduction on principal repayment is under Section 80C.
(c) Tax deduction for first-time homebuyers is under Section 24.
(d) All are correct

Answer: Option C

Explanation: Page 584 – Chapter 28 – Additional Module

The tax deduction for first-time homebuyers is provided under **Section 80EE** of the Income Tax Act in India, not under Section 24. Section 80EE offers an additional deduction on the interest paid on a home loan for first-time homebuyers who meet specific conditions, such as the loan amount, property value, and ownership status.

Section 24 primarily deals with the tax deduction on the interest paid on a home loan for both self-occupied and let-out properties. It sets the maximum limit for the deduction on interest.

Section 80C, mentioned in statement B, deals with the deduction available on the repayment of the principal amount of the home loan.

Q46. What is the primary function of an account aggregator in the banking industry?

(a) Providing operational efficiencies
(b) Offering niche digital experiences
(c) Consolidating bank account information
(d) Enhancing transaction security

Answer: Option C

Explanation: page 20 – Chapter 1 – Module A

An account aggregator in the banking industry primarily functions to consolidate and aggregate bank account information from multiple financial institutions. This consolidation is aimed at providing users with a comprehensive view of their financial data, including details of accounts held across different banks. By doing so, account aggregators help users manage and analyze their finances more efficiently.

Q47. What is a sinking fund?

(a) A fund for daily operational expenses
(b) A fund used for charitable donations
(c) A fund established to accumulate money for future financial obligations or goals
(d) A fund for speculative investments

Answer: Option C

Explanation:

A sinking fund is a fund set up by an organization or individual to set aside money over time, often through regular contributions or investments, to ensure there are sufficient funds available to meet future financial obligations or specific financial goals, such as repaying a debt, funding a project, or covering large expenses.

Q48. Which of the following statements regarding opening a bank account is incorrect?

(a) A person can open multiple Demat accounts with the same broker.
(b) Submitting Aadhaar and PAN is mandatory.
(c) There is a minimum stipulated balance.
(d) Opening a bank account requires compliance with KYC (Know Your Customer) norms.

Answer: Option C

Explanation: Page 536 – Chapter 26 – Module D

In the context of opening a bank account, especially a Demat account, there is no stipulated minimum balance requirement according to SEBI (Securities and Exchange Board of India) guidelines. Unlike traditional savings or current accounts, which may have minimum balance requirements, Demat accounts are exempt from such obligations. Investors are not mandated by regulatory authorities to maintain a specific minimum balance in their Demat accounts. This flexibility is designed to make the process more accessible and investor-friendly, allowing individuals to engage in securities trading without the burden of maintaining a minimum balance.

Q49. Which of the following factors can help enhance value differentiation across banks?

(a) Technology
(b) Process delivery efficiency
(c) Ease of access
(d) All of the above

Answer: D

Explanation: Page 38 – Chapter 2 – Module A

If we examine the products and services offered by different banks, product differentiation is minimal, and the key factor that varies among banks is value differentiation. Additionally, technology, process delivery efficiencies, and ease of access serve as significant factors that distinguish the leading banks from others.

Q50. What is the definition of a mortgage as per Section 58(a) of the Transfer of Property Act, 1882?

(a) A transfer of immovable property for ownership
(b) A transfer of an interest in specific immovable property for security against future debts or pecuniary liabilities
(c) A transfer of personal property for security
(d) A transfer of property for business purposes

Answer: Option B

Explanation: Page 567 – Chapter 27 – Additional Material

Section 58(a) of the Transfer of Property Act, 1882 defines a mortgage as "a transfer of an interest in specific immovable property for the purpose of security, for the payment of money advanced or to be advanced by way of a loan, an existing or future debt, or the performance of an engagement that may give rise to a pecuniary liability."

Q51. Mr. Kumar, a salaried individual, has taken a floating rate home loan of Rs. 20 lakh from a bank at an interest rate of 8.5%. The loan has a tenure of 20 years. Now, consider the scenario where the Reserve Bank of India (RBI) announces a repo rate hike. What would be the likely impact on Mr. Kumar's Equated Monthly Installments (EMIs) or the period of the loan?

(a) EMIs will increase, and the loan tenure will also increase.
(b) EMIs will increase, but the loan tenure will decrease.
(c) EMIs will decrease, and the loan tenure will also decrease.
(d) EMIs will decrease, but the loan tenure will increase.

Correct answer: Option A

In the case of a repo rate hike, the floating interest rate on the home loan is likely to increase. This would result in higher EMIs for the borrower, and to keep the EMI affordable, the loan tenure might be extended.

Q52. Mr. Sharma, a resident of Mumbai, recently made an online purchase of electronic gadgets worth Rs. 50,000 from a reputable vendor using his credit card. Despite making the payment, the vendor failed to deliver the goods within the promised time frame. Mr. Sharma has attempted to resolve the issue with the vendor but has not received a satisfactory response. He went to his bank to initiate a chargeback, but the bank denied his request. What is the best way forward from here for Mr. Sharma?

(a) File a complaint with the local police station.
(b) Never pay using a credit card in the future.
(c) Escalate the matter to the Banking Ombudsman.
(d) Approach the vendor's bank for assistance.

Answer: Option C

Explanation: In India, the Banking Ombudsman is an independent authority appointed by the Reserve Bank of India (RBI) to resolve complaints and disputes between banks and their customers. Mr. Sharma can escalate the matter to the Banking Ombudsman for further investigation and resolution.

The Banking Ombudsman is an independent quasi-judicial authority established to address complaints and grievances of bank customers against their banks. It covers a wide range of banking services and considers complaints related to various issues, including deficiency in banking services, sanction of loans and advances, and other matters. A complaint can be filed within one year of the incident or within three years of becoming aware of the grievance. The **Banking Ombudsman investigates the complaint and provides a fair and impartial decision, which is binding on the bank.**