INTRODUCTION TO INDIAN ECONOMY BASED INDIAN ECONOMY MCQ PRACTICE QUESTIONS AND ANSWERS PDF WITH EXPLANATION

For All Competitive SSC, Bank, IBPS, UPSC, Railway, IT & Other Govt. Exams

Created By Careericons Team

Q1. India adopted the Five-Year Plans from

a) former USSR

b) France

c) America

d) England

Q2. Which one of the following is **not** a qualitative control of credit by the Central Bank of a country ?

a) Regulation of consumer credit

b) Rationing of credit

c) Variation of margin requierments.

d) Regulation of margin requirements.

Q3. The National Income of a country is

a) sum total of factor incomes

b) export minus import

c) surplus of PSU'S

d) the annual revenue of the government

Q4. Which of the following are **correct** in regard to the austerity measures taken by a country going through adverse economy conditions:

- These measures include a reduction in spending.
- These measures include an increase in tax
- These measures include reduction in budget deficit.

Select the **correct** answer using the codes given below :
a) 1 and 3 only

b) 2 and 3 only

c) 1 and 2 only

d) 1, 2 and 3

Q5. Which one of the following is **not** an industrial finance institution?

a) ICICI

b) UTI

c) NABARD

d) SFCs

Q6. The purchase and sale of securities by the Central Bank is known as

a) Bank rate

b) Variable reserve ratio

c) Open market operation

d) Net liquidity ratio

Q7. Project 'Sankalp' started for the purpose ________

a) To eradicate Polio

b) To eradicate illiteracy

c) To eliminate AIDS/HIV

d) To eliminate unemployment

Q8. While computing national income estimates, which of the following is required to be observed ?

a) The value of exports to be subtracted and the value of imports to be added

b) The value of exports to be added and the value of imports to be subtracted

c) The value of both exports and imports to be added

d) The value of both exports and imports to be subtracted

Q9. Maruti cars are mainly based on

a) Korean Technology

b) Japanese Technology

c) Russian Technology

d) German Technology

Q10. Which of the following is/are the steps which will result in containing inflation?

- Increasing Cash Reserve Ratio (CRR)
- Decreasing Statutory Liquidity Ratio (SLR)
- Permitting central/state agencies to import duty free pulses and sugar.

Select the **correct** answer using the codes given below:
a) 2 and 3

b) 1 and 3

c) 1 only

d) 1, 2 and 3

Q11. NREGP is the abbreviated form of

a) National Rural Educational Guarantee Programme

b) National Rural Employment Guarantee Programme

c) National Rapid Educational Guarantee Programme

d) National Rapid Employment Guarantee Programme

Q12. Which of the following definitions are **correct**?

- **Basis points**: increase in interest rates in percentage terms.
- **Repo rate**: the rate at which commercial banks borrow from the RBI by selling their securities or financial assets to the RBI for a long period of time.
- **Reverse repo rate**: rate of interest at which the central bank borrows funds from other banks for a short duration.
- **Cash reserve ratio**: minimum percentage of cash deposits that banks must keep with themselves to avoid liquidity issues.

a) (ii), (iii) & (iv)

b) (ii) & (iv)

c) (i) & (ii)

d) (iii) & (iv)

Q13. NABARD stands for

a) National Bank for agriculture and rural

b) National business for accounting and Reviewing

c) National Bank for aeronautics and radar development

d) National bureau for air and road transport

Q14. Which of the following statements are **not correct** about 'bond' ?

- It is an instrument of raising long-term capital.
- Bond-issuing body pays interest on it which is known as 'contango rate'.
- It may be issued by governments and private companies both.
- 'Bonds' and 'debantures' are different in nature.

Codes:
a) Neither of the above

b) 2 only

c) 1 and 3 only

d) All are true

Q15. The process of curing inflation by reducing money supply is called

a) Down–pull inflation

b) Reflation

c) Disinflation

d) Cost-push inflation

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Answers to the above questions :

Q1. Answer: (a)

India borrowed features of fundamental duties and planning mechanisms from the former Soviet Union. India opted for a planned economic growth model as resources were scarce at the time of independence.

So it was imperative for the leaders to move along planned model so as to achieve optimum utilization of resources development and meeting the aim of social justice simultaneously.

Q2. Answer: (c)

Qualitative credit (used by the RBI for selective purposes) are:

1. Margin requirements,
2. Consumer Credit Regulation,
3. RBI Guidelines,
4. Rationing of credit,
5. Moral Suasion and
6. Direct Action.

The Quantitative Credit measures which control the total quantity of credit are:

1. Bank Rate policy,
2. Open Market Operations,
3. Cash Reserve Ratio and
4. Statutory Liquidity Ratio.

Q3. Answer: (a)

National income is the sum total of wages, rent, interest, and profit earned by the factors of production of a country in a year.

Thus it is the aggregate values of goods and services rendered during a given period counted without duplication.

Q4. Answer: (d)

Austerity describes policies used by governments to reduce budget deficits during adverse economic conditions. These policies may include spending cuts, tax increases.

This is done in an economic crisis situation to improve the credit rating of the countries going through adverse economic conditions.

Q5. Answer: (c)

NABARD provides its refinance for the promotion of agriculture in India.

Q6. Answer: (c)

Open market operation

Q7. Answer: (c)

In a bid to make AIDS prevention a mission, the Employees' State Insurance Corporation of India (ESIC) announced the launch of 'Project Sankalp' for strengthening ESIC's intervention on HIV/AIDS and Family welfare at Mangalore, Karnataka, on 17 August 2008.

It aimed at counselling and treatment to ESIC beneficiaries affected with HIV in the State.

Q8. Answer: (b)

National income is also computed by the expenditure approach wherein the focus is on finding the total output of a nation by finding the total amount of money spent.

As per this approach,

GDP = C+I+G+ (X-M)

where, C = household consumption expenditures / personal consumption expenditures;

I = gross private domestic investment;

G = government consumption and gross investment expenditures;

X = gross exports of goods and services; and

M = gross imports of goods and services.

(X - M) is often written as XN, which stands for "net exports".

Q9. Answer: (b)

Maruti Udyog Ltd. came into being in the year 1982 when Suzuki Motor Corporation (SMC) entered into a joint venture with the Government of India to manufacture fuel-efficient passenger cars under the brand name Maruti.

Maruti cars, based on the Japanese philosophy for super-efficient manufacturing, brought about the renaissance of the Indian components industry.

Q10. Answer: (b)

In order to curb inflation, if CRR is increased, then it may take liquidity from markets as banks will have to deposit more money with RBI. Moreover, inflation may also be curbed by permitting central/state agencies to import duty-free pulses and sugar.

However, decreasing SLR will leave more money to banks to give loans, which in turn will lead to inflation.

Q11. Answer: (b)

The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) is an Indian job guarantee scheme, enacted by legislation on August 25, 2005.

The scheme provides a legal guarantee for one hundred days of employment in every financial year to adult members of any rural household willing to do public work-related unskilled manual work at the statutory minimum wage of Rs.120.

This act was introduced with an aim of improving the purchasing power of the rural people, primarily semi or un-skilled work to people living in rural India, whether or not they are below the poverty line. The law was initially called the National Rural Employment Guarantee Act (NREGA) but was renamed on 2 October 2009

Q12. Answer: (b)

Basis points: It is the increase in interest rates in percentage terms. For instance, if the interest rate increases by 50 basis points (bps), then it means that the interest rate has been increasing by 50%. One percentage point is broken down into 100 basis points. Therefore, an increase from 2% to 3% is an increase of one percentage point or 100 basis points.

Repo rate: Repo rate is the policy rate and is part of RBI’s Liquidity Adjustment Facility (LAF). It is the rate at which commercial banks borrow from the RBI by selling their securities or financial assets to the RBI for a short period of time. It comes with an agreement that the sold securities will be repurchased by the commercial banks from the RBI at a future date at a predetermined price. The repo rate is used by the central bank to increase liquidity in the system.

Reverse repo rate: Reverse Repo Rate is also a part of LAF. It is the rate of interest at which the central bank borrows funds from other banks for a short duration. The banks deposit their short term excess funds with the central bank and earn interest on it. This rate is used by the central bank to absorb liquidity from the economy. Generally, it is one per cent less than the Repo rate. Bank rate: The only way the bank rate is different from the repo rate is that the bank rate is the rate at which banks borrow money from the central bank without any sale of securities. It is generally for a longer period of time.

Cash reserve ratio: CRR is the minimum percentage of cash deposits that banks must keep with the central bank. The current rate is 4%, which means for a cash deposit of `100, the bank has to park 4 rupees, with the central bank.

Q13. Answer: (a)

NABARD stands for National Bank for Agriculture and Rural Development. It is an apex development bank in India having headquarters based in Mumbai (Maharashtra).

It was established on 12 July 1982 and accredited with matters credit for agriculture and other economic activities in rural areas in India.

Q14. Answer: (b)

The interest paid on bonds is known as ‘coupon’ or ‘coupon rate’. Bonds and debentures both are the instruments of raising long-term capital but while the former is supported by collateral in the former is supported by collateral in the form of immovable property, the latter are not.

Q15. Answer: (c)

The process of curing inflation by reducing money supply is called disinflation. Disinflation is a decrease in the rate of inflation – a slowdown in the rate of increase of the price level of goods and services in GDP. Disinflation occurs when the increase in the “consumer price level” slows down from the previous period when the prices were rising.