Q.1)

Ans) d

Exp) Option d is correct.

Statement 1 is incorrect. Positive list of products and services is maintained under preferential trade agreement. A free trade agreement is an agreement in which two or more countries agree to provide preferential trade terms, tariff concession etc. to the partner country. Under FTA, **a negative list of products and services is maintained** by the negotiating countries **on which the terms of FTA are not applicable** hence it is more comprehensive than preferential trade agreement. India has negotiated FTA with many countries e.g. **Sri Lanka and various trading blocs as well e.g. ASEAN.**

Statement 2 is correct. Comprehensive Economic Partnership Agreement also **looks into the regulatory aspect of trade and encompasses** and agreement covering the regulatory issues. CEPA covers **negotiation on the trade in services and investment,** and other areas of economic partnership. It may even consider negotiation on areas such as trade facilitation and customs cooperation, competition, and IPR. **India has signed CEPAs with South Korea and Japan.**

Statement 3 is correct. Partnership agreement or cooperation agreement like Comprehensive Economic Partnership Agreement (CEPA) and Comprehensive Economic Cooperation Agreement (CECA) **are more comprehensive than a Free Trade Agreement (FTA)** on two aspects:

1) CECA/CEPA are more comprehensive and ambitious that an FTA in terms of coverage of areas and the type of commitments. While a traditional FTA focuses mainly on goods; a **CECA/CEPA** is more ambitious in terms of a **holistic coverage of many areas like services, investment, competition, government procurement, disputes etc.**
2) CECA/CEPA **looks deeper at the regulatory aspects of trade** than an FTA. It encompasses mutual recognition agreements (MRAs) that covers the regulatory regimes of the partners.

Statement 4 is correct. Under the WTO agreements, countries cannot normally discriminate between their trading partners. If they grant some country a special favour (such as a lower customs duty rate for one of their products), then they'll have to do the same for all other WTO members. However, **some exceptions are allowed including:**

1) Countries can set up a **free trade agreement** that applies only to goods traded within the group — discriminating against goods from outside.
2) Or they can **give developing countries special access** to their markets.
3) Or a country **can raise barriers** against products that are considered to be traded unfairly from specific countries.
4) In services, countries are allowed, in limited circumstances, to discriminate.

Knowledge Base:

Comprehensive Economic Cooperation Agreement (CECA) generally covers negotiation on trade tariff and TQR rates only. It is not as comprehensive as CEPA. India has **signed CECA with Malaysia.**

Preferential Trade Agreement

1) In this type of agreement, two or more partners give preferential right of entry to certain products. This is done by reducing duties on an agreed number of tariff lines.
2) **Here a positive list is maintained i.e. the list of the products on which the two partners have agreed to provide preferential access.** Tariff may even be reduced to zero for some products even in a PTA.
3) India **signed a PTA with Afghanistan.**

Source: https://www.tpci.in/research_report/types-of-trade-agreements/

http://www.commerce.nic.in/trade/FAQ_on_FTA_9April2014.pdf

https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm

Q.2)

Ans) d

Exp) Option d is correct.

Statement 1 is incorrect. The donations received in Indian rupees by the NGOs and associations from any foreign source should be treated as a foreign contribution under FCRA. Even if that source is located in India at the time of such donation. **It will include the contributions by foreigners of Indian origin like Overseas Citizen of India (OCI) / Person of Indian Origin (PIO) cardholders.**

Statement 2 is incorrect. Members of the legislatures and political parties, government officials, judges and media persons are prohibited from receiving any foreign contribution under FCRA.

However, in 2017 the FCRA was amended through the Finance Bill. This amendment allowed political parties to receive funds from,

1) The Indian subsidiary of a foreign company or
2) A foreign company, in which an Indian holds 50% or more shares

Statement 3 is incorrect. Registered associations can receive foreign contribution f**or social, educational, religious, economic and cultural purposes**. The FCRA is applicable to all associations, groups and NGOs which intend to receive foreign donations. It is mandatory for all such NGOs to register themselves under the FCRA. The registration is initially valid for five years and it can be renewed subsequently if they comply with all norms.

Knowledge Base:

The FCRA regulates foreign donations and ensures that such contributions do not adversely affect internal security. First enacted in 1976, it was amended in 2010 when a slew of new measures were adopted to regulate foreign donations.

Source: https://www.thehindu.com/news/national/the-hindu-explains-what-is-foreign-contribution-regulation-act-and-how-does-it-control-donations/article32590504.ece

Q.3)

Ans) c

Exp) Option c is correct.

Capital account convertibility means the freedom to conduct investment transactions without any constraints. Typically, it would mean no restrictions on the amount of rupees you can convert into foreign currency to enable you, an Indian resident, to acquire any foreign asset. Similarly, there should be no restraints on your NRI cousin bringing in any amount of dollars or dirhams to acquire an asset in India.

Statements 1, 2 and 3 are correct. The recent moves towards Capital account convertibility include **increasing the foreign portfolio investment limits in the Indian debt markets, introducing the Fully Accessible Route (FAR) — through which non-residents can invest in specified government securities without any restrictions and the easing of the external commercial borrowing framework by relaxing end-user restrictions. Inward FDI is allowed in most sectors, and outbound FDI by Indian incorporated entities is allowed as a multiple of their net worth.**

Statement 4 is incorrect. Limitation on Non-Resident Indians to invest in Government securities **restrict the flow of currency** and hence it **does not aid** the process of full capital account convertibility in India.

Knowledge Base: BoP - Capital and current account.

Source: All you want to know about capital account convertibility - The Hindu BusinessLine

Q.4)

Ans) b

Exp) Option b is correct.

Balance of trade, balance of invisibles and remittances form part of current account.

In current account of the Balance of Payment, transactions are classified into merchandise (exports and imports) and invisibles. Thus, balance of trade (difference between import and export) form part of current account.

Invisible transactions are further classified into three categories-

(a) Services-travel, transportation, insurance, Government not included elsewhere (GNIE) and miscellaneous (such as, communication, construction, financial, software, news agency, royalties, management and business services),

(b) Income

(c) Transfers (grants, gifts, remittances, ets.) which do not have any quid pro quo.

Q.5)

Ans) b

Exp) Option b is correct.

An SDR is essentially an artificial currency instrument used by the International Monetary Fund (IMF) and is built from a basket of important national currencies. The IMF uses SDRs for internal accounting purposes. SDRs are allocated by the IMF to its member countries and are backed by the full faith and credit of the member countries' governments. The makeup of the SDR is re-evaluated every five years.

The basket of SDR includes Dollar, Japanese Yen, Chinese Yuan, Pound sterling, Renminbi.

Currencies included in the SDR basket have to meet two criteria: the export criterion and the freely usable criterion

1) Freely usable: "Freely usable," according to the IMF, is a currency that "(i) is, in fact, widely used to make payments for international transactions, and (ii) is widely traded in the principal exchange markets." So, Statement 1 is correct.
2) A currency meets the export criterion if its issuer is an IMF member or a monetary union that includes IMF members, and is also one of the top five world exporters. So, Statement 3 is correct.

Knowledge Base: The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. The SDR serves as the unit of account of the IMF and other international organizations.

The SDR is neither a currency nor a claim on the IMF. Rather, it is a potential claim on the freely usable currencies of IMF members. SDRs can be exchanged for these currencies.

The SDR basket is reviewed every five years, or earlier if warranted, to ensure that the basket reflects the relative importance of currencies in the world's trading and financial systems.

Source: https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR#:~:text=Currencies%20included%20in%20the%20SDR,and%20the%20freely%20usable%20criterion.&text=Freely%20usable%20currencies%20can%20be%20used%20in%20Fund%20financial%20transactions.

Q.6)

Ans) c

Exp) Option c is correct.

Statement 1 is incorrect. Capital account convertibility means the freedom to conduct investment transactions without any constraints. After the recommendations of the **S.S. Tarapore Committee (1997)** on Capital Account Convertibility, India has been moving in the direction of allowing full convertibility in this account, but with required precautions. India is now **fully convertible on the current account, and partly convertible on the capital account.** India still has restrictions on short term debt, outflows, and its lenders accessing global money. Individuals cannot borrow money overseas and buy homes here/there.

Statement 2 is incorrect. India has come a long way in liberating the capital account transactions in the last three decades and currently has partial capital account convertibility. Some of the recent moves of government include **increasing the foreign portfolio investment limits** in the Indian debt markets, introducing the Fully Accessible Route (FAR) through which **non-residents can invest in specified government securities without any quantitative limit** with effect from April 1, 2020.

Statement 3 is correct. Indian corporate are allowed full convertibility in the automatic route upto $ 500 million overseas ventures (investment by Ltd. companies in foreign countries allowed).They are allowed to prepay their external commercial borrowings (ECBs) via automatic route if the loan is above $ 500 million.

Source: https://www.thehindubusinessline.com/opinion/columns/slate/all-you-want-to-know-about/article33215196.ece

Q.7)

Ans) a

Exp) Option a is correct.

Statement 1 is correct. Balance Of Payment (BOP) is a statement which records all the monetary transactions made between residents of a country and the rest of the world during any given period. This statement includes all the transactions made by/to individuals, corporates and the government and helps in monitoring the flow of funds to develop the economy. It might be favorable or unfavorable for the economy. However, negativity of the BoP does not mean it is unfavorable. A negative BoP is unfavorable for an economy if only the economy lacks the means to fill the gap.

Statement 2 is incorrect. RBI publishes the balance of payments data every quarter, in two formats, an old format and a BPM6 format as recommended by the IMF. The overall balance of payment corresponds to the change in reserves. The change in reserves are denoted by opposite signs in the RBI data, i.e. increase in reserves is denoted by (-) sign and decrease in reserves by (+) sign.

Source: Indian Economy By Ramesh Singh(CHAPTER-EXTERNAL SECTOR OF INDIA)

https://www.indiamacroadvisors.com/page/category/economic-indicators/international-balance/balance-of-payment-bop/

Q.8)

Ans) a

Exp) Option a is correct.

BoP crisis is a situation in which a sovereign entity has developed an unsustainable balance of payments deficit. That is, a balance of payments crisis occurs when so much money is flowing outside a country that it has difficulty borrowing to make up the difference. A balance of payments crisis becomes acute in circumstances like an exceptionally large budget deficit that lasts for an extended period of time or a default on interest payments on publicly-held debt.

Statement 1 is correct. Devaluation of currency leads to **increase in export** and hence **increase in inflow of foreign currency**. Initially, the rupee was **devalued by about 20%**. There was a need to bridge the gap between the real and nominal exchange rates, which was emerged due to high inflation. The overhauled exchange rate was corrected by this devaluation.

Statement 2 is correct. The **system of quota and licensing** was dismantled and the economy was **opened for private markets, foreign investment and trade**. The road to economic liberalisation was paved by the government to balance the deficit.

Statement 3 is correct. As an immediate action taken against the crisis included taking **loan from IMF** and borrowing money from **banks of US and Switzerland** against the Gold reserves.

Statement 4 is incorrect. Various **tax reforms** were introduced to make tax structure more stable and transparent. Some of them include the reduction of tax brackets to 3 with rates of 20%, 30% and 40. The **role of monetary reform** in balancing the deficit was also significant. The **reduction in statutory liquidity ratio (SLR) and the cash reserve ratio (CRR)** and guidelines for opening new private sector banks were part of some monetary policies.

Source: https://economictimes.indiatimes.com/news/economy/policy/4-reforms-that-pulled-india-back-after-it-ran-out-of-money-in-1991/articleshow/53308703.cms?from=mdr

https://www.livemint.com/news/india/1991-reforms-aimed-at-more-than-just-bop-crisis-11611247422369.html

https://medium.com/@megha0111/indias-1991-bop-crisis-a-quick-revision-to-the-past-68df10f81a0b

Q.9)

Ans) a

Exp) Option a is correct.

Statement a is correct. Hard currency is the international currency in which the highest faith is shown and is **needed by every economy**. The **strongest currency of the world** is one which has a high level of liquidity. Basically, the economy with the highest as well as highly diversified exports that are compulsive imports for other countries (as of high-level technology, defence products, life saving medicines and economy on the petroleum products) will also create high demand for its currency in the world and become the hard currency. It is **always scarce**.

Statement b is incorrect. Soft currency- A term used in the foreign exchange market which denotes the currency that is **easily available** in any economy in its forex market. For example, rupee is a soft currency in the Indian forex market. It is basically the opposite term for the hard currency.

Statement c is incorrect. Heated currency is a term used to denote the investments in domestic currency which is under **enough pressure development an (heat) of depreciation due to a hard currencies** .We also need to high tendency of exiting the economy (since it has goods and service become hot). It is also known as currency **under heat or under hammering**.

Statement d is incorrect. Dear Currency-This term was popularised by economists in early 1930s to show the opposite of the cheap currency. **when a government issues bonds, the money which flows from the public to the government or the money in the economy in general is called dear currency,** also called as dear money. In the banking industry, it means a period of comparatively higher/costlier interest rates regime.

Source: Indian Economy by Ramesh Singh(CHAPTER-EXTERNAL SECTOR OF INDIA)

Q.10)

Ans) d

Exp) Option d is correct.

Statement 1 is incorrect. The objective of the GAAR provisions is to codify the doctrine of 'substance over form 'where the real intention of the parties and purpose of an arrangement is taken into account for determining the tax consequences, irrespective of the legal structure of the concerned transaction or arrangement. It essentially comes into effect where an arrangement is entered into with the main purpose or one of the main purposes of obtaining a tax benefit and which also satisfies at least one of the following four tests:

1) the arrangement creates rights and obligations that are not at arm's length,
2) it results in misuse or abuse of provisions of tax laws,
3) lacks commercial substance or is deemed to lack commercial substance, or
4) it is not carried out in a bona fide manner.

The General Anti-Avoidance Rules (GAAR), which seek to **prevent companies from routing transactions through other countries to avoid taxes**, can be invoked through a two-stage process involving a nod at the level of principal commissioner of income tax and a panel headed by a high court judge.

Statement 2 is incorrect. There are four different situations where GAAR provisions shall not apply.

First is a monetary threshold in terms of which GAAR would not apply to an IAA where the tax benefit does not exceed INR 3 crores.

Second is a class exclusion whereby **GAAR does not apply to foreign institutional investors (i.e. FIIs) who do not claim tax treaty benefits** and satisfy other stipulated conditions.

Third is also a class exclusion whereby non-resident investors of a FII are excluded.

Fourth is a provision colloquially referred as grandfathering provision whereby income arising out of investment transfer made prior to 1-4-2017 (i.e. before application of GAAR) is excluded from the scope of GAAR. This is to ensure against the retrospective application of GAAR law.

Knowledge Base: The proposal to apply GAAR will be vetted first by the Principal Commissioner of I-T/Commissioner of I-T and at the second stage by an Approving Panel headed by a judge of High Court.

Source: Ramesh singh- ch 15 external sector

https://www.scconline.com/blog/post/2021/02/16/revisiting-general-anti-avoidance-rules-in-income-tax-law/

https://indianexpress.com/article/business/business-others/gaar-to-take-effect-from-april-1-says-cbdt-4494599/

Q.11)

Ans) c

Exp) Option c is correct.

Statement 1 is correct. The rising forex reserves give a lot of comfort to the government and the Reserve Bank of India in managing India's external and internal financial issues. Rising forex reserves may result in the rupee to strengthen against the dollar as more dollars are chasing the Indian rupee in the market.

Statement 2 is correct. India's **forex** reserves comprise foreign currency assets (**FCAs**), gold reserves, **SDRs** and the country's reserve position with the International Monetory Fund (IMF). The reserves build-up entails a fiscal cost of sterilisation. The **build-up of reserves helps meet the challenges of the balance-of-payments (BoP)** along with the pressure on depreciation in the exchange rate, thereby providing a source of comfort in addressing disorderly market conditions.

Source: https://www.thehindubusinessline.com/opinion/the-flip-side-to-building-forex-reserves/article35526054.ece

https://indianexpress.com/article/explained/why-indias-forex-reserves-are-rising-and-what-this-means-for-indias-economy-6456852/

Q.12)

Ans) c

Exp) Option c is correct.

Statement 1 is correct. External Commercial Borrowings (ECBs) are basically loans availed by an Indian entity **from a non-resident lender.** Most of these loans are provided by foreign commercial banks and other institutions **in foreign currency.** It is a loan availed from non-resident lenders with a **minimum average maturity of 3 years.** It includes commercial bank loans, buyers' credit, suppliers' credit, securitized instruments such as Floating Rate Notes and Fixed Rate Bonds etc., credit from official export credit agencies and commercial borrowings from Multilateral Financial Institutions.

Statement 2 is incorrect. The External Commercial Borrowing (ECB) policy is regularly reviewed by the Ministry of Finance in consultation with Reserve Bank of India (RBI) to keep it in tune with the evolving macroeconomic situation, changing market conditions, sectoral requirements, etc. The RBI has decided to keep the **minimum average maturity period at 3 years (earlier 5 years) for all ECBs,** irrespective of the amount of borrowing, except for borrowers specifically permitted to borrow for a shorter period, like manufacturing companies.

Statement 3 is correct. The ECB proceeds cannot be utilised for **real estate activities, investment in capital market, equity investment,** working capital purposes (except from foreign equity holder), repayment of Rupee loans (except from foreign equity holder).

Source: http://www.cacsindia.com/Uploads/Files/08841d3f-4d6b-49c7--9ef91c8d2af4.pdf

https://dea.gov.in/pressrelease/review-external-commercial-borrowings-ecb-policy-1

https://www.livemint.com/news/india/rbi-eases-end-use-norms-for-external-commercial-borrowings-by-corporates-nbfcs-1564495376661.html

Q.13)

Ans) a

Exp) Option a is correct.

Option 1 is correct. The main difference between a dollar-denominated loan and a rupee-denominated loan is in who holds the risk of rupee depreciation. When an Indian borrower takes a loan in dollars, she has to pay back in dollars. If, in the meantime, the value of the dollar versus the rupee changes, the loss or gain accrues to the borrower. In addition to the interest rate, **the borrower needs to pay back more if the rupee weakens.** The **borrower is "exposed" to currency risk.** For this reason, borrowing in domestic currency is expected to be safer than borrowing in foreign currency.

Option 2 is correct. Like in the case of domestic borrowings, there could be unexpected changes in the interest rates charged on these loans. This can, for instance, **cause widespread default when rates rise as borrowers may not be able to make higher interest payments,** thus raising the risks of a systemic crisis.

Option 3 is incorrect. ECBs are not associated with higher cost of borrowings. Funding in major global currencies, such as the US dollar and the euro, tends to be **cheaper and more abundant,** especially for small open economies. Specifically, if the domestic financial sector is relatively small, the local supply of financing may not be sufficient to satisfy the overall demand for credit at a favourable cost. This may encourage the government and other borrowers to seek cheaper financing abroad.

Source: https://www.hindustantimes.com/analysis/foreign-borrowing-carries-risks-but-can-be-managed-opinion/story-vLbClBC0hlDUoTTYRyMhNO.html

https://www.thehindu.com/business/why-is-external-debt-a-cause-for-worry/article24241656.ece

Q.14)

Ans) b

Exp) Option b is correct.

Statement 1 is correct. A common digital platform for Certificate of Origin (CoO) has been launched to increase Free Trade Agreement (FTA) utilization by exporters. This platform will be a single access point for all exporters, for all FTAs/PTAs and for all agencies concerned. Certificate of Origin will be issued electronically which can be in paperless format if agreed to by the partner countries. Authorities of partner countries will be able to verify the authenticity of certificates from the website. Further, it provides administrative access to Department of Commerce for reporting and monitoring purposes.

Statement 2 is incorrect. The Remission of Duties and Taxes on Exported Products (RoDTEP) scheme was launched by the Ministry of Commerce & Industry replacing the earlier Merchandise and Services Export Incentive Schemes (MEIS and SEIS). The scheme aims to **reimburse all the taxes/duties/levies being charged at the Central/State/Local level** which are not currently refunded under any of the existing schemes. However, it has **not been extended to all sectors.** The scheme covers sectors such as marine, agriculture, leather, gems and jewellery automobile, plastics, textiles, electronics among others. **Pharmaceutical, steel and chemicals have been kept out of the purview of the scheme.** Products manufactured at export-oriented units and special economic zones have also been excluded from the scheme for the time being.

Statement 3 is correct. The "Transport and Marketing Assistance" (TMA) for specified agriculture products scheme aims to provide assistance for the international component of freight and marketing of agricultural produce which is likely to mitigate disadvantage of higher cost of transportation of export of specified agriculture products due to trans-shipment and to promote brand recognition for Indian agricultural products in the specified overseas markets.

Source: https://www.ibef.org/economy/foreign-direct-investment.aspx

https://blog.forumias.com/govt-notifies-rodtep-rates-guidelines/

https://pib.gov.in/newsite/PrintRelease.aspx?relid=189200

https://pib.gov.in/PressReleasePage.aspx?PRID=1585169

Q.15)

Ans) b

Exp) Option b is correct.

Statement 1 is incorrect.

Bank for International Settlements was established in **1930** and is **owned by 63 central banks**, representing countries from around the world that together account for about 95% of world GDP.

Statement 2 is correct.

Bank for International Settlements head office is in **Basel, Switzerland** and it has two representative offices: in Hong Kong SAR and in Mexico City, as well as Innovation Hub Centres around the world.

Statement 3 is incorrect.

The Bank for International Settlements (BIS) is an international financial institution that aims to **promote global monetary and financial stability** through the coordination of global central banks and their monetary policy efforts.

Source: About BIS - overview

Bank for International Settlements (BIS) (investopedia.com)

Q.16)

Ans) b

Exp) Option b is correct.

Statement 1 is incorrect.

Export Credit Guarantee Corporation of India Ltd, wholly owned by Government of India, was set up in 1957. It functions under the **administrative control of Ministry of Commerce & Industry,** and is managed by a Board of Directors comprising representatives of the Government, Reserve Bank of India, banking, and insurance and exporting community.

Statement 2 is correct. It provides **overseas investment insurance** to Indian companies investing in **joint ventures abroad in the form of equity or loan**. It also provides a range of credit risk insurance covers to exporters against loss in export of goods and services. It offers Export Credit Insurance covers to banks and financial institutions to enable exporters to obtain better facilities from them

Source: Overview – ECGC

Q.17)

Ans) d

Exp) Option d is correct.

Statement 1 is correct.

FCNR stands for **Foreign Currency Non-Resident Account**. It is for **Non-Resident Indian** who wish to maintain a **Fixed Deposit Account** in India. They can opt for an FCNR Account that allows you to save money earned overseas in Foreign Currency. They are **Term Deposit Accounts** and **not Saving Accounts. The currency risk (change in price of one currency in relation to another) is borne by the bank.**

Statement 2 is correct. Only Indian currency can be withdrawn as NRO Accounts are kept in Indian currency and **are not freely repatriable.**

Non-Resident Ordinary (NRO) Account is for NRIs to manage their deposits or income earned in India such as dividends, pension, rent, etc. This account allows NRIs to receive funds in **either Indian or foreign currency.** There are **no currency risks involved.**

Statement 3 is correct.

The interest earned on **Foreign Currency Non-Resident Account** accounts is **tax-free** in India. The tax rate for interest income from NRO accounts is 30%. However, NRIs living in countries with which India has a **Double Taxation Avoidance Agreement (DTAA) can avail of lower tax rates.**

Source: Coronavirus | Banks refuse NRI foreign currency deposits - The Hindu

What is FCNR Account - Know Features of FCNR Account | HDFC Bank

Q.18)

Ans) b

Exp) Option b is correct.

Triangular arbitrage (also referred to as **cross currency arbitrage** or **three-point arbitrage**) is the act of exploiting an arbitrage opportunity resulting from a **pricing discrepancy among three different currencies in the foreign exchange market.**

A triangular arbitrage strategy involves three trades, exchanging the initial currency for a second, the second currency for a third, and the third currency for the initial. During the second trade, the arbitrageur locks in a zero-risk profit from the discrepancy that exists when the market cross exchange rate is not aligned with the implicit cross exchange rate.

A profitable trade is only possible if there exist market imperfections. Profitable triangular arbitrage is very rarely possible because when such opportunities arise, traders execute trades that take advantage of the imperfections and prices adjust up or down until the opportunity disappears

Source: Triangular Arbitrage Definition (investopedia.com)

Q.19)

Ans) c

Exp) Option c is correct.

Statement 1 is correct. The Board of Governors is the **highest decision-making body** of the IMF. It **consists of one governor and one alternate governor for each member country**. The governor is appointed by the member country and is usually the minister of finance or the head of the central bank.

Statement 2 is incorrect. While the **Board of Governors** has delegated most of its powers to the IMF's Executive Board, **it retains the right to, among other things, approve quota increases, allocate or cancel special drawing right (SDR)**, the admittance of new members, compulsory withdrawal of members, and amendments to the Articles of Agreement and By-Laws.

Statement 3 is correct. The IMF's Managing Director is both chairman of the IMF's Executive Board and head of IMF staff. The **Managing Director is appointed by the Executive Board for a renewable term of five years** and is assisted by a First Deputy Managing Director and three Deputy Managing Directors.

Source: How the IMF Makes Decisions About the IMF: Governance Structure

Q.20)

Ans) c

Exp) Option c is correct.

Pair 1 is correctly matched. Global Financial stability report is **released twice in a year by IMF (International monetary fund)**. It provides an assessment of the global financial system and markets, and addresses emerging market financing in a global context.

Pair 2 is incorrectly matched. World Investment **Report is released by UNCTAD** (United Nations Conference on Trade and Development). According to the recent report, global flows of foreign direct investment have been severely hit by the COVID-19 pandemic.

Pair 3 is incorrectly matched. World Economic Outlook **is released by IMF twice a year**. The recent report predicts that the global **economy** is projected to grow 5.9 percent in 2021 and 4.9 percent in 2022, 0.1 percentage point lower for 2021 than in the July forecast

Pair 4 is incorrectly matched. The Logistics Performance Index is released by the **World Bank** in every two years. It is an interactive benchmarking tool created to help countries identify the challenges and opportunities they face in their performance on trade logistics and what they can do to improve their performance.

Source: https://worldinvestmentreport.unctad.org/

https://www.imf.org/en/Publications/WEO#:~:text=Global%20growth%20for%202018%20is%20estimated%20at%203.7,and%200.1%20percentage%20point%20below%20last%20October%E2%80%99s%20projections.

https://lpi.worldbank.org/

https://www.imf.org/en/publications/gfsr#:~:text=The%20Global%20Financial%20Stability%20Report%20provides%20an%20assessment,and%20sustained%20market%20access%20by%20emerging%20market%20borrowers.

Q.21)

Ans) a

Exp) Option a is correct.

Statement 1 is correct. India's GMS (Gold monetization scheme) has been launched to reduce gold imports in India as **it will unlock tonnes of unused gold in India**. **The dependency of gold import will come down significantly** as there will be local gold in the system. It provides the gold depositors to earn interest of 2.25% annually for a short-term deposit of one year to three years so that to convert it into a productive asset.

Statement 2 is incorrect. Switzerland accounts for most of India's gold imports. It accounted for almost half of India's imports of the yellow metal, at $16.3 billion, in 2020-21. However, the European country replaced Saudi Arabia to become the fourth-largest import partner of India while the West Asian country fell a rank.

Source: https://economictimes.indiatimes.com/wealth/invest/factors-that-affect-gold-price/articleshow/64464960.cms

https://timesofindia.indiatimes.com/city/surat/changes-in-gms-scheme-will-cut-gold-import-by-30/articleshow/80885860.cms

https://www.india-briefing.com/news/indias-import-export-trends-in-2020-21-trade-diversification-fta-ftp-plans-23305.html/

Q.22)

Ans) d

Exp) Option d is correct.

Statement a is incorrect. Compound Annual growth rate (CAGR) is a pro forma number which measures the **mean annual growth rate of an investment** over a specified period of time longer than one year. It does not mean the average annual return on investment.

Statement b is incorrect. CAGR helps individuals to analyze the long-term growth of a company. But it **excludes short term variations. It does not measure year to year growth of an investment.**

Statement c is incorrect. One of the disadvantages of CAGR is that **it does not reflect investment risk which** is important to consider when making investment decisions. It reflects a smoothed growth over the investment period, it doesn't reflect the volatility of the investment value. In fact, CAGR suggest that the growth rate is constant.

Statement d is correct. CAGR does not reflect the uncertainty effect of investment value as it represents steady growth over investment period. It provides a "smoothed" annual yield, so it can give the illusion that there is a **steady growth rate even when the value of the underlying investment can vary significantly**.

Source: https://www.investopedia.com/investing/compound-annual-growth-rate-what-you-should-know/

Q.23)

Ans) a

Exp) Option a is correct.

India's Foreign Exchange Reserves comprise **Foreign Currency Assets, Gold, SDR's and Reserve tranche position with International Monetary Fund (IMF)**.

Foreign currency assets include investments in **US Treasury bonds,** Bonds/Treasury Bills of other selected Governments, deposits with foreign central banks, foreign commercial banks etc.

Currency and Gold Revaluation Account (CGRA) is one of the important accounts wherein unrealised gains/losses on valuation of Foreign Currency Assets (FCA) and gold due to movements in the exchange rates and/or price of gold. **These are the liabilities of RBI**.

ECF (Economic Capital Framework) – It reflects the capital the central bank is required to pay balance of its profits to the central government after making provision for bad and doubtful debts, depreciation in assets, and contributions to staff.

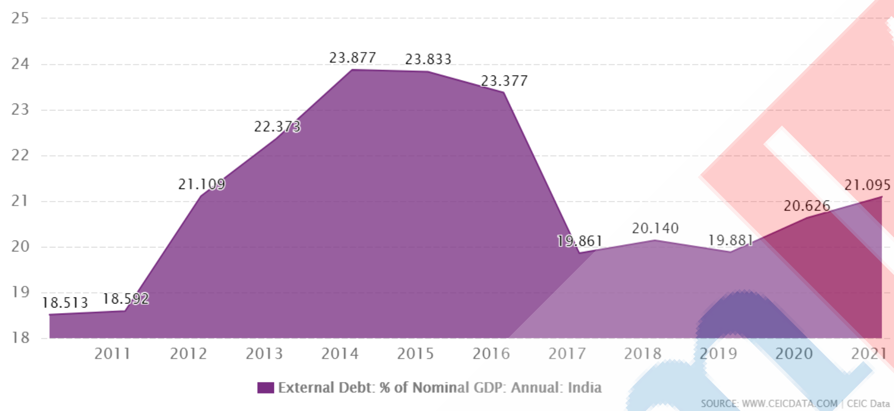
Knowledge Base: According to RBI data, India's foreign exchange reserves rose by $2.039 billion to $639.516 billion in October 2021. The rise in the reserves was on account of an increase in the Foreign Currency Assets (FCAs), Source: https://rbi.org.in/Scripts/PublicationsView.aspx?id=15762

Q.24)

Ans) b

Exp) Option b is correct.

Statement 1 is incorrect. India's external debt has not steadily increased since 2015. It has increased since 2017-18 following **a fall in 2016-17**. The stock of external debt which increased from US$ 474.7 billion at end-March 2015 to US$ 484.8 billion at end-March 2016, decreased to US$ 471.0 billion at end-March 2017.



Statement 2 is correct. The share of short-term debt in total external debt **declined to 17.7 per cent at end-March 2021 from 19.1 per cent at end-March 2020.** The ratio of short-term debt (original maturity) to foreign exchange reserves declined to 17.5 per cent at end-March 2021 (22.4 per cent at end-March 2020).

Statement 3 is correct. **US dollar denominated debt remained the largest component of India's external debt**, with a share of 52.1 per cent at end-March 2021. It is followed by the Indian rupee (33.3 per cent), yen (5.8 per cent), SDR (4.4 per cent) and the euro (3.5 per cent).

Statement 4 is incorrect. Non-government debt as a percentage of GDP (i.e., **17%)** is higher than **government debt (4%).**

Government Debt is the money owed by the Union government. It comprises G-secs, Treasury bills, shot term borrowings, external assistance. While non-government debt comprises of all the loans raised by private companies, corporate sector and individuals such as home loans, auto loans, personal loans.

Source:

https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR4553B9D3971960F438ABCF6283D7B949D2F.PDF#:~:text=At%20end-March%202021%2C%20India%E2%80%99s%20external%20debt%20was%20placed,2021%20from%2020.6%20per%20cent%20at%20end-March%202020.

Q.25)

Ans) a

Exp) Option a is correct.

The balance of payments (BOP) is a statement of **all transactions made between entities in one country and the rest of the world** over a defined period of time. The BoP can be broadly divided into two accounts namely, (a) current account, and (b) capital and financial account.

The current account measures the **transfer of real resources (goods, services, income and transfers)** between an economy and the rest of the world.

The current account is further subdivided into a **merchandise account and an Invisibles account**. The **merchandise** account consists of transactions relating to **exports and imports of goods**.

Option 1,2 and 3 are correct. In the invisible account, there are **three broad categories** namely,

(a) **non-factor services** such as travel, transportation, insurance and miscellaneous services;

(b) **transfers** which do not involve any value in exchange like **remittances income of workers** and

(c) **income** which includes compensation of employees and **investment income.**

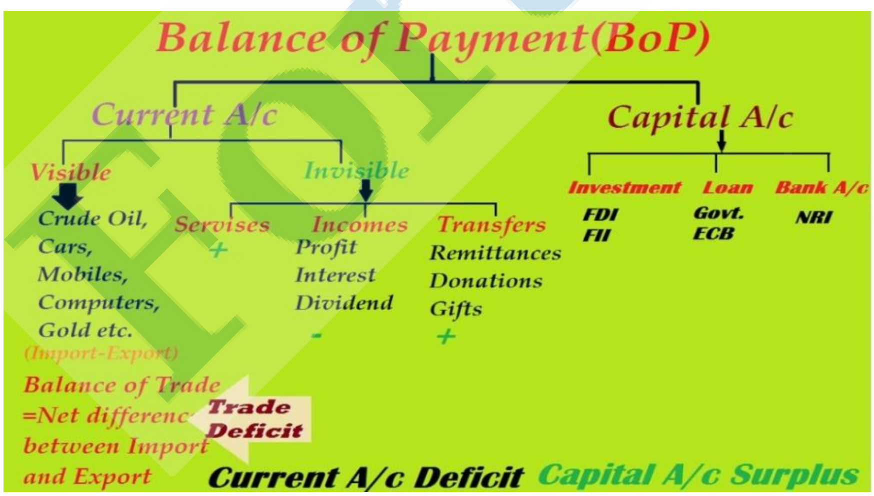
Option 4 is incorrect. NRI deposits are calculated under **Capital Accounts** while **Private Remittances** are calculated under Current Account. The **capital account** can be broadly broken up into **two** categories namely,

(a) **non-debt flows** such as direct and portfolio investments, and

(b) **debt flows** such as external assistance, commercial borrowings, non-resident deposits, etc.

The sum of the current account and capital account indicates the overall balance, which could either be in surplus or in deficit.

The movement in overall balance is reflected in changes in the international reserves of the country.



Source: http://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/74250.pdf