



DAILY PT MCQs-CRACK PRELIMS 2020 TEST-VIII (ECONOMICS-I)

1. Which of the following institutions are part of Financial sector in India?

1. Commercial banks
2. Money Lenders
3. Investment banks
4. Stock exchange operations
5. Insurance
6. Foreign exchange market

Select the CORRECT option from codes given below

- a) 1, 2, 3 and 6
- b) 1, 3, 4, 5 and 6
- c) 1, 3, 4 and 6
- d) 1, 2, 3, 4, 5 and 6

2. Which of the following policy initiative were taken before 1991?

1. Industrial Licensing
2. Tax Reforms
3. Technological up gradation

Select the CORRECT option from the codes given below

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

3. Consider the following statement with regard to Planning economy in India.

1. Planned economic development could be seen in the constitutional Provisions.

2. Five year plan economy directs each sectors with assigned targets.

Which of the statements given above is/ are INCORRECT?

- a) 1 only
- b) 2 only
- c) Both
- d) Neither 1 nor 2

4. Consider the following statements with reference to categorization of the economic sectors

1. All agriculture activities are classified under Primary sector
2. All Industrial activities are classified under secondary sector
3. Service Sector includes only those activities that support production of goods

Which of the statements given above is/ are CORRECT?

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

5. Which of the given below methods are used to calculate GDP (Gross Domestic Product) In India?

1. Value Added Method
2. Expenditure Method
3. Income Method

Select the CORRECT option from the codes given below

- a) 2 and 3 only b) 3 only
c) 2 only d) 1, 2 and 3
6. Which of the following is also termed as National Disposable Income of a country?
- a) GDP – Factor income earned by foreigner
b) NNP – Factor income earned by foreigner
c) GDP + other Current transfers from the rest of the world
d) NNP + other current transfers from the rest of the world
7. Consider the following statements regarding GDP,
1. While GDP provides information about income, it is silent about its distribution
 2. Non-monetary exchange transactions are also recorded by GDP
 3. Externalities on economy are accounted while calculating the GDP.
- Which of the statements given above is/ are CORRECT?
- a) 1 only b) 1 and 2 only
c) 2 and 3 only d) 1, 2 and 3
8. Consider the following statements
1. No person in India can refuse to accept these.
 2. They don't have intrinsic value like a gold or silver coin
- Which of the above statement/s define legal tenders CORRECTLY?
- a) 1 only b) 2 only
c) Both d) Neither 1 nor 2
9. Which of the following forms the part of

Narrow Money?

1. Currency with public
2. Demand deposit
3. Net time deposits of commercial banks

Select the CORRECT option from codes from given below

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

10. Which among the following forms the assets of RBI?

1. Currency
2. Foreign exchange
3. Loan to commercial banks
4. Vault cash held by commercial banks

Select the CORRECT option from Codes given below:

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

11. Factors used by RBI to manage Reserve Deposit Ratio (RDR) is/are

1. CRR
2. SLR
3. Bank rate

Select the CORRECT option from codes given below

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

12. The rate of interest offered by the banks to deposit holder is called as _____.

- a) Borrowing rate b) Lending rate
c) Base rate d) Bank rate

13. Consider the following statements

1. High powered money is always higher than total money supply in a healthy economy.

2. Commercial banks create extra AMOUNT of money by giving out a part of their deposits as loans or investment credits.

Which of the statements given above is/ are CORRECT?

- a) 1 only b) 2 only
c) Both d) Neither 1 nor 2

14. Who is called as 'lender of last resort' in India economy?

- a) Central government
b) Cooperative banking in rural areas
c) International monetary fund
d) None of the above

15. _____ is the intervention by the monetary authority (RBI) of a country in the money market to keep the money supply stable against exogenous or external shocks.

- a) Sterilization
b) Open Market Operations
c) Revaluation
d) None of the above

16. Consider the following statements

1. If CRR and SLR is increased then diminishes the value of the money multiplier and money supply of the economy.
2. If the volume of goods and services produced in the economy remains unchanged, the extra money will lead to decreased in prices of all commodities.

Which of the statements given above is/ are INCORRECT?

- a) 1 only b) 2 only

- c) Both d) Neither 1 nor 2

17. The difference between fiscal deficit of the current year and interest payment on the previous borrowing is called as _____.

- a) Revenue Deficit
b) Effective Revenue Deficit
c) Primary deficit
d) None of the above

18. Which of the following is NOT part of Revenue expenditure in Indian budget?

- a) Interest payment
b) Subsidies
c) Defense expenditure
d) Loans given

19. Which of the following forms are the part of Indian Foreign exchange reserve?

1. Foreign currency Assets
2. Gold
3. Special Drawing Rights
4. Reserve Tranche position

Select the CORRECT option from the codes given below

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

20. The External commercial borrowing is part of

- a) Capital account of BOP
b) Current account of BOP
c) Invisibles
d) Transfer payments

21. Which of the following is called as High powered money?

- a) Demand Deposit
b) Reserve money
c) Narrow money
d) Broad money
22. Which of the following forms the part of Capital count balance in BOP of India?
1. FPI
2. Bonds
3. Transfer payments
Select the CORRECT option from the codes given below
a) 1 only
b) 1 and 2 only
c) and 3 only
d) 2 and 3 only
23. Consider the following statements with reference to Types of goods and their behavior with substitution effect
1. Normal good's quantity demanded increases with substitution effect.
2. Inferior good's quantity demanded decreases with substitution effect.
- Which of the statements given above is/are CORRECT?
a) 1 only b) 2 only
c) Both d) Neither 1 nor 2
24. "The set of all possible combinations of the two inputs that yield the same maximum possible level of output is called as _____."
a) Isoquant
b) Duopoly
c) Budget line
d) Equilibrium line
25. The requirement to establish Perfect Competition market is/are
1. Consumers and firms have perfect knowledge of the output, Input and their prices.
2. Firms are free to start producing the commodity or to stop production.
Select the CORRECT option from the codes given below:
a) 1 only b) 2 only
c) Both d) Neither 1 nor 2

ANSWER

1. **Answer: (d)**
• **Explanation:** The Financial Sector of India is composed of both organized and unorganized participants.
The unorganized participants include:
(1) Unregulated Non-Banking Financial Intermediaries.
(2) Indigenous Bankers
(3) Money lenders, etc.
The organized sector includes:
(1) The Banking Sector including RBI, Commercial Banks, Public Sector Banks, Cooperative Banks, RRBs.
(2) Financial Institutions such as NABARD, EXIM, NHB, SIDBI
(3) The Securities market composed of BSE, NSE, SEBI, NSDL, CSDL, MCX, NCDEX, etc.
(4) The Insurance market comprising LIC, GIC, Private sector insurance providers.
(5) Mutual Funds

- 2. Answer: (d)
- 3. Answer: (d)
- 4. Answer: (b)

Explanation:

- **Primary Sector:** When we produce a good by exploiting natural resources, it is an activity of the primary sector. Since most of the natural products we get are from agriculture, dairy, fishing, forestry, this sector is also called **agriculture and related sector**.
- **Secondary Sector:** The secondary sector covers activities in which natural products are changed into other forms through ways of manufacturing that we associate with industrial activity. Since this sector gradually became associated with the different kinds of industries that came up, it is also called as **industrial sector**.
- **Tertiary Sector:** Includes activities that help in the development of the primary and secondary sectors. These activities, by themselves, do not produce a good but they are an aid or a support for the production process. Transport, storage, communication, banking, trade are some examples of tertiary activities. Since these activities generate services rather than goods, the tertiary sector is also called the service sector.
- Service sector also includes some essential services that may not directly help in the production of goods. For example, we require teachers, doctors, and those who provide personal services such as washermen, barbers, cobblers, lawyers, and people to do administrative and accounting works.

- 5. Answer: (d)
 - **Explanation:** GDP can be calculated in 3 ways:
 1. **Output/Product/Value Added Method:** In this method, the market value of final goods and services is measured.
 2. **Expenditure Method:** Adds consumption, investment, government expenditure and net exports (exports – imports)
 3. **Income Method:** Adds what factors earn: wages, profits, rents, etc.
 - The three methods must yield the same results. But in reality, there will be minor differences in the results obtained from various methods due to changes in inventory levels.
- 6. Answer: (d)
 - **Explanation: National Disposable Income** = Net National Product at market prices + Other current transfers from the rest of the world
 - The idea behind National Disposable Income is that it gives an idea of what is the maximum amount of goods and services the domestic economy has at its disposal. Current transfers from the rest of the world include items such as gifts, aids, etc.
- 7. Answer: (a)
 - **Explanation:** (1) GDP is the sum total of the value of goods and services produced in an economy. While it gives the total value, it does not indicate its distribution. Thus, a higher GDP does not automatically translate into greater welfare of the population.
 - (2) GDP includes on marketable goods & services. Therefore, several goods &

services of non-marketable nature, such as barter transactions or work done by housewives and similar such examples, of non-monetary transactions, are excluded from its ambit.

- (3) Externalities refer to the benefits (or harms) a firm or an individual cause to another for which they are not paid (or penalised). For example, an oil refinery polluting a nearby river is a negative externality. Several such positive and negative externalities are not recorded in the GDP calculation process.

8. **Answer: (c)**

- **Explanation:** Every currency note bears on its face a promise from the Governor of RBI that if someone produces the note to RBI, or any other commercial bank, RBI will be responsible for giving the person purchasing power equal to the value printed on the note.

The same is also true of coins.

Currency notes and coins are therefore called **fiat money**.

They **do not have intrinsic value** like a gold or silver coin.

They are also called legal tenders as they **cannot be refused by any citizen of the country for settlement of any kind of transaction**.

Cheques drawn on savings or current accounts, however, can be refused by anyone as a mode of payment. Hence, **demand deposits are not legal tenders**.

9. **Answer: (a)**

- **Explanation:** Narrow Money (M_1) = Currency with Public + Demand Deposits

with Banks + Other Deposits with RBI.

Broad Money (M_3) = M_1 + Time Deposits of Banks

10. **Answer: (b)**

Explanation: The assets of RBI include:

1. Gold
2. Foreign Exchange
3. Loan to Government (Government Securities)
4. Loan to commercial banks

The liabilities of RBI include:

1. Currency
2. Currency held by public
3. Vault cash held by commercial banks
4. Deposits of commercial banks with RBI
5. Treasury deposits of GOI

11. **Answer: (d)**

- **Explanation:** Cash Reserve Ratio is the ratio of the total deposits of a bank, which is kept with the RBI in the form of cash.

Statutory Liquidity Ratio is the ratio of total deposits of a bank, which is to be maintained by the bank with itself in the form of gold, cash or any liquid asset form. Commercial banks can borrow money from RBI at the bank rate when they run short of reserves.

12. **Answer: (a)**

- Commercial Banks accept deposits from the public and lend out this money to interest earning investment projects.
- The rate of interest offered by the bank to deposit holders is called the '**borrowing rate**'
- The rate at which banks lend out their

reserves to investors is called the 'lending rate'.

13. Answer: (b)

- **Explanation:** The total money supply always exceeds the amount of high-powered money held by the RBI in the economy.
- The **money multiplier**, which is the ratio of the stock of money to the stock of high-powered money in an economy, viz. M/H , gives the factor by which the total stock of money in the market is greater than the high-powered money. Its value is always greater than 1.
- Commercial banks create this extra amount of money by giving out a part of their deposits as loans or investment credits.

14. Answer: (d)

- **Explanation:** RBI is called as lender of last resort.

15. Answer: (a)

- Under Open Market Operations, RBI purchases (or sells) government securities to the general public in a bid to increase (or decrease) the stock of high-powered money in the economy.

16. Answer: (b)

- A high (or low) value of CRR or SLR helps increase (or decrease) the value of reserve deposit ratio, thus diminishing (or increasing) the value of the money multiplier and money supply in the economy in a similar fashion.
- If the volume of goods & services in the economy remains unchanged, extra money will lead to inflation and thus prices will rise.

17. Answer: (c)

- Revenue deficit = Revenue Receipts – Revenue Expenditures
- Effective Revenue Expenditure = Revenue Receipts – (Revenue Expenditures – Grants utilized for construction of capital assets)
- Fiscal Deficit = (Total Receipts – Borrowings) – Total Expenditures
- Primary Deficit = (Total Receipts – Borrowings) – (Total Expenditures – Interest Payments)

18. Answer: (d)

Revenue Expenditure includes:

- Interest Payments on loans
- Salaries, Pensions & PF Payments to employees
- Subsidies
- Defense Expenditure
- Law & Order expenditures
- Expenditures on social services
- Dividend outgo
- Grants given by the government, etc.

19. Answer: (d)

- **Explanation:** Components of India's foreign exchange reserves:

1. Foreign Currency Assets (FCAs): It forms the largest component of our forex reserves. It mainly consists of US dollar and other major non-US global currencies. It also comprises investments in US treasury bills, bonds of other selected governments and deposits with foreign central banks.
2. Gold: Gold held by the RBI with the intention to serve as a guarantee to redeem promises to pay depositors, note holders or to secure a currency.

3. Special Drawing Rights (SDRs): These are special instruments created by IMF to supplement its member countries official reserves and serve as an international reserve asset since 1969. It is essentially an artificial currency instrument made up of a basket of currencies: Dollar, Euro, Yuan, Yen & Pound-Sterling.
4. RBI's Reserve Tranche Position with IMF: It stands for the difference between India's quota at IMF & the IMF's holding of its currency.

20. Answer: (a)

- **Explanation:** The Capital account of the BOP consists of:
 1. Loans
 2. FDI
 3. FPI
 4. ADR/GDRs

21. Answer: (b)

- High Powered Money is also called as Reserve Money.

22. Answer: (b)

- **Explanation:** Refer Q. 95

23. Answer: (a)

- **Explanation:** Inferior good's quantity demanded also increases.

24. Answer: (a)

- **Explanation:** An Isoquant is just an alternative way of representing the production function. Consider a production function with two inputs factor 1 and factor 2. An isoquant is the set of all possible combinations of the two inputs that yield the same maximum possible level of output

25. Answer: (c)

- Four characteristics or conditions must be present for a perfectly competitive market structure to exist.
 1. There must be *many firms* in the market, none of which is large in terms of its sales.
 2. Firms should be able to *enter and exit the market easily*.
 3. Each firm in the market produces and sells a non-differentiated or *homogeneous product*.
 4. All firms and consumers in the market have *complete information* about prices, product quality, and production techniques.

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