



1100

ECONOMY

MCQs

UPSC EXAM



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Part 1

200 MCQs

Questions

1. The term "Stagflation" recently used in the context of global economies, refers to a situation characterized by:

1. High inflation
2. High economic growth
3. High unemployment
4. Stagnant demand

Select the correct answer using the code given below:

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

2. Consider the following statements regarding the "Impossible Trinity" or Trilemma, a key concept in RBI's management of external sector:

1. It states that a country cannot have a fixed foreign exchange rate, free capital movement, and an independent monetary policy simultaneously.
2. India has chosen to have a fully floating exchange rate and completely free capital flows, thereby sacrificing its monetary policy autonomy.
3. The RBI often intervenes in the forex market to manage volatility, indicating a managed float regime.

Which of the statements given above is/are correct?

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

3. The "Liquidity Adjustment Facility (LAF)" of the RBI includes which of the following instruments?

1. Repo
2. Reverse Repo
3. Standing Deposit Facility (SDF)
4. Marginal Standing Facility (MSF)

Select the correct answer using the code given below:

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

4. What is the primary purpose of the "Standing Deposit Facility (SDF)" recently emphasized by the RBI?

- (a) To provide liquidity to banks for their long-term funding needs.
- (b) To act as the upper bound of the LAF corridor and absorb liquidity without the need for collateral.
- (c) To act as the lower bound of the LAF corridor and inject liquidity against collateral.
- (d) To provide funds to banks for meeting their overnight emergency requirements.

5. The concept of "Fiscal Dominance" often discussed in monetary policy reviews, implies:

- (a) The fiscal deficit is entirely financed by the central bank's printing of money.
- (b) Monetary policy decisions are subordinated to the financing needs of the government's fiscal policy.
- (c) The government's revenue dominates its expenditure.
- (d) The fiscal policy is designed to dominate the inflation targets.

6. "Open Market Operations (OMOs)" conducted by the RBI primarily involve:

- (a) Buying and selling of foreign exchange to manage the rupee's value.
- (b) Buying and selling of government securities to manage liquidity.

- (c) Adjusting the policy rates like repo and reverse repo.
- (d) Lending money to commercial banks for agriculture and export credit.

7. The "Negative Interest Rate Policy (NIRP)", a tool used by some advanced economies, is best described as:

- (a) A scenario where inflation is higher than the nominal interest rate.
- (b) A central bank policy where commercial banks are charged for parking excess reserves.
- (c) A government policy to tax interest income from savings accounts.
- (d) A situation where the reverse repo rate becomes higher than the repo rate.

8. "Quantitative Easing (QE)" is an unconventional monetary policy where a central bank:

- (a) Increases the quantitative limits for foreign portfolio investments.
- (b) Increases the supply of money by purchasing government securities or other financial assets.
- (c) Quantitatively restricts the import of certain goods to improve the current account deficit.
- (d) Eases the quantitative norms for bank lending to priority sectors.

9. The "Taper Tantrum" of 2013, which impacted India, was related to:

- (a) A sudden taper in crude oil prices leading to a fiscal crisis.
- (b) The announcement of a reduction in the US Federal Reserve's quantitative easing program.
- (c) The RBI's decision to taper its Open Market Operations.
- (d) A tantrum by credit rating agencies leading to a taper in India's sovereign rating.

10. The "Countercyclical Capital Buffer (CCyB)" is a macroprudential tool that requires banks to:

- (a) Hold capital against their cyclical investments in the agriculture sector.
- (b) Build up capital during periods of high credit growth to be used during periods of stress.

- (c) Maintain a buffer of government securities to counter cyclical liquidity risks.
- (d) Create a counter fund to cycle capital from foreign investors to domestic markets.

11. "Helicopter Money", a term often used in discussions about extreme monetary stimulus, refers to:

- (a) Dropping banknotes from a helicopter to increase money supply.
- (b) Direct financing of the government's fiscal deficit by the central bank.
- (c) Direct transfer of money to the public to stimulate demand and inflation.
- (d) A special loan scheme for the aviation and helicopter industry.

12. The "Volcker Rule", sometimes mentioned in the context of global banking reforms, is primarily aimed at:

- (a) Preventing commercial banks from engaging in proprietary trading.
- (b) Capping the CEO's salary in private banks.
- (c) Allowing banks to undertake insurance businesses.
- (d) Mandating a higher volume of lending to the volatile energy sector.

13. In the context of the RBI's functions, "Sterilization" of foreign exchange inflows refers to:

- (a) Purifying foreign currency notes received by the central bank.
- (b) Neutralizing the impact of forex intervention on the domestic money supply through OMOs.
- (c) Making the foreign exchange reserves risk-free by investing only in sovereign bonds.
- (d) A legal process to prevent the inflow of black money from abroad.

14. What is "Financial Repression", a concept relevant to emerging economies like India?

1. Policies that keep real interest rates low or negative.
2. Government ownership or control of banks.
3. Creating regulations that channel captive savings to government debt.
4. Repressing the stock market to encourage bank deposits.

Select the correct answer using the code given below:

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

15. The "Taylor Rule" in economics is a prescribed guideline for:

- (a) Determining the tax rate based on inflation and output gap.
- (b) Determining the policy interest rate based on inflation and output gap.
- (c) The rule for foreign exchange trading by central banks.
- (d) The rule for calculating the Gross Domestic Product (GDP).

16. The "Dollar Index" or DXY, which the RBI monitors, measures the value of the US dollar against:

- (a) A basket of major emerging market currencies.
- (b) A basket of currencies of its major trading partners, including the Chinese Yuan.
- (c) A basket of six major world currencies (Euro, Yen, Pound, etc.).
- (d) The value of gold.

17. "Operation Twist" is an operation conducted by a central bank that involves:

- (a) Twisting the policy rates, i.e., increasing repo while decreasing reverse repo.
- (b) Simultaneous buying of long-term securities and selling of short-term securities to flatten the yield curve.
- (c) A sudden and unexpected twist in the monetary policy stance from accommodative to hawkish.
- (d) Manipulating the exchange rate by twisting the rules of forex intervention.

18. The "J-Curve effect" in economics is associated with:

- (a) The initial deterioration and subsequent improvement of a country's trade balance post currency depreciation.
- (b) The curve of GDP growth rate that resembles a 'J' after a period of recession.

- (c) The performance of the stock market after a major economic reform.
- (d) The curve depicting the relationship between inflation and unemployment.

19. "Securitization", a process that can lead to financial instability as seen in the 2008 crisis, involves:

- (a) Making secured loans against government guarantees.
- (b) Pooling various types of debt and selling them as consolidated financial instruments.
- (c) The government securing the deposits in banks by increasing insurance limits.
- (d) The central bank securing the foreign exchange reserves by diversifying the asset basket.

20. The "Tobin Tax", proposed in various forms in different countries, is a tax on:

- (a) High-frequency foreign exchange transactions.
- (b) Carbon emissions by industries.
- (c) The wealth of ultra-high-net-worth individuals.
- (d) Corporate profits exceeding a certain threshold.

21. The term "Zombie Lending" or "Zombie Firms", often discussed in the context of post-pandemic economic recovery, refers to:

1. Companies that are unable to cover their debt servicing costs from current profits over an extended period.
2. Firms that are kept alive only by continuous rollover of loans from banks, often under regulatory forbearance.
3. Non-Banking Financial Companies (NBFCs) that have failed but are yet to be liquidated.
4. Start-ups that have high valuations but no clear path to profitability.

Which of the statements given above are correct?

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

(c) 1, 2 and 4 only

(d) 1, 2, 3 and 4

22. "Modern Monetary Theory (MMT)" has been a subject of intense debate.

Which of the following is a core proposition of MMT?

(a) Governments that borrow in their own sovereign currency can never be forced to default on their debt.

(b) Fiscal deficits are inherently bad and must be avoided at all costs.

(c) Central banks should always be independent and not finance government expenditure.

(d) Taxation is the primary source of revenue for a government to fund its spending.

23. The "K-Shaped Recovery", a term used extensively to describe post-pandemic economic outcomes, implies:

(a) A recovery where different sectors of the economy rebound at the same pace.

(b) A recovery where high-income households and large firms see improvement, while low-income households and small firms struggle.

(c) A recovery shaped by the performance of the key infrastructure sector.

(d) A rapid, V-shaped recovery followed by an immediate slowdown, forming a 'K' shape.

24. "Greenflation" is a term that has emerged in economic discussions. It most accurately refers to:

(a) Inflation caused by excessive government spending on green energy projects.

(b) The rising cost of transitioning to a green economy, including the prices of metals and minerals critical for renewable technologies.

(c) Deflation in the fossil fuel sector due to green policies.

(d) The inflation target set by central banks that incorporate green goals.

25. The "Gig Economy" has been in the news regarding labor laws. Its characteristic feature is:

(a) A system of permanent employment with strong social security.

- (b) Free-market systems that are highly regulated.
- (c) Labor markets characterized by short-term contracts or freelance work as opposed to permanent jobs.
- (d) Economies that are highly dependent on agricultural gigs or harvests.

26. Consider the following statements about "Base Erosion and Profit Shifting (BEPS)":

1. It refers to tax planning strategies used by multinational companies that exploit gaps in tax rules to shift profits to low or no-tax locations.
2. The OECD/G20 BEPS Project aims to provide governments with solutions to combat this practice.
3. The global minimum corporate tax rate of 15% is an outcome of the BEPS project.

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

27. The "Twin Balance Sheet (TBS)" problem, which affected India, was concerned with the stress in:

- (a) The Central Government's and State Governments' balance sheets.
- (b) The balance sheets of public sector banks and some large corporate houses.
- (c) The current account and capital account of the Balance of Payments.
- (d) The RBI's balance sheet and the Central Government's balance sheet.

28. "Crypto-assets" pose a challenge to regulators. In this context, what is a "Stablecoin"?

- (a) A cryptocurrency whose value is backed by a sovereign guarantee.
- (b) A crypto-asset that is stabilized by being backed by a reserve asset like a fiat currency or gold.

- (c) The first cryptocurrency issued by a central bank.
- (d) A cryptocurrency that has shown stable growth in its value over time.

29. The "Nord Stream" pipeline, often in the news geopolitically, is crucial for the transport of:

- (a) Crude oil from Russia to Europe.
- (b) Natural gas from Russia to Germany.
- (c) Data cables under the Atlantic Ocean.
- (d) Lithium from the Nordic countries to the rest of the world.

30. "Friend-shoring" or "Allied-shoring", a new term in global trade policy, refers to:

- (a) Making friends with trading partners through cultural exchanges.
- (b) The policy of relocating supply chains to countries that are geopolitical allies.
- (c) Providing shore-based facilities to friendly navies.
- (d) Outsourcing IT services only to countries with a friendly time zone.

31. The "CHIPS and Science Act" and the "Inflation Reduction Act" of the USA are primarily aimed at:

- (a) Reducing the fiscal deficit through austerity measures.
- (b) Boosting domestic manufacturing in strategic sectors like semiconductors and clean energy.
- (c) Providing direct stimulus checks to citizens to combat inflation.
- (d) Imposing higher taxes on technology companies.

32. "Neutral Real Interest Rate (r^*)" is a key concept in monetary policy. It is defined as:

- (a) The policy interest rate set by the central bank when inflation is at its target.
- (b) The real short-term interest rate consistent with output at its potential and stable inflation.
- (c) The interest rate that is neutral between being positive and negative.
- (d) The average interest rate on government bonds over a long period.

33. "Web 3.0" or the "Decentralized Web" is based on which of the following technologies?

1. Blockchain
2. Centralized Data Servers
3. Cryptocurrencies
4. Token-based economics

Select the correct answer using the code given below:

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

34. The "Global Minimum Corporate Tax Rate", agreed upon by over 130 countries under the OECD framework, is set at:

- (a) 10%
- (b) 15%
- (c) 21%
- (d) 25%

35. "Carbon Border Adjustment Mechanism (CBAM)", proposed by the European Union, is essentially a:

- (a) Subsidy for green products manufactured within the EU.
- (b) Tariff on carbon-intensive products imported into the EU.
- (c) Tax on the carbon emissions of EU citizens.
- (d) Fund to help developing countries adapt to climate change.

36. In economics, "Bullwhip Effect" refers to:

- (a) The effect of a small change in consumer demand that gets amplified up the supply chain, causing large swings in inventory.
- (b) The cracking sound of a bullwhip in the stock market indicating a crash.
- (c) The effect of monetary policy on long-term bond yields.
- (d) The impact of oil price shocks on inflation.

37. "Structured Investment Vehicles (SIVs)" were a central cause of the 2008 Global Financial Crisis because they:

- (a) Were used by governments to structure bailout packages.
- (b) Held long-term assets funded by short-term debt, creating a liquidity mismatch.
- (c) Provided structured insurance to poor households.
- (d) Were vehicles for investing only in government securities.

38. The "Phillips Curve" represents a theoretical relationship between:

- (a) Inflation and unemployment.
- (b) Interest rates and investment.
- (c) Money supply and inflation.
- (d) Government spending and GDP growth.

39. "Venture Debt" is a type of financing that:

- (a) Is provided by venture capitalists in the form of debt.
- (b) Is a loan offered to start-ups and growth-stage companies, typically as a complement to equity financing.
- (c) Refers to the debt taken by the government to fund venture capital funds.
- (d) Is the debt incurred by failed ventures.

40. The "Laffer Curve" is often cited in debates about taxation. It illustrates the relationship between:

- (a) Tax rates and tax revenue.
- (b) Government expenditure and social welfare.
- (c) Corporate tax and foreign investment.
- (d) Direct and indirect tax collections.

41. "Special Drawing Rights (SDRs)" are:

- (a) Drawing rights provided by the World Bank for health emergencies.
- (b) An international reserve asset created by the International Monetary Fund (IMF).

(c) Special rights for countries to draw foreign exchange from the RBI.

(d) Rights given to special economic zones for foreign trade.

42. The "Ricardian Equivalence" theorem suggests that:

(a) Comparative advantage determines trade patterns.

(b) Tax cuts financed by debt will not stimulate demand as people will save more to pay for future taxes.

(c) Free trade is always beneficial.

(d) Equivalence between import and export duties leads to balanced trade.

43. "Dark Patterns" in the context of digital commerce and regulation refer to:

(a) Patterns of online fraud that are difficult to detect.

(b) User interface designs that trick users into doing things they did not intend to, like buying a product or signing up for a service.

(c) The pattern of internet usage during night hours.

(d) Algorithms used for pattern recognition in data science.

44. The "Hindu Rate of Growth" was a term coined to describe India's:

(a) High growth rate in the post-liberalization period.

(b) Low steady growth rate of around 3.5% in the pre-liberalization era.

(c) Growth rate of the spiritual and yoga industry.

(d) Growth rate of population in the 1950s.

45. "Wagner's Law" in public finance states that:

(a) As per capita income increases, the relative size of the public sector will also increase.

(b) Public expenditure must always be less than public revenue.

(c) Law and order expenditure is the primary duty of the state.

(d) The government should wage a war against inflation.

46. The "Tragedy of the Commons" illustrates:

(a) The tragedy when common people are affected by inflation.

(b) How individuals acting independently and rationally according to their self-interest behave contrary to the best interests of the whole group by depleting a

common resource.

(c) The failure of communist economic systems.

(d) The common tragedy of bank failures.

47. "Crowding-out Effect" in macroeconomics occurs when:

(a) People crowd out of markets during a recession.

(b) Increased government spending leads to a reduction in private sector investment.

(c) Foreign investors crowd out domestic investors.

(d) Public sector companies crowd out private companies.

48. The "Gini Coefficient" is a measure of:

(a) Income inequality within a nation.

(b) Gender inequality.

(c) Concentration of market share in an industry.

(d) Digital inequality.

49. "Pareto Efficiency" is a state of allocation of resources where:

(a) Resources are allocated equally among all citizens.

(b) It is impossible to make any one individual better off without making at least one individual worse off.

(c) The economy is producing at its full potential output.

(d) The government's budget is in balance.

50. "Moral Hazard" arises when:

(a) A person's behavior changes because they are protected from the risk of their actions.

(b) Banks lend money for immoral activities.

(c) There is a hazard due to a lack of moral education.

(d) Insurance companies reject genuine claims.

51. The "Doha Round" of negotiations is associated with which international organization?

(a) World Health Organization (WHO)