IAS MENTOR SOLUTION WEEKLT TEST-2(POLITY& ECONOMY)

F-11 1ST FLOOR, USMAN COMPLEX, BATLA HOUSE CHOWK,JAMIA NAGAR OKHLA

M: +919910410042, +918588058088, +919555615771

IAS MENTOR SOLUTION WEEKLT TEST-2(POLITY& ECONOMY)

IAS MENTOR is education center for Academic & Competitive examination. IAS MENTOR offers IAS/PCS Exam preparation classes.

Mission

To bring Socio-Economic justice through most powerful weapon 'EDUCATION'

Description

IAS MENTOR is an education center founded by **Mr. SAHBAN ALI**, Advocate, Founding Member & Founding Member & Ex. Director of Education360.Pvt .Ltd, one of the best teacher & mentor for CIVIL SERVICES EXAMS- I.A.S./P.C.S.

Answer & Explanation

1.d) Neither 1 nor 2. Both the statements are true for President and not VP. If the Vice-President suddenly resigns, then election to fill the vacancy should be held as soon as possible. The constitution mentions no ground for removal of VP.

2..b-1 and 3 only. The short-term debts and securities sold on the money markets—which are known as money market instruments—have maturities ranging from one day to one year and are extremely liquid. The Treasury bills are short-term money market instrument that mature in a year or less than that. Commercial Paper is shortterm loan that is issued by a corporation use for financing accounts receivable and inventories. Preference shares are capital market instrument

3. a) 1 only.Under CRR a certain percentage of the total bank deposits has to be kept in the current account with RBI which means banks do not have access to that much amount for any economic activity or commercial activity. Banks can’t lend the money to corporates or individual borrowers, banks can’t use that money for investment purposes.In short, CRR is the amount in cash which banks have to keep with RBI. Any decrease in CRR will therefore increase cash availability with the banks. Repo rate and SLR would not be affected by changes in CRR. They r separate mechanisms, the rate of which is decided by RBI.

4. d) 4 only. SLR, statutory liquidity ratio is the amount of money that is invested in certain specified securities predominantly central government and state government securities. Investing in government securities by bank is one way of fulfilling the requirement of SLR. In this way, SLR acts as a lending mechanism to government. Repo rate is a rate at which banks borrow from RBI for short periods up to 7 or 14 days but predominantly overnight.

5.a.1 only. FPI is also called Foreign institutional Investments (FIIs). Because of their volatility they are also called hot money. Loans from international financial institutions are given for a fixed tenure and hence are stable. FDI is not part of FPI, but are accounted separately.

6.c. 2 and 3 only. The RBI Act, does not mandate RBI to manage inflation. Handling government’s borrowing programme is the duty of Department of economic affairs, Ministry of Finance. The rest two are RBI’s functions – acting as banker’s bank and managing India’s Forex. The Reserve Bank is not an inflation targeting central bank. The defining features of an inflation targeting central bank are a precise mandate, a single instrument (the policy interest rate) in its armoury, a single minded devotion to achieving this target and a principal-agent relationship with the Government.

7.b) 1 and 3 only. Increase in subsidy of LPG will reduce the pocket expenditure of people on LPG, making more money available with them, thereby increasing demand and pulling inflation. Similar will be the effect of decrease of income tax rates – more money availability. Increase in fuel prices will lead to cost-push inflation.

8. d) banks lending only to risk free sectors. A ‘Narrow Bank’ can be defined as the

system of banking under which a bank places its funds in risk-free assets with maturity period matching its liability maturity profile, so that there is no problem relating to asset liability mismatch and the quality of assets remains intact without leading to emergence of sub-standard assets.

9.c.3 only. GDP (market price) = GDP (factor cost) + indirect taxes – subisdies. This equation makes it clear that any increase in indirect taxes will increase the GDP at market prices.

10.a) 1 and 2 only. All MPs (elected + nominated) participate in VP's election. MLAs have no role.

11.c

12.c

13.c

14.c

15.b

16.d

17.c

18.b

19.b

20.b

21.d
Explanation:

- Law of one price, i.e., identical goods and services (in quantity as well as quality) must have the same price in different markets when measured in a common currency.

22.c. Explanation:

- There are eight core sector industries - Coal, Crude Oil, Natural Gas, Refinery Products, Fertilizers, Steel (Note: No Iron or Iron ore), Cement and Electricity.

23.b
24.c Call Money, Notice Money and Term Money markets are sub-markets of the Indian Money Market. These refer to the markets for very short term funds.

- Call Money refers to the borrowing or lending of funds for 1 day.
- Notice Money refers to the borrowing and lending of funds for 2-14 days.

- Term money refers to borrowing and lending of funds for a period of more than 14 days.

Interest rates in these markets are market determined i.e. by the demand and supply of short term funds. In India, 80% demand comes from the public sector banks and rest 20% comes from foreign and private sector banks.
Since banks work as both lenders and borrowers in these markets, they are also known as Inter-Bank market. The short term fund market in India is located only in big commercial centres such as Mumbai, Delhi, Chennai and Kolkata. The intervention of RBI is prominent in the short term funds money market in India. Call Money / Notice Money market is most liquid money market and is indicator of the day to day interest rates. If the call money rates fall, this means there is a rise in the liquidity and vice versa.

25. **Solution (d)**
It is the ratio of Deposits which banks have to keep with RBI. Under CRR a certain percentage of the total bank deposits has to be kept in the current account with RBI. Banks don't earn anything on that.
Banks will not have access to this amount. They cannot use this money for any of their economic or commercial activities. Banks can't lend this portion of money to corporate or individual borrowers. With increase in CRR the lending capacity of banks will decrease as they will have less money to lend.

26.b Bank rate being long term lending rate doesn't require collaterals like the G-secs in case of Repo or MSF.
Bank rate is the rate charged by the central bank for lending funds to commercial banks. Bank rates influence lending rates of commercial banks. Higher bank rate will translate to higher lending rates by the banks. In order to curb liquidity, the central bank can resort to raising the bank rate and vice versa

27.b Repurchase Options or in short Repo, is a money market instrument, which enables collateralised short term borrowing and lending through sale/purchase operations in debt instruments.
"**repo**" means an instrument for **borrowing funds** by **selling securities** with an agreement to repurchase the securities on a mutually agreed future date at an agreed price which includes interest for the funds borrowed; "**reverse repo**" means an instrument for **lending funds** by **purchasing securities** with an agreement to resell the securities on a mutually agreed future date at an agreed price which includes interest for the funds lent."
This is the general definition of Repo and Reverse Repo in India. The securities transacted here can be either government securities or corporate securities or any other securities which the Central bank permits for transaction. Non-sovereign securities are used in many global markets for repo operations. Unlike them, Indian repo market predominantly uses sovereign securities, though repo is allowed on corporate bonds and debentures
The current repo, reverse repo and MSF are 6.5%, 6% and 7% respectively. Hence it is no bound rule that there has to be a 100 basis points difference between them.

28.**Solution (d)**
Marginal Standing Facility (MSF) is a new scheme announced by the Reserve Bank of India (RBI) in its Monetary Policy (2011-12) and refers to the penal rate at which banks can borrow money from the central bank over and above what is available to them through the LAF window.
MSF, being a penal rate, is always fixed above the repo rate. The MSF would be the last resort for banks once they exhaust all borrowing options including the liquidity adjustment facility by pledging

government securities, where the rates are lower in comparison with the MSF. The MSF would be a penal rate for banks and the banks can borrow funds by pledging government securities within the limits of the statutory liquidity ratio. The scheme has been introduced by RBI with the main aim of reducing volatility in the overnight lending rates in the inter-bank market and to enable smooth monetary transmission in the financial system. To balance the liquidity, RBI uses the sole independent "policy rate" which is the repo rate (in the LAF window) and the MSF rate automatically gets adjusted to a fixed per cent above the repo rate (MSF was originally intended to be 1% above the repo rate). MSF is at present aligned with the Bank rate.
Even if the Banks do not have excess SLR they still can opt for MSF and it is allowed within certain limits. The other statements are true.

29. **Solution (c)**
The Statutory Liquidity Ratio (SLR) is a prudential measure under which (as per the Banking Regulations Act 1949) all Scheduled Commercial Banks in India must maintain an amount in one of the following forms as a percentage of their total Demand and Time Liabilities (DTL) / Net DTL (NDTL);

1. Cash.

2. Gold; or

3. Investments in un-encumbered Instruments that include;

(a) Treasury-Bills of the Government of India.

(b) Dated securities including those issued by the Government of India from time to time under the market borrowings programme and the Market Stabilization Scheme (MSS).

(c) State Development Loans (SDLs) issued by State Governments under their market borrowings programme.

(d) Other instruments as notified by the RBI.
Traditionally the amount to be held thus was stipulated to be no lower than 25 percent and not exceeding 40 percent of the bank's total DTL. However, effective from January, 2007 the floor of 25 percent on the SLR was removed following an amendment of the Banking Regulation Act, 1949.

30. **Solution (d)**
Urjit patel Committee is avery important committee of RBI. It suggested only RBI members in the MPC with no government nominees. This was point of conflict even.
Further reading: http://www.thehindu.com/business/Economy/urjit-panel-suggests-4-cpi-inflation-target/article5602626.ece
https://rbi.org.in/Scripts/PublicationReportDetails.aspx?ID=743
31. **Solution (a)**
The capital adequacy ratio (CAR) is a measure of a bank's capital. It is expressed as a percentage of a bank's risk weighted credit exposures. Also known as capital-to-risk weighted assets ratio (**CRAR**), it is used to protect depositors and promote the stability and efficiency of financial systems around the world. In simple terms Capital Adequacy Ratio is Capital/risk. Lower the CAR, higher is the risk.
32.**Solution (b)**
Second Edition of Gyan Sangam was held this year to discuss consolidation of banks, NPAs, changes to recovery laws and giving out employee stock options.

33.d SARFAESI Act as we know is Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. Banks utilize this act as an effective tool for bad loans (NPA) recovery.
It is possible where non-performing assets are backed by securities charged to the Bank by way of hypothecation or mortgage or assignment. Upon loan default, banks can seize the securities (except agricultural land) without intervention of the court.
SARFAESI is effective only for secured loans where bank can enforce the underlying security eg hypothecation, pledge and mortgages. In such cases, court intervention is not necessary, unless the security is invalid or fraudulent.
However, if the asset in question is an unsecured asset, the bank would have to move the court to file civil case against the defaulters.

34.**Solution (b)**
We all understand what is credit and debit. Just a reading mistake can cause an error here. So beware!!!

35. **Solution (c)**
Goods, Services, Income and Transfers are in Current account and Investment, Loan and Banking Capital are in Capital Account.

36.b

37.c **(c)**
Types of Writs
There are five types of writs in the Indian Constitution - Habeas Corpus, Certiorari, Quo-Warranto, Mandamus and Prohibition.
1. Writ of Habeas Corpus -
This writ literally means ‘you may have the body’. This writ is issued to produce a person physically before the court who has been imprisoned or detained by the law and to set him free if there is no legal justification of his detention.
2. Writ of Certiorari –
This writ literally means 'to be certified’. This writ is issued by the higher court to the lower court for quashing the order already passed by the lower court or removing a suit from the lower court to higher court for speedy disposal.
3. Writ of Quo- Warranto –
This writ literally means ‘by what warrants?’ or ‘what is your authority’. It is a writ issued by the Supreme Court or High Court with a view to restrain a person or authority from holding a public office to which he is not entitled. The writ requires the concerned person or authority to explain to the Court by what authority he/it holds the office.
4. Writ of Mandamus – This writ literally means ‘we command’. It is a a judicial writ issued by the Supreme Court or a High Court as a command to an interior court or tribunal or a person to perform a public or statutory duty.
5. Writ of Prohibition
This writ is popularly known as ‘Stay Order’. This writ is issued by a higher court to a lower court to stop proceeding in a case on the ground of over-stepping of jurisdiction or absence of jurisdiction. It is issued before the judgement or order is made in such cases.

38.b

39.c **Solution (c)**
Explanation:

- Article 123 of the Constitution empowers the President to promulgate ordinances during the recess of Parliament. These ordinances have the same force and effect as an act of Parliament, but are in the nature of temporary laws.

He can promulgate an ordinance only when both the Houses of Parliament are not in session or when either of the two Houses of Parliament is not in session. An ordinance can also be issued when only one House is in session because a law can be passed by both the Houses and not by one House alone. An ordinance made when both the
Houses are in session is void. Thus, the power of the President to legislate by ordinance is not a parallel power of legislation.

- However, his power of ordinance-making is not a discretionary power, and he can promulgate or withdraw an ordinance only on the advice of the council of ministers headed by the prime minister. (not Cabinet Ministers)

40. **Solution (c)**
Explanation:
Suspensive Veto:
The President exercises this veto when he returns a bill for reconsideration of the Parliament. However, if the bill is passed again by the Parliament with or without
amendments and again presented to the President, it is obligatory for the President to give his assent to the bill. This means that the presidential veto is overridden by a re-passage of the bill by the same ordinary majority.

 When a bill is reserved by the governor for the consideration of the President, the President may direct the governor to return the bill (if it is not a money bill) for the reconsideration of the state legislature. If the bill is passed again by the state legislature with or without amendments and presented again to the President for his assent, the President is not bound to give his assent to the bill. This means that the state legislature can not.

- **Source: Chapter 17 - President, Laxmikanth**

41.**Solution (b)**
Explanation:

- The Ministries/Departments of the Government of India are created by the President on the advice of the Prime Minister under the Government of India (Allocation of Business) Rules, 1961

42.b
 The business of the Government of India are transacted in the ministries/departments, secretariats and offices (referred to as "Department") as per the distribution of subjects specified in these Rules.

- Each of the Ministry (ies) will be assigned to a Minister by the President on the advice of the Prime Minister. Each department will be generally under the charge of a Secretary to assist the Minister on policy matters and general administration.

Source: Chapter 20 – Central Council of Ministers, Laxmikanth
UPSC 2009 Question, Explanation link: http://www.eoi.gov.in/ashgabat/?0775?000#

43.d **Solution (d)**
Explanation:

- All the statements given are correct – Self explanatory

- Governor has both constitutional and situational discretion power. For instance:
- *(Examples of constitutional discretion)*
- Reservation of a bill for the consideration of the President
- *Recommendation for the imposition of the President's Rule in the state*

- *(Examples of situational discretion)*
- Appointment of chief minister when no party has a clear-cut majority in the state legislative assembly or when the chief minister in office dies suddenly and there is no obvious successor
- Dismissal of the council of ministers when it cannot prove the confidence of the state legislative assembly

- President has no constitutional discretion, he has some situational discretion. In other words, the President can act on his discretion (that is, without the advice of the ministers) under the following situations:
- Appointment of Prime Minister when no party has a clear majority in the Lok Sabha or when the Prime Minister in office dies suddenly and there is no obvious successor.
- Dismissal of the council of ministers when it cannot prove the confidence of the Lok Sabha.
- Dissolution of the Lok Sabha if the council of ministers has lost its majority.

Doubts:- it should be judicial powers not executive powers of president
Explanation:
PARDONING POWER OF THE PRESIDENT
Article 72 of the Constitution empowers the President to grant pardons to persons who have been tried and convicted of any offence in all cases where the:
1. Punishment or sentence is for an offence against a Union Law;
2. Punishment or sentence is by a court martial (military court); and
3. Sentence is a sentence of death.

The pardoning power of the President is independent of the Judiciary; it is an executive power. But, the President while exercising this power, does not sit as a court of appeal. The object of conferring this power on the President is two-fold: (a) to keep the door open for correcting any judicial errors in the operation of law; and, (b) to afford relief from a sentence, which the President regards as unduly harsh.

44. **Solution (c)**
Explanation:

- The term of the Prime Minister is not fixed and he holds office during the pleasure of the President.

45. **Solution (d)**
Explanation:

- President is only a nominal executive and the real powers are vested in the council of ministers headed by the prime minister.
- The executive power of the Union shall be vested in President and shall be exercised by him either directly or through officers subordinates to him in accordance with this Constitution (Article 53).
- Prime Minister advises the President with regard to summoning and proroguing of the sessions of the Parliament.
- Orders and other instruments made and executed in the name of the President shall be authenticated in such manner as may be specified in rules to be made by the President.

Doubts and clarification: Whatever your doubts are/were, the above question, answer and explanation to it are absolutely correct.
*Please learn to use CoM headed by Prime Minister wherever it is mentioned as such. Don't assume it as Prime Minister. Same goes with CoM and Cabinet. Don't interchange and use it.
Few questions similar on above lines have been asked by UPSC. For instance, 2015 UPSC CSE Prelims had a question:

46. Solution (d)
Explanation:

- The Executive Power of the Union of India is vested in the President.
- The Cabinet Secretary (and not the Prime Minister) is the ex-officio head of the Civil Services Board.

47.d

48.d

49.d A President is empowered with the power to pardon under Article 72 of the Indian Constitution. Article 72 says that the President shall have the power to grant pardons, reprieves, respites or remissions of punishment or to suspend, remit or commute the sentence of any person convicted of any offence. The meaning of these terms is as follows:

- Pardon: Complete pardon
- Reprieve: Temporary suspension of sentence
- Respite: awarding less sentence
- Remission: Reducing amount of sentence
- Commutation: Changing one punishment to another.

50.b **Solution (b)**
Ministers are appointed by the President on the advice of the Prime Minister.