

**Indian Economy UPSC Civil Services Exam Questions (2018)**

**1. Which one of the following best describes the term "Merchant Discount Rate" sometimes seen in news?**

- A. The incentive given by a bank to a merchant for accepting payments through debit cards pertaining to that bank.
- B. The amount paid back by banks to their customers when they use debit cards for financial transactions for purchasing goods or services.
- C. The charge to a merchant by a bank for accepting payments from his customers through the bank's debit cards.
- D. The incentive given by the Government, to merchants for promoting digital payments by their customers through Point of Sale (PoS) machines and debit cards.

**Answer: Option C**

**Explanation:**

The merchant discount rate is the rate charged to a merchant for **payment processing services on debit and credit card transactions.**

- The merchant must set up this service and agree to the rate prior to accepting debit and credit cards as payment.
- The merchant discount rate is a fee that merchants must consider when managing the overall costs of their business.

**2. With reference to India's decision to levy an equalization tax of 6% on online advertisement services offered by non-resident entities, which of the following statements is/are correct?**

- 1) It is introduced as a part of the Income Tax Act.
- 2) Non-resident entities that offer advertisement services in India can claim a tax credit in their home country under the "Double Taxation Avoidance Agreements".

Select the correct answer using the code given below:

- A.1 only
- B.2 only
- C. Both 1 and 2

D. Neither 1 nor 2

**Answer: Option D**

**Explanation:**

**Statement 1 is incorrect.**

The levy was introduced in the **Budget as part of the finance bill** and not as a part of Income Tax Act.

**Statement 2 is also incorrect.**

The term income tax is defined in double tax avoidance agreements to be mean 'Indian income tax'. As the levy is not in the nature of income tax, and this levy is currently imposed under domestic tax laws and hence no credit is available under tax avoidance treaties.

So, because of this the companies **would not be able to take the benefit** of tax treaties to avoid double taxation in their home countries.

**So, none of the statements are correct.**

**3. Consider the following statements**

- 1) The Fiscal Responsibility and Budget Management (FRBM) Review Committee Report has recommended a debt to GDP ratio of 60% for the general (combined) government by 2023, comprising 40% for the Central Government and 20% for the State Governments.
- 2) The Central Government has domestic liabilities of 21% of GDP as compared to that of 49% of GDP of the State Governments.
- 3) As per the Constitution of India, it is mandatory for a State to take the Central Government's consent for raising any loan if the former owes any outstanding liabilities to the latter.

Which of the statements given above is/are correct?

- A.1 only
- B.2 and 3 only
- C.1 and 3 only
- D. 1, 2 and 3

**Answer: Option C**

# OFFICERS IAS ACADEMY

(IAS Academy by IAS Officers)

## Explanation:

### Statement 1 is correct.

The Fiscal Responsibility and Budget Management Committee headed by N.K. Singh submitted its report to Finance Minister in January 2017.

- The Fiscal Responsibility and Budget Management (FRBM) Review Committee Report has recommended a debt to GDP ratio of 60% for the general (combined) government by 2023, comprising **40% for the Central Government and 20% for the State Governments.**

### Statement 2 is incorrect.

**The statement is in reverse.** The Central Government has domestic liabilities of 49% of GDP as compared to that of 21% of GDP of the State Governments.

### Statement 3 is correct.

As per the Constitution of India, **it is mandatory for a State to take the Central Government's consent for raising any loan if the former owes any outstanding liabilities to the latter. (Article-293 Clause (iii)).**

**So, Statements 1 and 3 are correct.**

## 4. Consider the following statements

- 1) The quantity of imported edible oils is more than the domestic production of edible oils in the last five years.
- 2) The Government does not impose any customs duty on all the imported edible oils a special case.

Which of the statements given above is/are correct-?

- A.1 only
- B.2 only
- C. Both 1 and 2
- D. Neither 1 nor 2

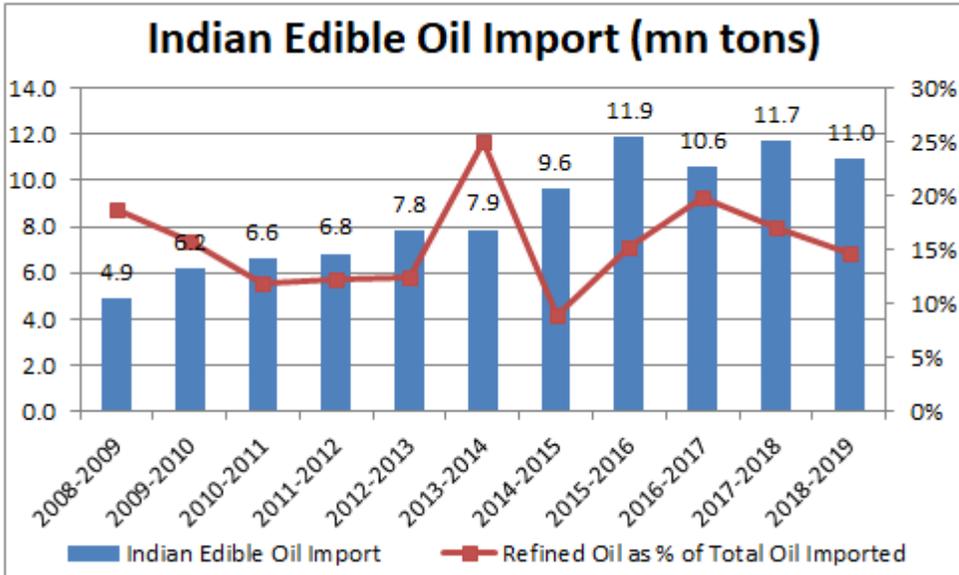
**Answer: Option A**

## Explanation:

### Statement 1 is correct.

The quantity of the imported oil is almost 60% of total oil consumption in India.

**Imports are more than the domestic production of edible oils in last 5 years.**



Statement 2 is incorrect.

Government imposes customs duty on several edible oils like palm oil, sunflower oil.

The duties vary from 25% to 40% based on criteria of crude and refined palm oil.

5. Which one of the following links all the ATMs in India?

- A. Indian banks' Association
- B. National Securities Depository Limited
- C. National Payments Corporation of India
- D. Reserve Bank of India

Answer: Option C

Explanation:

National Payments Corporation of India links all the ATMs in India.

FUNCTIONS of NPCL:

1. National Payments Corporation of India is the **umbrella organization** for all retail payment systems in India which aims to allow all Indian citizens to have unrestricted access to e-payment services
2. The organization is owned by a consortium of major banks, and has been promoted by the country's central bank, the Reserve Bank of India.

3. It aims at developing Unified Payments Interface aims to move India to a cashless society with only digital transactions.

6. Which one of the following statements correctly describes the meaning of legal tender money?

- A. The money which is tendered in courts of law to defray the fee of legal cases.
- B. The money which a creditor is under compulsion to accept in settlement of his claims.
- C. The bank money in the form of cheques, drafts, bills of exchange, etc.
- D. The metallic money in circulation in a country.

**Answer: Option B**

**Explanation:**

**Legal tender money** is the money which a creditor is under compulsion to accept in settlement of his claims.

• **Legal tender is legal status given to an instrument like currency note that it can be used as medium of payment.**

**Example: Indian Rupee Notes.**

7. If a commodity is provided free to the public by the Government, then

- A. The opportunity cost is zero.
- B. The opportunity cost is ignored.
- C. The opportunity cost is transferred from the consumers of the product to the tax-paying public.
- D. The opportunity cost is transferred from the consumers of the product to the Government.

**Answer: Option C**

**Explanation:**

**Opportunity cost is the cost of choosing one alternative over another and missing the benefit offered by the forgone opportunity, investing or otherwise.**

Opportunity cost refers to a benefit that a person could have received, but gave up, to take another course of action.

For example: If a person named Aravinth who gives up his job worth for **8.5 lakhs Per Annum for pursuing civil services.**

**In this scenario he has chosen one alternative of studying UPSC at cost of salary paid by the company.**

His opportunity cost is 8.5 lakhs per annum.

**8. Increase in absolute and per capita real GNP do not connote a higher level of economic development, if**

- A. Industrial output fails to keep pace with agricultural output.
- B. Agricultural output fails to keep pace with industrial output.
- C. Poverty and unemployment increase.
- D. Imports grow faster than exports.

**Answer: Option C**

**Explanation:**

Increase in absolute and per capita real GNP does not connote a higher level of economic development, **if Poverty and unemployment increase.**

- GNI per capita is calculated by dividing the GNI with the **population.**
- **It does not account inequality present between the population.**
- Economic development is the process by which a nation **improves the economic, political, and social well-being of its people.**

**9. Consider the following statements:**

**Human capital formation as a concept is better explained in terms of a process, which enables**

- 1) Individuals of a country to accumulate more capital.
- 2) Increasing the knowledge, skill levels and capacities of the people of the country.
- 3) Accumulation of tangible wealth.
4. Accumulation of intangible wealth.

Which of the statements given above is/are correct?

- A.1 and 2
- B. 2 only
- C.2 and 4
- D. 1, 3 and 4

**Answer: Option C**

**Explanation:**

**Statement 2 and 4 are correct.**

Human capital formation as a concept is better explained in terms of a process, which enables **increasing the knowledge, skill levels and capacities of the people of the country.**

- Tangible wealth are material, seen (visible) and **easily quantified. So, Statement 3 goes wrong.**
- On the other hand, things that are intangible are immaterial, unseen, and not easily quantified like **intellectual capacity, skills. So it is also related to human capital formation.**

**10. Despite being a high saving economy, capital formation may not result in significant increase in output due to**

- A. Weak administrative machinery
- B. Illiteracy
- C. high population density.
- D. high capital-output ratio

**Answer: Option D**

**Explanation:**

The Incremental Capital-Output Ratio (**ICOR**) is the ratio of investment to growth which is equal to the reciprocal of the marginal product of capital. The higher the **ICOR**, the lower the productivity of capital or the marginal efficiency of capital.

Capital-output ratio (**COR**) basically indicates the **amount of capital required to produce one unit of output.**

- If **COR** is high, despite saving high and generating enough capital, our output may not grow significantly because the **COR** is high. This may be a result of **poor technology or poor management.**

**11. Consider the following statements:**

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

Which of the statements given above is/are correct?

- A.1 and 2 only
- B. 3 Only
- C.2 and 3 only
- D. 1, 2 and 3

**Answer: Option C**

**Statement 1 is incorrect.**

A Government Security (G-Sec) is a tradable instrument issued by the Central Government or the State Governments.

●G-Secs are issued through auctions conducted by RBI. As per the Reserve Bank of India Act, 1934, the RBI may, by agreement with **any State Government undertake the management of the public debt of that State.**

**So, the statement 1 goes wrong.**

**Statement 2 is correct.**

In India, the Central Government issues both, treasury bills and bonds or dated securities **while the State Governments issue only bonds or dated securities**, which are called the State Development Loans (SDLs).

**Statement 3 is correct**

Treasury bills are zero coupon securities and pay no interest. They are **issued at a discount and redeemed at the face value at maturity.**

**Thus, statements 2 and 3 are correct.**

**12. Consider the following statements:**

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

Which of the statements given above is/are correct?

- A.1 only
- B.2 only
- C. Both 1 and 2

D. Neither 1 nor 2

**Answer: Option A**

**Explanation:**

**Statement 1 is correct.**

Capital Adequacy Ratio (CAR) is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities.

It is the amount that banks **have to maintain in the form of their own funds to offset any loss that banks incur if the account-holders fail to repay dues.**

**Statement 2 is incorrect.**

It is decided by **central banks and bank regulators (not by individual banks)** to prevent commercial banks from taking excess leverage and becoming insolvent in the process.

**13. With reference to digital payments, consider the following statements:**

- 1) BHIM app allows the user to transfer money to anyone with a UPI-enabled bank account.
- 2) While a chip-pin debit card has four factors of authentication, BHIM app has only two factors of authentication.

**Which of the statements given above is/are correct?**

A.1 only

B.2 only

C. Both 1 and 2

D. Neither 1 nor 2

**Answer: Option A**

**Explanation:**

**Statement 1 is correct.**

**BHIM app is powered by UPI and integrates the Payments platform as the official app of the government of India.** It allows the user to transfer money to anyone with a UPI-enabled bank account.

**Statement 2 is incorrect.**

**Both parts of the statement are wrong.** Debit card **does not have four factor authorizations** (only two factors) and **BHIM app has three factor authorizations.**

**14. Consider the following:**

- 1) Areca nut
- 2) Barley
- 3) Coffee
- 4) Finger millet
- 5) Groundnut
- 6) Sesamum
- 7) Turmeric

The Cabinet Committee on Economic Affairs, has announced the Minimum Support Price for which of the above?

- A. 1, 2, 3 and 7 only
- B. 2, 4, 5 and 6 only
- C. 1, 3, 4, 5 and 6 only
- D. 1, 2, 3, 4, 5, 6 and 7

**Answer: Option B**

The MSP is fixed on the recommendations of the Commission for Agricultural Costs and Prices (CACP). The CACP is a statutory body and submits separate reports recommending prices for Kharif and Rabi seasons.

- Initially, MSP covered paddy, rice, wheat, jowar, bajra, maize, ragi (Finger Millet), barley, gram, sugarcane, groundnut, soybean, sunflower seed, rapeseed and mustard, cotton, jute and tobacco.
- From 1994-95 onwards, Nigerseed and Sesame were included under MSP Scheme of CACP, in addition to the edible oilseeds already covered by the Commission
- Similarly, during 2001-2002, the government enhanced the terms of reference of the Commission by including lentil (masur).

Eliminating Coffee will result in elimination of Option A, C and D.

# OFFICERS IAS ACADEMY

(IAS Academy by IAS Officers)

15. With reference to the governance of public sector banking in India, consider the following statements

1) Capital infusion into public sector banks by the Government of India has steadily increased in the last decade.

2) To put the public sector banks in order, the merger of associate banks with the parent State Bank of India has been affected.

Which of the statements given above is/are correct?

A.1 only

B.2 only

C. Both 1 and 2

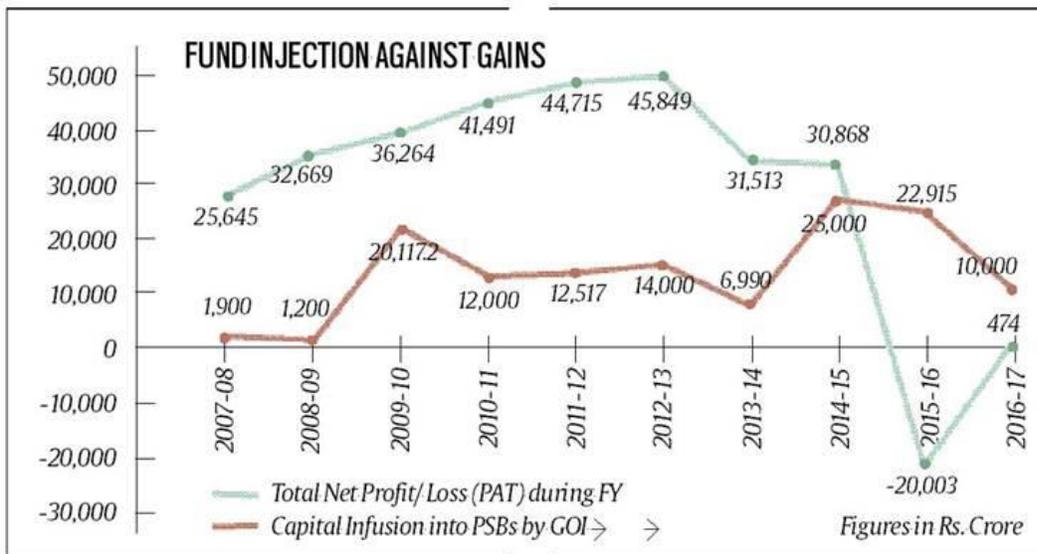
D. Neither 1 nor 2

**Answer: Option B**

**Explanation:**

**Statement 1 is incorrect.**

Capital infusion into public sector banks by the Government of India **has not steadily increased in the last decade.**



Source: RBI, Finance Ministry, Stock Exchanges

**There have been ups and downs in capital infusion.**

**Statement 2 is correct.**

The merger of SBI associated banks under Section 35 of the State Bank of India Act, 1955 resulted in the creation of a stronger merged entity.

This will minimize vulnerability to any geographic concentration risks faced by subsidiary banks. It will create improved operational efficiency and economies of scale. It will also result in improved risk management and unified treasury operations.

**16. Consider the following items:**

- 1) Cereal grains hulled
- 2) Chicken eggs cooked
- 3) Fish processed and canned
- 4) Newspapers containing advertising material.

Which of the above items is/are exempted under GST (Goods and Services Tax)?

- A.1 only
- B.2 and 3 only
- C.1, 2 and 4 only
- D. 1, 2, 3 and 4

**Answer: Option C (Confirmed as per official UPSC key)**

**Explanation:**

Earlier GST council imposed 5% rate of GST on hulled grains. However, later June 2017, the rate of GST applicable on hulled grains is 0%. (Nil rate) falls under GST HSN code number 1104.

Chicken eggs cooked: 0% GST rate.

Fish processed and canned: 5% GST rate .**So, Statement 2 goes wrong.**

Newspapers containing advertising material: 0% GST rate Source

*However, ads attract 5% GST, not the newspapers publishing them.*

***So, the statements 1, 3 and 4 are correct.***