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Economic and Social Issues Questions for RBI Grade B Exam.

ESI Quiz 1

Directions: Study the following questions carefully and choose the right answer.

1. In the production approach of calculating GDP, how do we calculate GDP at market prices?

(Topic : Growth Measurement) – 1 Marker

- A. Value added at basic prices + taxes on goods and services – subsidies on goods and services.
- B. Total National Income + Sales Taxes + Depreciation + Net Foreign Factor Income.
- C. Value added at basic prices - taxes on goods and services + subsidies on goods and services.
- D. Consumption (C) + Investment (I) + Government Spending (G) + Net Exports
- E. None of the above

2. While comparing the GDP of any two economies, we adjust for price level differences between the two economies using this tool?

(Topic : Growth Measurement) – 1 Marker

- A. GDF Deflator
- B. GDP per capita
- C. Purchasing Power Parity
- D. Price Index
- E. None of the above

3. Which of the following is not true about GVA?

(Topic : Growth Measurement) – 1 Marker

- A. It gives a picture of the state of economic activity from the producers' side or supply side.
- B. It facilitates easy cross country comparisons.
- C. The calculation of GVA excludes indirect taxes.
- D. It can be calculated at various levels- firms, industries or sectors.
- E. All are correct

4. Out of the 130 countries surveyed on World Economic Forum's (WEF) Global Human Capital Index (GHCI) 2017, what was India's rank?

(Topic : Growth Measurement) – 1 Marker

- A. 105
- B. 102
- C. 108
- D. 103
- E. 106

5. India's ambitious Zero Hunger Programme was initiated by which of the following?

(Topic : Growth Measurement) – 1 Marker

- A. Indian Council of Agricultural Research
- B. Kerala Farmers Federation
- C. Agricultural Promotion and Investment Corporation of Odisha Limited
- D. National Commission on Agriculture
- E. None of the above

6. Which of the following is/are NOT a part of the economic reforms that were carried out in 1991?

(Topic : Growth Measurement) – 1 Marker

- A. Reduction in the fiscal deficit and introducing greater financial discipline.
- B. Acceptance of recommendations of the Tax Reforms Committee headed by Raja Chelliah.
- C. Reduction in the CRR and SLR in line with the recommendations of the Narasimham Committee Report.
- D. The Devaluation of Indian Rupee.
- E. All of the above are a part of the reforms

7. The Committee on Capital Account Convertibility or Tarapore Committee was constituted by the Reserve Bank of India for suggesting a roadmap on full convertibility of Rupee on Capital Account. It submitted its report in May 1997. Which of the following themes were NOT a part of the pre-conditions for implementation of Capital Account Convertibility?

(Topic : Growth Measurement) – 1 Marker

- A. A reduction in the Net fiscal deficit to GDP ratio.
- B. A reduction in the NPAs of the Public Banking System.
- C. A reduction in the CRR rate over time.
- D. An increase in the current receipts to GDP ratio from exports.
- E. All were a part of the Recommendations

8. Which of the following is/are true about the MRTP Act 1969?

- I. It was the first Competition law created in India which dealt majorly with promoting competition in the economy.
- II. The basis of its application was the size of the firm.
- III. It was punitive in nature.

(Topic : Growth Measurement) – 1 Marker

- A. Only I
- B. Only II
- C. Only I and III
- D. Only II and III
- E. All of the above

9. The US Federal Reserve is expected to increase its rates in the coming quarter of the current fiscal year. Which of the following would NOT be a direct impact of the same?

(Topic : Growth Measurement) – 1 Marker

- A. Flows to the Capital Account would decrease.
- B. It would lead to weakening of the Rupee.
- C. The Current Account Deficit would decrease.
- D. There may be an increase in the interest rates in India.
- E. India would find it tougher to service international debt.

10. Which of the following is/are true about the National Productivity Council of India?

- I. It is an autonomous, multipartite, non-profit organization under the Department of Commerce, Ministry of Commerce & Industry.
- II. It has equal representation from employers' & workers' organizations and the Government.
- III. The National Productivity Week's theme for 2018 was "Industry 4.0 Leapfrog Opportunity for India".

(Topic : Growth Measurement) – 1 Marker

- A. Only I B. Only II C. Only I and II D. Only II and III
E. All of the above

Correct Answers:

1	2	3	4	5	6	7	8	9	10
A	C	B	D	A	E	A	B	C	D

Explanations :

- 1.** The production approach adds up the value added at basic prices of all industries, for example, agriculture, manufacturing, construction, retailing, banking, health services. Value added is the value of goods or services that have been produced minus the value of the goods and services needed to produce them. The production approach adds up the value added at basic prices. To this are added taxes on goods or services, while subsidies on goods or services are subtracted in order to calculate GDP at market prices.

Hence, option A is correct.

- 2.** Let us understand this via an example:

In 2016, Germany's GDP was EUR 3.1 trillion while France's was EUR 2.2 trillion. When comparing between economies, we need to adjust for price level differences. The amount of goods and services that you can buy on average in Germany with a certain amount of money (let's say EUR 100) is different from what you can buy on average in France with the same money. To adjust for price level differences between economies, the value of GDP in euros is converted using the purchasing power parity (PPP), a special exchange rate that takes price level differences into account. This conversion produces data that are no longer measured in euro, but in an artificial currency called a purchasing power standard (PPS) with which someone could, in theory, buy the same amount of goods and services in any economy.

Hence, option C is correct.

3. Important points to note about the GVA:

When you buy goods and services, the amount you pay is called the selling price. For a company to be profitable, this price has to cover all its costs like raw material prices, employee salaries and so on. The difference between the selling price and the cost price is the company's profit. But what if technology makes it cheaper for the company to produce these goods; at the same time, demand is so high that consumers are willing to pay a slightly higher price. This means, the goods' value has suddenly increased. The Gross Value Added (GVA) measures this rise in value on a nationwide scale.

GVA is measured by deducting the government's indirect taxes from the total GDP. You then add the government's subsidy payments to the amount.

Multilateral institutions, international analysts and investors use GDP because it enables cross-country comparison.

All the statements except statement B are true.

Hence, option B is correct.

4. The GHCI measures countries' ability to nurture, develop and deploy talent for economic growth against four key areas of human capital development; Capacity (determined by past investment in formal education), Deployment (accumulation of skills through work), Development (reskilling and continued upskilling of existing workers) and know-how (specialised skills-use at work).

India ranked low 103rd out of 130 countries surveyed on World Economic Forum's (WEF) Global Human Capital Index (GHCI) 2017. In the previous edition, India ranked 105th.

Hence, option D is correct.

5. India's ambitious Zero Hunger Programme through interventions in farm sector will be launched on occasion of World Food Day (October 16) with focus on agriculture, nutrition and health in a symbiotic manner. The Programme will be initiated by Indian Council of Agricultural Research (ICAR) in association with Indian Council of Medical Research (ICMR), MS Swaminathan Research Foundation and Biotechnology Industry Research Assistance Council (BIRAC).

The programme consists of organisations of farming system for nutrition, setting up genetic gardens for biofortified plants and initiation of 'Zero Hunger' training. A genetic garden for biofortified plants contains germplasm of naturally biofortified crops through plant breeding. It has plants and crops that help supplement micro-nutrient deficiencies, including iron, zinc, vitamin A and iodine among others.

Hence, option A is correct.

6. All of the statements above are part of the Reforms carried out in 1991.
Hence, option E is correct.

7. The CAC Committee recommended the implementation of Capital Account Convertibility for a 3 year period viz. 1997-98, 1998-99 and 1999-2000. But this committee had laid down some pre conditions as follows:

-Gross fiscal deficit to GDP ratio has to come down from a budgeted 4.5 per cent in 1997-98 to 3.5% in 1999-2000.

-A consolidated sinking fund has to be set up to meet government's debt repayment needs; to be financed by increased in RBI's profit transfer to the govt. and disinvestment proceeds.

-Inflation rate should remain between an average 3-5 per cent for the 3-year period 1997-2000.

-Gross NPAs of the public sector banking system needs to be brought down from the present 13.7% to 5% by 2000. At the same time, average effective CRR needs to be brought down from the current 9.3% to 3%.

-RBI should have a Monitoring Exchange Rate Band of plus minus 5% around a neutral Real Effective Exchange Rate RBI should be transparent about the changes in REER

-External sector policies should be designed to increase current receipts to GDP ratio and bring down the debt servicing ratio from 25% to 20%.

Hence, option A is correct.

8. Some point on the MRTP Act and its successor- The Competition Act 2002 are as follows:

1. MRTP Act is a competition law, that was created in India, in 1970 to prevent concentration of economic power in few hands. On the other hand, Competition Act emerged as an improvement over MRTP act to shift the focus from controlling monopoly to initiating competition in the economy.

2. MRTP Act is reformatory in nature, whereas Competition Act is punitive.

3. In Monopolies and Restrictive Trade Practices (MRTP) Act, the dominance of a firm is determined by its size. On the other hand, the dominance of a firm in the market is determined by its structure in the case of Competition Act.

4. MRTP Act focuses on the interest of consumers. Conversely, Competition Act focuses on the interest of the public at large.

5. In MRTP Act, there are 14 offenses, which are against the rule of natural justice. On the contrary, there are only four offenses listed out by the competition act which violates the principle of natural justice.

6. MRTP Act does not specify any penalty for offenses but Competition Act states penalty for the offence.

7. The basic motto of MRTP Act is to control monopolies. As against this, the Competition Act intends to initiate and sustain competition.

8. Monopolies and Restrictive Trade Practices (MRTP) Act, requires that the agreement to be registered. In contrast, the Competition Act is silent on the registration of agreement.

9. In MRTP Act, the appointment of chairperson was done by Central Government. On the contrary, in Competition Act the appointment of chairperson was done by Committee that comprises of retired.

Only II is correct.

Hence, option B is correct.

- 9.** Increase in the rates by the Federal Reserve \Rightarrow FPIs take out money from emerging economies to invest in USA \Rightarrow Flows to the Capital Account decrease \Rightarrow the rupee weakens \Rightarrow imports become expensive plus interest becomes more expensive \Rightarrow current account deficit increases \Rightarrow India may have to raise its interest rates to compete with the US

All of the statements are correct except for statement C.

Hence, option C is correct.

- 10.** NPC is a national level autonomous organization under Department of Industrial Policy & Promotion (DIPP), Ministry of Commerce & Industry to promote productivity culture in India. It was established as registered society on 12th February 1958 by Government to stimulate and promote productivity and quality consciousness across all sectors in the country.

It is a tri-partite non-profit organization (NGO) with equal representation from government, employers and workers' organizations. It also has representatives from technical and professional institutions including members from local productivity councils and chamber of commerce on its Governing Body.

It also implements the productivity promotion schemes of Government and carry out programmes of Tokyo based Asian Productivity Organization (APO), an inter-governmental body of which India is founder member.

The National Productivity Council is observing National Productivity Day today, and National Productivity Week till 18th February. It is the 60th Anniversary of the National Productivity Council and is being celebrated as Diamond Jubilee Year. "Industry 4.0 Leapfrog Opportunity for India " has been selected as the theme for the National Productivity Week -2018.

Only II and III are correct.

Hence, option D is correct.



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