



MCQs:

1. Which of the following statement/s is/are true?

1. The Reserve Bank of India was established on April 1, 1935.

2. It was originally privately owned.

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

Ans: c

Explanation:

- The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934.
- Though originally privately owned, since nationalisation in 1949, the Reserve Bank is fully owned by the Government of India.

2. Which among the following steps is most likely to be taken at the time of an economic recession?

(a) Cut in tax rates accompanied by increase in interest rate

(b) Increase in expenditure on public projects

(c) Increase in tax rates accompanied by reduction of interest rate.

(d) Reduction of expenditure on public projects

Ans: b

Explanation:

- In recession period, It is prudent for government as well as central bank to follow Expansionary fiscal and monetary policy respectively to stimulate the economy, but keeping in mind the inflationary pressure.

3. Indian Government Bond Yields are influenced by which of the following?



- (a) Actions of the United States Federal Reserve
- (b) Actions of the Reserve bank of India
- (c) Inflation and short-term interest rates
- (d) All of the above

Ans: d

Explanation:

- Bond yield is the return an investor gets on that bond or on a particular government security. All of the above options influence Indian Government bond yield.

4. Which of the following statement/s are true?

1. Balance of Trade (BOT) is the difference between the value of exports and value of imports of goods of a country in a given period of time.
2. The devaluation of a currency is that it necessarily improves the competitiveness of the domestic exports in the foreign markets.

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

Ans: c

Explanation:

- Let us take another example to understand statement 1- If a shirt costs \$8 in the US and Rs 400 in India, the rupee-dollar exchange rate should be Rs 50. To see why, at any rate higher than Rs 50, say Rs 60, it costs Rs 480 per shirt in the US but only Rs 400 in India. In that case, all foreign customers would buy shirts from India. So devaluation of currency improves the competitiveness.

5. Which one of the following is likely to be the most inflationary in its effects?

- (a) Repayment of public debt



- (b) Borrowing from the public to finance a budget deficit
- (c) Borrowing from the banks to finance a budget deficit
- (d) Creation of new money to finance a budget deficit

Ans: d

Explanation:

- Creation to new money to finance a budget deficit will have more inflationary effect than repayment of debt, as it will lead to an increase in total money supply in the market. (as new money is being created).