

Intense Revision Plan for Prelims 2018- Day 3

1. Consider the following statements;

1. A and B are said to be complementary goods if the fall in prices of A increases the demand for B.
2. A and B are said to be substitute goods if rise in prices of A results in increase in demand for B.

Which of the above statements is/are true?

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

Ans c

- Substitute goods are two goods that could be used for the same purpose. If the price of one good increases, then demand for the substitute is likely to rise. eg: If price of maggi is increased people will buy more of baba ramdev's noodles.
- Complementary goods are those where the demand for a good is increased when the price of another good is decreased. eg: coffee and sugar

2. Which of the following is/are **not** included in calculation of a country's GDP?

1. Transfer payments.
2. Value of intermediate goods.
3. Sale of used goods

Select the correct answer using the code given below.

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

Ans D

- None of the above are included in calculation of GDP. Only money value of final goods and services produced within a year comes under it. This does not involve used goods.
- A transfer payment is a one-way payment to a person for which no money, good, or service is given or exchanged and is therefore not included in GDP calculation.

3. Primary deficit means

- (a) The difference between fiscal deficit of the current year and interest payments on the previous borrowings.

- (b) The difference between revenue deficit of the current year and interest payments on the previous borrowings.
- (c) The difference between revenue deficit and grants for creation of capital assets
- (d) The difference between fiscal deficit and grants for creation of capital assets

Ans A

- Primary Deficit = Fiscal Deficit – Interest Payments.
- Option C refers to effective revenue deficit.

4. Consider the following statements regarding demand laws.

1. If price of a commodity is directly proportional to its demand its is called price demand.
2. If the demand of a commodity is influenced by its substitutes it is called as Cross demand.

Which of the above statements is/are true?

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

Ans B

- If price of a commodity is directly proportional to its demand its is called income demand.
- If the price is inversely proportional to demand it is called as price demand.

5. Which of the following statements regarding Gross Capital Formation are correct?

1. An increase in Gross Domestic Savings will invariably result in increase in Gross capital formation.
2. As gross consumption increases, the relative increases in Gross capital formation is likely to be less.

Select the correct answer using the code given below.

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 and 2

Ans B

- Gross domestic saving = Gross Domestic Product - final consumption.
- When people save, they tend to invest. Some part of this GDS will be re-invested back, and that is called gross capital formation. The percentage of the investment made each year out of the total GDP is called Gross Capital Formation. So, Rate of Gross Capital Formation is arrived as follows: Rate of Capital Formation = $(\text{Investments} / \text{GDP}) \times 100$
- An increase in GDS may not lead to an increase in investment as investment depends on a number of other factors also.

6. Which of the following statements is/are true regarding Swasth Saarthi Abhiyaan?

1. It aims provide preventive healthcare to the auto, taxi and bus drivers of the NCR region
2. It is an initiative of Indraprastha Gas Limited (IGL).

Select the correct answer using the codes given below.

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

Ans C

- It aims to address the major issues being faced by public transport drivers of the region by focusing on providing preventive healthcare (basic health check-up) to the auto, taxi and bus drivers of the region
- Initiative of: Indraprastha Gas Limited (IGL) – 2 month long medical camp at all their stations in the Capital
- Drivers in the capital region are partners in the growth story of gas used as fuel in vehicles.
- Free health checkup includes blood test, sugar test, eye test, cataract surgeries, etc.
- Provision of health insurance which would also include death benefits for drivers in the Capital
- Launch of the Swasth Saarthi web application: Will enable the drivers undergoing the health checkups during the campaign to access their health records online from anywhere, in case of need.

7. Which of the following statements about debt to GDP ratio are correct?

1. The ratio can be interpreted as the number of years needed to pay back debt if GDP is dedicated entirely to debt repayment.
2. During periods of high inflation, debt to gdp ratio may increase rapidly.

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

Ans A

- The debt-to-GDP ratio is the ratio of a country's public debt to its gross domestic product (GDP). By comparing what a country owes to what it produces, the debt-to-GDP ratio indicates the country's ability to pay back its debt. Often expressed as a percentage, the ratio can be interpreted as the number of years needed to pay back debt if GDP is dedicated entirely to debt repayment.

- In the presence of significant inflation, or particularly hyperinflation, GDP may increase rapidly in nominal terms; if debt is nominal, then its ratio to GDP will decrease rapidly. A period of deflation would have the opposite effect.

8. For the purpose of national income accounting, which of the following comes under the definition of India's domestic territory?

1. Planes operated by Air India between USA and Russia
2. Indian embassy in Moscow
3. Russian embassy in New Delhi.
4. Fishing vessels owned by Indians in India's Exclusive economic zone in Bay of Bengal

Select the correct answer using the code given below.

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

Ans C

- <http://www.yourarticlelibrary.com/macro-economics/domestic-territory-economic-territory-an-important-concept-in-national-accounting/30276/>
- <https://stats.oecd.org/glossary/detail.asp?ID=727>

9. RBI is often referred to as “banker to banks” because it performs which of the following functions?

1. Enabling banks to maintain their accounts with the Reserve Bank for statutory reserve requirements and maintenance of transaction balances .
2. Acting as a lender of last resort
3. Fixing Marginal Cost of Funds based Lending Rate (MCLR) to be maintained by banks

Select the correct answer using the code given below.

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

Ans A

- First two statements are correct. RBI does not fix MCLR but individual banks do.
- Refer : https://www.rbi.org.in/scripts/FS_Overview.aspx?fn=2758
- Please go through RBI website . It is full of useful info for our exam.
- RBI introduced Marginal Cost based Lending Rates (MCLR) on 17 December 2016
- MCLR: The new framework requires banks to set rates based on their marginal cost of funds rather than their average cost of funds. Banks will need to consider

their marginal cost of funds, or the cost incurred on incremental deposits across different maturities To this, banks will add their operating costs, the negative carry over of their cash reserve ratio balances with the central bank Why? To improve the transmission of cuts in policy rates to the end-borrowers.

10. Which of the following comes under the category of revenue expenditure?

1. Interest paid on borrowings.
2. Grants to states and UTs.
3. Expenditure on defence weapons procurements
4. Pensions and salaries

Select the correct answer using the code given below.

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

Ans A

- Revenue expenditure refers to those payments which will not yield any profit or revenue.
- Interest payments salaries paid etc comes under this category.
- Though grants may come under capital expenditure for receiving govt. , they are revenue expenditure for central govt.
- Also money spent on defence procurements comes under capital expenditure as it involve capital accumulation.