

## Examrace

# Competitive Exams Practice questions for Economics Part 10

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41. Which of the following developments can occur in an economy due to deficit financing by the government?

1. Rise in Inflation
2. Decrease in public debt
3. Increase in money supply
4. Improvement in current account deficit

Select the correct answer using the code given below

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

Answer: B

Explanation: A deficit means one is spending beyond means Deficit financing can be done by external aids grants, borrowings and printing money All these means will lead to extra supply of money in the economy which will have the risk of inducing inflation Deficit financed by borrowings will result into increase in public debt That is why it is healthy for an economy to keep a low fiscal deficit

Current account deficit is the difference between import and export of goods in a country A high CAD means the country is importing more than what it exports which erodes the reserve deposits of the country and may adversely impact the exchange rate

42. With reference to Underground coal gasification consider the following statements:

1. It is technology for effective extraction of coal bed methane
2. Requirement of large quantity of water has hampered the adoption of the technology

Which of the statements given above is/are correct?

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

(c) Both 1 and 2

(d) Neither 1 nor 2

Answer: D

Explanation: Underground Coal Gasification (UCG) is a process for exploiting coal that cannot be mined because the seams are too deep, thin or fractured. Air or a combination of oxygen and steam are injected into the gasification panel within the coal seam. The coal is then heated and controlled reactions convert solid coal into product gas, known as syngas, which is extracted at the surface. The syngas is a mixture of hydrogen, carbon monoxide, methane, CO<sub>2</sub> and higher hydrocarbons.

Benefits of Underground coal gasification:

- Syngas can be directly supplied end-user reducing the need of rail/road infrastructure
- Lowers emissions because gasification in UCG is underground thereby reducing environmental management costs
- UGC may not require an external water source to operate, a major environmental advantage over water intensive coal mining

43. Which the following are the effects of inflation in the economy?

1. With the same wages purchasing power of people get reduced
2. Saving rate may increase as result of short –run effect of inflation
3. Investment may be boosted as result of short-run effect of inflation

Select the correct answer using the code below

(a) 1 and 2 only

(b) 1 and 3 only

(c) 2 and 3 only

(d) 1, 2 and 3

Answer: D

Explanation: 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). Holding money does not remain an intelligent economic decision (because money loses value with every increase in inflation) that is why people visit banks more frequently and try to hold least money with themselves and put maximum with the banks in their saving accounts. This is also known as the shoe leather cost of inflation (as it consumes the precious time of the people visiting the bank frequently tagging their shoe). It means that saving rate increase. But this happens as a short term effect of inflation. In the long-run higher inflation

depletes the saving rate in an economy Just the opposite situation arises when inflation falls or shows falling traits with decreasing saving in the short-run and increasing saving in the long-run, respectively

44. Consider the following statements regarding Niche Companies:

1. The Niche companies borrow from and lend to the members only
2. They are registered under Companies Act and are regulated by Ministry of Corporate Affairs
3. They are included under NBFCs and are also regulated by RBI

Which of the statements given above is/are correct?

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

Answer: D

Explanation: The companies doing Niche business, viz. borrowing from members and lending to members only, are known under. Different names such as Nidhi Permanent Fund Benefit Funds, Mutual Benefit Funds and Mutual Benefit Company

They are mutual benefit societies because their dealings are restricted only to the members; and membership is limited to individuals The principal source of funds is the contribution from the members The loans are given to the members at relatively reasonable rates for purposes such as house construction or repairs and are generally secured The deposits mobilized by Niches are not much when compared to the praised banking sector

Nidhi's are companies registered under section 620A of the Companies Act, 1956 (Section 406 of the new Companies Bill 2012 as passed by Lok Sabha) and is regulated by Ministry of Corporate Affairs (MCA) Niches are also included in the definition of Non-Banking Financial companies or (NBFCs) which operate mainly in the unorganized money market Nidhi Companies are regulated by RBI also

45. Which of the following are probable benefits of securitization in which assets are transformed into security?

1. For the owner of the asset, it improves the liquidity position as the future receivables are replaced by cash
2. It improves both the efficiency of the financial markets and market liquidity

Which of the statements given above is/are correct?

- (a) 1 only

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

Answer: C

Explanation: Securitization is the process of taking an illiquid asset or group of assets, and through financial engineering transforming them into a security

**For Originators (owner of the asset)**

- Securitization frees up an originator' capital by removing the assets from the balance sheet This way capital is now available for origination of fresh assets with profitability potential
- It improves the liquidity position of the originator as the future receivables are replaced by cash
- Securitization can be used as a potent tool for re-balancing and re-distributing risks such as credit, market or liquidity risk or risk concentrations on the balance sheet of the originator

**For investors:**

- It provides another option for diversifying their debt portfolio
- Securitization allows flexibility in structuring the timing of cash flows to one's needs

**For financial markets:**

- Securitization provides alternate debt instruments in the financial markets and improves market liquidity
- It widens the markets and allow entry to new players It enhances return on capital, diversifies financial markets, and serves as ultimate route of funding
- Securitization diversifies credit markets as it breaks the process of lending and funding into several discrete steps leading to specialization and economies of scale

46. With reference to money markets consider the following statements:

1. Call money refers to borrowing/lending of funds on overnight basis
2. Notice Money refers to borrowing/lending of funds for period exceeding 14 days

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2

(d) Neither 1 nor 2

Answer: A

Explanation: The money market primarily facilitates lending and borrowing of funds between banks and entities like primary Dealers (PDs) Banks and PDs borrow and lend overnight or for the short period to meet their short term mismatches in fund positions This borrowing and lending is on unsecured basis Call Money' is the borrowing or lending of funds for 1 day Where money is borrowed or lend for period between 2 days and 14 days it is known as Notice Money And Term Money refers to borrowing lending of funds for period exceeding 14 days

47. Which of the following items are included as revenue receipts?

1. Tax revenue
2. Non-tax revenue
- 3 Recoveries of loans
4. Borrowing and other liabilities

Select the correct answer using the code given below

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

Answer: A

Explanation: Government receipts which neither create liabilities nor reduce assets are called revenue receipts. Revenue receipts are arranged into two categories namely Tax revenue and Non-tax revenue

A receipt is a revenue receipt if it satisfies the following two essential conditions (I) The receipt must not create a liability for the government For example taxes levied by the government are revenue receipts as they do not create any liability However, any amount borrowed by the government is not a revenue receipt as it causes an increase in the liability in terms of repayment of borrowings (ii) The receipt must not cause decrease in the assets For example, a receipt from sale of shares of public enterprise is not a revenue receipt as it leads to a reduction in assets of the government The following figure mentions the different types of receipts

48. With reference to the Juvenile Justice Board (JJB) consider the following statements:

1. It is a statutory body
2. It will be established in all the districts

3. It will determine if a juvenile offender should be tried as adult

Which of the statements given above is/are correct?

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

Answer: D

Explanation: The Juvenile Justice (Care and Protection of Children) Bill, 2015 that will replace the Juvenile Justice (Care and Protection of Children) Act 2000 states that any person aged between 16 and 18 years and accused of a heinous offence –defined as a crime for which there is a sentence of seven years or more under the Indian Penal Code–may be tried under the IPC and not the JJ Act if, after a preliminary inquiry, the Juvenile Justice Board feels that the crime was committed with full knowledge and understanding of the consequences

Juvenile Justice Boards (JJB) and Child Welfare Committees (CWC) will be constituted in each district The JJB will conduct a preliminary inquiry to determine whether a juvenile offender is to be sent for rehabilitation or be tried as an adult The CWC will determine institutional care for children in need of care and protection

49. Which of the following factors can increase antibiotic resistance?

- 1. Overuse of antibiotics
- 2. Incorrect diagnosis
- 3. Reduction in useful bacteria
- 4. Unnecessary prescriptions

Which of the statement given above is/are correct?

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

Answer: B

Explanation: Antibiotic resistance is the ability of a microorganism to withstand the effects of an antibiotic it is a specific type of drug resistance

Statement 1, 2 and 4 are correct

Factors causing resistance:

- Overuse of antibiotics
- Incorrect diagnosis
- Unnecessary prescriptions
- Improper use of antibiotics by patients.

Reduction in useful bacteria may affect some biological processes but it has not been established that it affects antibiotic resistance

50. Which of the following is/are of strategic interest to India with respect to its relations with Iran?

1. Farad B Gas field
2. International North-South Transport Corridor
3. TAPI pipeline

Select the correct answer using the code given below

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

Answer: A

Explanation: The Farad B gas field is an Iranian natural gas field that was discovered in 2012. Government of India want to complete the procedures for India's participation in the Farad-B gas field in the Persian Gulf

The International North –South Transport Corridor is the ship rail and road route for moving freight between India, Russia, Iran, Europe and Central Asia. The route primarily involves moving freight from India, Iran, Azerbaijan and Russia via ship rail and road. The objective of the corridor is to increase trade connectivity between major cities such as Mumbai, Moscow, Tehran, Baku, Bandar Abbas, Astrakhan, Bandar Anzali and etc.

The Turkmenistan- Afghanistan- Pakistan- India Pipeline (TAPI) is a natural gas pipeline being Turkmenistan through Afghanistan into Pakistan and then to India.

There is a separate talk with Iran regarding Iran –Pakistan –India Gas pipeline; however nothing concrete has happened as of now.