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IAS MENTOR SOLUTION WEEKLT TEST-3(ECONOMY)

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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.

1. Ans: 1
Explanation:
Unlike other price indexes, the GDP deflator is not based on a fixed basket of goods and
services. It covers the whole economy.

2. Ans: (3)
Explanation:
Inflation is a sustained rise in overall price levels.
Repo rate is the rate at which the RBI lends money to commercial banks. In the event of
inflation, central banks increase repo rate as this acts as a disincentive for banks to borrow
from the central bank. This ultimately reduces the money supply in the economy and thus
helps in arresting inflation.
Introduction of increased taxes is one of the fiscal policies to control inflation. But sometimes this may result in cost-push inflation, as increased indirect tax rate increases cost
of production.
Maintenance of buffer stock of major agricultural products could be used in supply management which maintains price stability.
Decrease in crude oil production increases crude oil price, which in turn increases cost of
production.

3. Ans: (4)
Explanation:
There are multi-dimensional effects of inflation on an economy both at the micro and macro
levels. It redistributes income; distorts relative prices; destabilises employment, tax, saving
and investment policies and finally it may bring in recession and depression in an economy.
I. On Creditors and Debtors
Inflation redistributes wealth from creditors to debtors i.e. lenders suffer and borrowers

benefit out of inflation. The opposite effect takes place when inflation falls (i.e. deflation).
II. on Investment
Investment in the economy is boosted by the inflation (in the short-run) because of two
reasons:
a. Higher inflation indicates higher demand and suggests enterpreneurs to expand their
production level, and
b. Higher the inflation, lower the cost of loan
III. on Tax
Tax-payers suffer while paying their direct and indirect taxes. As indirect taxes are imposed
ad valorem (*on value*), increased prices of goods make tax-payers to pay increased indirect
taxes. Similarly, due to inflation, direct tax (income tax, interest tax, etc.) burden of the taxpayers
also increases as tax-payer's gross income moves to the upward *slabs* of official tax
brackets (but the real value of money does not increase due to inflation; in fact, it falls).

Ans: (3)
Explanation:
Core inflation is the non food manufacturing inflation. Core inflation shows price rise in all
goods and services excluding *energy* and *food articles*.
In India, it was first time used in the financial year 2000–01. This was criticized by experts on
account of excluding food articles and energy out of the inflation and feeling satisfied on the
inflation front. Basically, in the western economies, food and energy are not the problems
for the masses, while in India these two segments play the most vital role for them.
For more details:
https://en.wikipedia.org/wiki/Core_inflation

5.Ans: (3)

Explanation:
WPI measures inflation at wholesale market, while CPI measure at retail level. Besides, the way two indices are calculated differs, both in terms of weightage assigned to products as well as the kind of items included in the baskets of products.
Wholesale prices are more or less same throughout the country but Consumer prices vary across the regions(rural and urban) and also across the cities according to the consumer preference for certain products, supplies and purchasing power.

6.Ans: (2)
Explanation:
The excess of total government spending above the national income (i.e. fiscal deficit) is known as the inflationary gap. This is intended to increase the production level which ultimately pushes the prices up due to extra-creation of money during the process.
The shortfall in total spending of the government (i.e. fiscal surplus) over the national income creates deflationary gap in the economy. This is a situation of producing more than the demand and the economy usually heads for a general slowdown in the level of demand.
This is also known as the *output gap*.

7.Ans: (2)
Explanation:
Broad money M3= M1 + Time deposits of the public held by commercial banks.
M1 = CU + DD
Where CU is the Currency held by the public and DD is net Demand deposits held by commercial banks. The word ‘net’ implies that only deposits of the public held by the banks are to be included in money supply. *The interbank deposits*, which a commercial holds in other commercial banks, are *not regarded as money supply*.

8.Ans: (2)
Explanation:
The Government of India, the concerned State Government and the bank, which had
sponsored the RRB contributed to the share capital of RRBs in the proportion of 50%, 15%
and 35%, respectively. The RRB's have also been brought under the ambit of priority sector lending on par with the
commercial banks.
For more details: http://arthapedia.in/index.php?title=Regional_Rural_Banks

9.Ans: (2)
Explanation:
Chit Funds Act, 1982: In 1982, the Ministry of Finance enacted the Chit Funds Act to regulate
the sector. Under the Act, the central government can choose to notify the Act in different
states on different dates; if the Act is notified in a state, then the state act would be repealed. States are responsible for notifying rules and have the power to exempt certain
chit funds from the provisions of the Act.
Classifying chit funds as contracts, the Supreme Court has read chit funds as being part of
the Concurrent List of the Indian Constitution; hence both the centre and state can frame
legislation regarding chit funds.
The Reserve Bank of India (RBI) is the regulator for banks and other non banking financial
companies (NBFCs) but does not regulate the chit fund business.
FDI in chit funds is prohibited under the Government Route as well as the Automatic Route.

10. Ans: (3)
Explanation:
Major difference between Banks and NBFCs are as follows:
i. NBFC cannot accept demand deposits.
ii. NBFCs do not form part of the payment and settlement system and cannot issue cheques

drawn on itself.
iii. Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.

11.Solution- 2
Fiscal deficit will reduce as cost of government borrowing will reduce in light of reduced interest rates.
There is a huge possibility of misallocation of capital inflows which means such capital inflows may fund low-quality domestic investments instead of investing in building up industries which leads to more capacity creation and utilization, and increased level of employment.
This can also reduce the potential of country to increase exports and will thus create external imbalances. This can also lead to the export of domestic savings which one would have invested in domestic market otherwise but will now think of investing in foreign markets to reduce the risk.
Entry of foreign banks would result in increased competitiveness in terms of accessing the loan proposals as the foreign banks will shy away from giving loans to farmers and the small scale industrialists as they find them less credit worthy and Indian Banks will also follow the same route to be competitive.
International finance capital is highly volatile as the investor move from country to country in search for higher returns for their investments. This process has led to crisis in numerous developing countries. Such finance capital is referred to as "Hot Money ". FCAC exposes an economy to the risk of volatility on account on "Hot Money" flows in and out of the country.

12.Solution- 2
Interest payments on international investments is credited or debited into Current Account.

13.Solution- 1
Headline inflation includes food and energy prices and core inflation excludes them.

14. Ans: (2)
Explanation:
RBI provides Ways and Means Advances (WMA) to the States banking with it to help them
to tide over temporary mismatches in the cash flow of their receipts and payments. Such
advances repayable in each case not later than three months from the date of making that
advance.
There are two types of WMA – normal and special. While normal WMA are clean advances,
special WMA are secured advances provided against the pledge of Government of India
dated securities.
RBI has determined limits for normal and special WMA for each State as multiples of the
prescribed minimum balance required to be maintained with the RBI by that State. These
limits have been revised periodically.
https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?ID=6

15.Ans: (2)
Explanation:
As per the definition given in the *Companies (Issue of Indian Depository Receipts) Rules,*
2004, IDR is an instrument in the form of a depository receipt created by the Indian
depository in India against the underlying equity shares of the issuing company.
In an IDR, foreign companies would issue shares, to an Indian depository (say the National

Security Depository Limited – NSDL), which would in turn issue depository receipts to investors in India. The actual shares underlying IDRs would be held by an Overseas Custodian, which shall authorise the Indian depository to issue of IDRs.
An IDR is a mechanism that allows investors in India to invest in listed foreign companies, including multinational companies, in Indian rupees.

16.Explanation: 3
Investors in the participatory note do not own the underlying Indian security. For more details:
http://www.arthapedia.in/index.php?title=Participatory_Notes_(PNs)

17) Solution (a)
Inflation tax is not an actual legal tax paid to a government; instead "inflation tax" refers to the penalty for holding cash at a time of high inflation. When the government prints more money or reduces interest rates, it floods the market with cash, which raises inflation in the long run. If an investor is holding securities, real estate or other assets, the effect of inflation may be negligible. If a person is holding cash, though, this cash is worth less after inflation has risen. The degree of decrease in the value of cash is termed the inflation tax for the way it punishes people who hold assets in cash, which tend to be lower- and middle-class wage earners.

18) Solution (a)
Stagflation is persistent high inflation combined with high unemployment and stagnant demand in a country's economy.

19.Solution (d)
ARC is in news for multiple reasons especially with NPA’s being all time high. Hence we expect a question. Here is the basic understanding about ARCs.
An Asset Reconstruction Company (ARC) is a company that is set up to do exactly what the name suggests — reconstruct or re-package assets to make them more saleable. The assets in question here are loans from banks, card companies, financial institutions etc.

Why do we need ARCs? Bad loans are essentially of two types — those that are a consequence of routine banking operations and those that are a reflection of a greater systematic rot, as in the Indian context where the bulk of non-performing assets (NPAs) are due to government interference/loan waivers/difficulties in recovering dues etc. There are essentially two approaches to tackling NPAs — one, leave the banks to manage their own bad. Two, do thesame thing on a concerted, central level, through a centralized agency or agencies. ARCs are centralised agencies for resolving bad loans created out of a systematic crisis. Non-performing assets (NPAs) can be assigned to ARCs by banks at a discounted price, enabling a one-time clearing of the balance sheet of banks of sticky loans.
At the same time, the ARC can float bonds and recover dues from the borrowers directly. ARCs can have several alternate structures. They can either be publicly or privately owned or a combination of both, and can be either separately capitalised units or wholly-owned subsidiaries.

20.Solution (a)
There is no international body acting nationally to the minute idea of controlling inflation by policy action. They can only advise.
Inflation is often open and suppressed. Inflation is open when “markets for goods or factors of production are allowed to function freely, setting prices of goods and factors without normal interference by the authorities.” Thus open inflation is the result of the uninterrupted operation of the market mechanism.
There are no checks or controls on the distribution of commodities by the government. Increase in demand and shortage of supplies persists which tend to lead to open inflation. Unchecked open inflation ultimately leads to hyper-inflation.
Suppressed Inflation: On the contrary when the government imposes physical and monetary controls to check open inflation, it is known as repressed or suppressed inflation. The market mechanism is not allowed to function normally by the use of licensing, price controls and rationing in order to suppress extensive rise in prices.

21) Solution (c)
It isn’t MoF but a magistrate or Judge of a designated court in Mumbai. Rest of the statements are correct. Yes SEBI also has a role in financial inclusion.
Refer Chapter Finance, India Year Book 2016.

22.Solution (d) As per the Consolidated FDI Policy, June 2016, the approval limit for FIPB has been further increased from 3000 crores to Rs. 5000 crores. which it is approved by CCEA and not cabinet
http://fipb.gov.in/AboutUs.aspx
23.D
Statement 1 is not correct. Cash Reserve Ratio refers to the fraction of the total Net Demand and Time
Liabilities (NDTL) of a Scheduled Commercial Bank held in India, that it has to maintain as cash deposit with
the Reserve Bank of India (RBI).
Statement 2 is not correct. 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);
[i] Cash
[ii] Gold; or
[iii] 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.
In contrast to the CRR, under which banks have to maintain cash with the RBI, the SLR requires holding of
assets in one of the above three categories by the bank itself.
Statement 3 is not correct. Liquidity adjustment facility (LAF) is a monetary policy tool which allows banks
to borrow money through repurchase agreements or repos. LAF is used to aid banks in adjusting the day to
day mismatches in liquidity (frictional liquidity deficit/surplus). Both SLR and CRR are not part of Liquidity
adjustment facility.

24. A
- The recent fall in international crude price has the highest impact on WPI. It depends on the weightage of fuel component among different indicators. WPI has the highest weightage of fuel component around 40 percent, whereas for CPI the fuel component consist of firewood, electricity and dung cake. Hence, impact of crude is minimal.
- Core inflation is derived after deducting short term volatile commodities like food and energy. Hence, it experiences minimum impact.

25. C
- Both the given statements are correct. Deflation is the persistent fall in the general price level of goods and services. It occurs when the inflation are falls below zero (a negative inflation rate).
- Disinflation is a decrease in the rate of inflation, i.e. a slowdown in the rate of increase of general price level of goods and services.

26. D
Various methods used by central bank to control creation can be divided into quantitative and qualitative methods.
Qualitative methods are:
- Margin Requirements
- Regulation of consumer Credit
- Credit Rationing Policy
- Direct Action

While quantitative methods include the following:
- Open Market Operation
- Repo Rate
- Variable Reserve Ratio
- Bank Rate Policy

27. D
Payment banks: Payments banks are banks which offer basic savings, deposit, payment and remittance

services to people without access to the formal banking system.
Following functions can be performed by them
Opening of demand deposits:both current and saving. (statement 1 and 2 correct)
Distribution of mutual funds,insurance and pension products. (statement 4 correct)
Utility bill payments like electricity bills etc. (statement 5 correct)
Functions prohibited for payment banks
No NRI deposits (statement 3 incorrect)
No issuing of credit cards
Cannot undertake NBFCs activities.

28. B
Tax Expenditures, as the word might indicate, does not relate to the expenditures incurred by the
Government in the collection of taxes. Rather it refers to the opportunity cost of taxing at concessional
rates, or the opportunity cost of giving exemptions, deductions, rebates, deferrals credits etc. to the tax
payers. Tax expenditures indicate how much more revenue could have been collected by the Government
if not for such measures. In other words, it shows the extent of indirect subsidy enjoyed by the tax payers
in the country.

29. A
The currency deposit ratio (CDR) is the ratio of money held by the public in currency to that they hold in
bank deposits.
CDR = CU/DD, where CU is currency (notes plus coins) held by public and DD is net demand deposits
held by commercial banks. The word 'net' implies that only deposits of the public held by the banks are to
be included in the money supply. The inter bank deposits, which a commercial banks holds in other
commercial banks, are not to be regarded as part of money supply.
CDR reflects people's preference for liquidity. It is a purely behavioral parameter which depends, among

other things, on the seasonal pattern of expenditure. CDR increases during the festive season as people
convert deposits to cash balance for meeting extra expenditure during such periods.

30. B
The concept of marginal is important to understand Marginal Cost of Funds based Lending Rate (MCLR).
In economics sense, marginal means the additional or changed situation. While calculating the lending
rate, banks have to consider the changed cost conditions or the marginal cost conditions.
Statement 1 is incorrect. The CRR costs and operating cost (is the operating expenses incurred by the
banks) are the common factors for both base rate and the MCLR.
Statement 2 is correct. The MCLR should be revised monthly by considering some new factors including
the repo rate and other borrowing rates. Specifically the repo rate and other borrowing rate that were not
explicitly considered under the base rate system.
Under MCLR:
Costs that the bank is incurring to get funds (means deposit) is calculated on a marginal basis
The marginal costs include Repo rate; whereas this was not included under the base rate.
Many other interest rates usually incurred by banks when mobilizing funds also to be carefully
considered by banks when calculating the costs.
The MCLR should be revised monthly.

31. A
o Statement 1 is correct. Participatory notes, also referred to as "P-notes," are financial instruments used
by investors or hedge funds that are not registered with the Securities and Exchange Board of India
(SEBI) to invest in Indian securities.
o Statement 2 is incorrect. The investor in PN does not own the underlying Indian security, which is held

by the FII who issues the PN. Thus the investors in PNs derive the economic benefits of investing in the
security without actually holding it. They benefit from fluctuations in the price of the underlying security
since the value of the PN is linked with the value of the underlying Indian security. The PN holder also
does not enjoy any voting rights in relation to security/shares referenced by the PN.

32.A
Secondary Market refers to a market where securities are traded after being initially offered to the
public in the primary market and/or listed on the Stock Exchange. Majority of the trading is done in the
secondary market.
Secondary market comprises of equity markets and the debt markets. Following are the main financial
products/instruments dealt in the secondary market:
Equity: The ownership interest in a company of holders of its common and preferred stock. The various
kinds of equity shares are as follows:
o Equity Share
o Rights Issue / Rights Shares
o Bonus Shares
o Preferred Stock / Preference shares
o Security Receipts
o Government securities (G-Secs)
o Debentures
o Bond
Initial Public Offering (IPO) is an offering of the primary market where a private company decides to sell
stocks to the public for the first time.

33. A
o Statement 1 is correct as Global slowdown would result into weakening of global demand of Indian
goods and thus result into lower value of exports.
o Statement 2 is correct as Low global commodity prices means the prices that traders would get in

international market would be low and hence it will discourage exports .
o Statement 3 is not correct as deprecation in currency would make exports more competitive and
encourage rise in value of exports.

34. D
o Statement 1 is not correct. Where an investor has a stake of 10 percent or less in a company, is treated
as FII and, where an investor has a stake of more than 10 percent, is treated as FDI.
o Statement 2 is not correct. As per Section 15 (1) (a) of the SEBI FII Regulations, 1995, a Foreign
Institutional Investor (FII) may invest in the securities in the primary and secondary markets including
shares, debentures and warrants of companies unlisted, listed or to be listed on a recognized stock
exchange in India.

35. B
o The key difference between a share and a debenture is that while share represents part of ownership of
a company, debenture acknowledges loan or debt to the company. Thus, a shareholder is a participant in
the profits as well as losses of the company.
o Dividend is paid on share, which is an appropriation of profits, but a debenture holder is paid interest
over the lifetime of the debenture and principal amount at the end of life.

36.D
All the given agreements are under the WTO framework: Trade Facilitation Agreement, Trade Related
Intellectual Property Rights, Agreement on Subsidies and Countervailing Measures.

37.Bo Statement 1 is not correct. A Depository Receipt (DR) is a financial instrument representing certain

securities (eg. shares, bonds etc.) issued by a company/entity in a foreign jurisdiction. Statement 2 is correct. DRs constitute an important mechanism through which issuers can raise funds
outside their home jurisdiction. DRs are issued for tapping foreign investors who otherwise may not be
able to participate directly in the domestic market. It is perceived as the beginning point of connecting
with the foreign investors (i.e. a stage before the actual listing the shares /securities in a foreign stock
exchange) or a way of introducing the company to a foreign investor. For investors, depository receipt is
a way of diversifying the risk, by getting exposure to a foreign market, but without the exchange rate risk
as they are foreign currency denominated. Further, they feel more safe to invest from their home
location.
o Statement 3 is correct. Depository Receipts are a foreign currency denominated instrument.

38. B
The features of a capitalist economy are:
o Two-class system: Historically a capitalist society was characterized by the split between two classes
of individuals--the capitalist class, which owns the means for producing and distributing goods (the
owners) and the working class, who sell their labor to the capitalist class in exchange for wages. The
economy is run by the individuals (or corporations) who own and operate companies and make
decisions as to the use of resources. But there exists a "division of labor" which allows for
specialization, typically occurring through education and training, further breaking down the two
class system into sub-classes (eg the middle class). A capitalist economy accepts that income polarity
is a reality in order to motivate high performers to develop new ideas and products for personal
gain. Hence, statement 1 is not correct.

o Profit motive: Companies exist to make a profit. The motive for all companies is to make and sell
goods and services only for profits. Companies do not exist solely to satisfy people's needs. Even
though some goods or services may satisfy needs, they will only be available if the people have the
resources to pay for them. Hence, statement 2 is correct.
o Minimal government intervention: Capitalist societies believe markets should be left alone to
operate without government intervention. However, a completely government-free capitalist
society exists in theory, only. A purely capitalist society would allow the markets to set prices based
on demand and supply for the purpose of making profits. Hence, statement 3 is correct.
o Competition: True capitalism needs a competitive market. Without competition, monopolies exist
and instead of the market setting the prices, the seller is the price setter, which is against the
conditions of capitalism.
o Willingness to change: The last characteristic of capitalism is the ability to adapt and change.
Technology has been a game changer in every society and the willingness to allow change and
adaptability of societies to improve inefficiencies within economic structures is a true characteristic.

39.A
o Statement 1 is correct. It is the duty of the Commission to eliminate practices having adverse effect on
competition, promote and sustain competition, protect the interests of consumers and ensure freedom
of trade in the markets of India. The Commission is also required to give opinion on competition issues
on a reference received from a statutory authority established under any law and to undertake
competition advocacy, create public awareness and impart training on competition issues.

o Statement 2 is correct. The Competition Commission of India (CCI) was established under the
Competition Act, 2002 for the administration, implementation and enforcement of the Act.
o Statement 3 is not correct. It is an autonomous independent body working as an affiliated office under
the Ministry of Corporate Affairs.

40.D
Following are the functions performed by the Securities and Exchange Board of India:
o regulating the business in stock exchanges and any other securities markets;
o registering and regulating the working of stock brokers, sub-brokers, share transfer agents, bankers
to an issue, trustees of trust deeds, registrars to an issue, merchant bankers, underwriters, portfolio
managers, investment advisers and such other intermediaries who may be associated with securities
markets in any manner;
o registering and regulating the working of [venture capital funds and collective investment
schemes],including mutual funds;
o promoting and regulating self-regulatory organisations;
o prohibiting fraudulent and unfair trade practices relating to securities markets;
o promoting investors' education and training of intermediaries of securities markets;
o prohibiting insider trading in securities;
o regulating substantial acquisition of shares and take-over of companies;

41. D
o The Qualified Foreign Investor (QFI) is sub-category of Foreign Portfolio Investor and refers to any
foreign individuals, groups or associations, or resident, however, restricted to those from a country that
is a member of Financial Action Task Force (FATF) or a country that is a member of a group which is a
member of FATF and a country that is a signatory to International Organization of Securities

Commission's (IOSCO) Multilateral Memorandum of Understanding (MMOU). The objective of enabling
QFIs is to deepen and infuse more foreign funds in the Indian capital market and to reduce market
volatility as individuals are considered to be long term investors, as compared to institutional investors.
They are allowed to invest in - mutual funds, equities and corporate debt.

42.A
o A unicorn club refers to a start-up with a estimated valuation of more than $1 billion. As of December
2015, eight Indian startups belonged to the "Unicorn" club.

43.B
Agreement on Subsidies and Countervailing Measures under WTO classifies subsidies as follows:
(a) Green: Subsidies which are no or least market distorting includes measures decoupled from output
such as income-support payments, etc.
(b) Amber: Those subsidies which are trade distorting and need to be curbed and actionable by trading
partners.
(c) Blue Box: Only "Production limiting Subsidies" under this are allowed. They cover payments based on
acreage, yield, or number of livestock in a base year.
44. D
o Green bond is a debt instrument (and not equity instrument) which publicly states that capital is being
raised to fund 'green' projects, that typically include those relating to renewable energy, emission
reductions and so on.
o Green bonds are issued by multilateral agencies such as the World Bank, corporations, government
agencies and municipalities.
India has embarked on an ambitious target of building 175 gigawatt of renewable energy capacity by
2022, from just over 30 gigawatt now. This requires a massive $200 billion in funding. This is likely to

increase India's share in green bond market
45. B
o The Special Drawing Rights (SDR) is an international reserve asset, created by the IMF in 1969 to
supplement its member countries official reserves. SDRs are entitlements granted to member countries
enabling them to draw from the IMF apart from their quota.
o Statement 1 is incorrect as SDR is not a hard currency; it is an independent reserved asset.
o Statement 2 is correct as every member is allocated SDR in proportion to their respective quotas. Quota
subscriptions are a central component of the IMF's financial resources. Each member country of the IMF
is assigned a quota, based broadly on its relative position in the world economy.
o Statement 3 is incorrect as SDR also includes Pound Sterling. SDR basket of currencies include US dollar,Japanes Yen, Euro, Pound Sterling and Chinese Reminbi (most recent addition).

46. A
o Statement (a) is correct because when interest rates are higher in India investors from other countries
will buy bonds from India. For this they will need more rupees. Thus demand for rupee will rise in
comparison to the other currency. Hence there will be appreciation in the rupee.

47. Solution (b)
Treasury Bill Market (T - Bills):-

- This market deals in Treasury Bills of short term duration issued by RBI on behalf of Government of India. At present three types of treasury bills are issued through auctions, namely 91 day, 182 day and364day treasury bills. State government does not issue any treasury bills.
- Interest is determined by market forces. Treasury bills are available for a minimum amount of Rs. 25,000 and in multiples of Rs. 25,000. Periodic auctions are held for their Issue.
- T-bills are highly liquid, readily available; there is absence of risk of default. In India T-bills have narrow market and are undeveloped. Commercial Banks, Primary Dealers, Mutual Funds, Corporates,

Financial Institutions, Provident or Pension Funds and Insurance Companies can participate in T-bills market.

- Doubts: In explanation, you have provided State government does not issue any treasury bills.
- Clarifications:
- With treasury bills... The idea that state government doesn't issue is correct... But 14 day bills are issued by the RBI to state governments and nobody else... So it is not by state government but to state government... Pls make the change...

48.b

49. b) 2 only NABARD does not provide loans directly to people. So statement 1 is incorrect. NABARD acts as a regulator for regional rural banks and cooperative banks.

Please go through the functions of NABARD from its official website here - https://www.nabard.org/english/role_function.aspx

50. b) 1 and 2 only NBFC can provide loans and advances, buy shares/bonds or debentures. But they cannot engage in any agricultural or industrial activity. A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property.

Reference - https://rbi.org.in/scripts/FAQView.aspx?Id=71