UPSC CURRENT AFFAIRS MCQS 01-10-2023

Q1. Consider the following statements regarding International Finance Corporation (IFC):

1. It is an arm of the World Bank that offers investment, advisory, and asset-management services.
2. It encourages private-sector development in developing countries.
3. IFC also focuses on sustainable agriculture, healthcare and education.

How many of the above statements is/are correct?

(a) Only one
(b) Only two
(c) All three
(d) None

Answer: (c)

Explanation: The International Finance Corporation (IFC) is an international financial institution that offers investment, advisory, and asset-management services to encourage private-sector development in developing countries. The IFC is a member of the World Bank Group and is headquartered in Washington, D.C. in the United States. It was established in 1956, as the private-sector arm of the World Bank Group, to advance economic development by investing in for-profit and commercial projects for poverty reduction and promoting development. Since 2009, the IFC has focused on a set of development goals that its projects are expected to target. Its goals are to increase sustainable agriculture opportunities, improve healthcare and education, increase access to financing for microfinance and business clients, advance infrastructure, help small businesses grow revenues, and invest in climate health. Hence, all statements are correct.

Q2. How would you distinguish between the revenue and capital receipts of the government?

1. Revenue receipts are non-redeemable unlike certain capital receipts.
2. Capital receipts are always debt creating unlike revenue receipts.

Which of the above statements is/are correct?

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

Answer: (a)

Explanation: The main difference between revenue receipts and capital receipts is that in the case of revenue receipts, government is under no future obligation to return the amount, i.e., they are non-redeemable. But in case of capital receipts which are borrowings, government is under obligation to return the amount along with Interest. Hence, statement 1 is correct.

Capital receipts may be debt creating or non-debt creating. Examples of debt creating receipts are—Net borrowing by government at home, loans received from foreign governments, borrowing from RBI. Examples of non-debt capital receipts are—Recovery of loans, proceeds from sale of public enterprises (i.e., disinvestment), etc. These do not give rise to debt. Hence, statement 2 is incorrect.

Q3. Consider the following statements:

1. In a floating exchange rate system, market forces determine the value of a currency.
2. The demand for rupees in the forex market depends on foreign demand for Indian exports.
3. Currency appreciation encourages a country's export activity as its products and services become cheaper to buy.

How many of the above statements is/are correct?

(a) Only one
(b) Only two
(c) All three
(d) None

Answer: (b)

Explanation:

- In the forex market, the supply of rupees is determined by the demand for imports and various foreign assets. So, if there is high demand to import oil, it can lead to an increase in the supply of rupees in the forex market and cause the rupee's value to drop. The demand for rupees in the forex market, on the other hand, depends on foreign demand for Indian exports and other domestic assets. So, for instance, when there is great enthusiasm among foreign investors to invest in India, it can lead to an increase in the supply of dollars in the forex market which in turn causes the rupee's value to rise against the dollar.
- Appreciation Vs Depreciation:
- In a floating exchange rate system, market forces (based on demand and supply of a currency) determine the value of a currency.
- Currency Appreciation: It is an increase in the value of one currency in relation to another currency.
- Currencies appreciate against each other for a variety of reasons, including government policy, interest rates, trade balances and business cycles.
- Currency appreciation discourages a country's export activity as its products and services become costlier to buy.

Hence, statement 3 is incorrect.

Q4. Which of the following statements best describes the term Fiscal profligacy?

(a) Removing fiscal barriers and discrepancies between the tax systems of the various countries
(b) Income tax exemption for new industries
(c) The act of spending money in a way that is not wise
(d) Official estimate of costs or revenues for proposed legislation

Answer: (c)

Explanation: Fiscal profligacy is opposite of fiscal prudence. It is the act of spending money or using something in a way that wastes it and is not wise. The costs of fiscal profligacy at the State level can be huge. Hence, option (c) is correct.

Q5. For India, a rise in international crude oil prices can lead to which of the following?

1. Weakens the rupee against the dollar
2. Rise in current account deficit and fiscal deficit
3. It leads to inflation
4. Rise in edible oil prices

Select the correct answer using the code given below:

(a) 1, 2 and 3
(b) 1, 3 and 4
(c) 1, 2 and 4
(d) All of the above

Answer: (d)

Explanation: India imports nearly 85% of its crude requirement. The rise in import bill not only leads to inflation and rise in current account deficit and fiscal deficit, but also weakens the rupee against the dollar and hurts stock market sentiment. A rise in crude oil price also has an indirect impact on India as it leads to a rise in edible oil prices, coal prices and also that of fertiliser as they use gas as the feedstock. Gas accounts for 80% of all fertiliser production costs. So if a rise in crude oil prices could lead to a much enhanced import burden, it also leads to reduction in demand in the economy which hurts growth. It could also lead to higher fiscal deficit if the government chooses to bear the burden by way of subsidies. Hence, all are correct.