

CURRENT AFFAIRS



MCQ PRACTICE



ECONOMICS

# Week 100

## QUESTION 1

Which one of the following activities of the Reserve Bank of India is considered to be part of 'sterilization'? (UPSC 2023)

- (a) Conducting 'Open Market Operations'
- (b) Oversight of settlement and payment systems
- (c) Debt and cash management for the Central and State Governments
- (d) Regulating the functions of Non-banking Financial Institutions"

## QUESTION 2

In the context of finance, the term 'beta' refers to (UPSC 2023)

- (a) the process of simultaneous buying and selling of an asset from different platforms
- (b) an investment strategy of a portfolio manager to balance risk versus reward
- (c) a type of systemic risk that arises where perfect hedging is not possible
- (d) a numeric value that measures the fluctuations of a stock to changes in the overall stock market.

### QUESTION 3

With reference to Non-Fungible Token (NFTs), consider the following statements:

1. They enable the digital representation of physical assets.
2. They are unique cryptographic tokens that exist on a blockchain.
3. They can be traded or exchanged at equivalency and therefore can be used as a medium of commercial transactions.

Which of the statements given above are correct?

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

## QUESTION 4

The money multiplier in an economy increases with which one of the following?

- (a) Increase in the Cash Reserve Ratio in the banks
- (b) Increase in the Statutory Liquidity Ratio in the banks
- (c) Increase in the banking habit of the people
- (d) Increase in the population of the country

## QUESTION 5

With reference to 'Water Credit', consider the following statements:

1. It puts microfinance tools to work in the water and sanitation sector.
2. It is a global initiative launched under the aegis of the World Health Organization and the World Bank.
3. It aims to enable the poor people to meet their water needs without depending on subsidies.

Which of the statements given above are correct?

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 1 and 3 only
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## Answers and Explanations

## QUESTION 1

Which one of the following activities of the Reserve Bank of India is considered to be part of 'sterilization'? (UPSC 2023)

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- (d) Regulating the functions of Non-banking Financial Institutions"

## 1.Explanation

- ✓ The non-market-based method involves the use of quantitative barriers, laws, or limits on market activity in order to keep prospective liquidity injections outside of the domestic financial system. Sterilisation is a market-based method that aims to neutralise some or all of the monetary impact of foreign inflows.
- ✓ The sterilisation procedure involves the following steps:
- ✓ (a) the monetary authority's decision to act by replacing foreign currency for domestic currency in the event of excessive capital inflows, and
- ✓ (b) a choice to interfere further in the bond or money markets to substitute local currency, so exiting the forex market intervention with bonds or other qualifying paper.
- ✓ The Reserve Bank's primary method of sterilisation is Open Market Operations (OMO). The Reserve Bank undertook an OMO to absorb excess liquidity in the system through the outright sale of securities.
- ✓ According to the official key of UPSC, option (a) was the correct answer.
- ✓ How will you handle a UPSC question when a common term is used unexpectedly?

## QUESTION 2

In the context of finance, the term 'beta' refers to (UPSC 2023)

- (a) the process of simultaneous buying and selling of an asset from different platforms
- (b) an investment strategy of a portfolio manager to balance risk versus reward
- (c) a type of systemic risk that arises where perfect hedging is not possible
- (d) a numeric value that measures the fluctuations of a stock to changes in the overall stock market.

## 2.Explanation

- ✓ Beta is a notion that measures a stock's predicted movement in relation to the wider market.
- ✓ A beta larger than 1.0 indicates that the stock is more volatile than the overall market, whereas a beta less than 1.0 indicates reduced volatility.
- ✓ Beta is a component of the Capital Asset Pricing Model, which assesses the cost of equity funding and can assist predict the rate of return in relation to perceived risk.
- ✓ Beta is likely a better predictor of short-term risk than long-term risk.
- ✓ According to the official key of UPSC, option (d) was the correct answer.
- ✓ The link between economy and technology is what the UPSC new trend shows

### QUESTION 3

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### 3.Explanation

- ✓ Anything that can be converted into a digital form can be an NFT. Everything from your drawings, photos, videos, GIF, music, in-game items, selfies, and even a tweet can be turned into an NFT. Hence, statement 1 is correct.
- ✓ NFT operates on blockchain because it provides users with complete ownership of a digital asset. For example, if you're a sketch artist and convert your digital asset to an NFT, you'll receive evidence of ownership via Blockchain. Hence, statement 2 is correct.
- ✓ NFTs and cryptocurrencies are significantly distinct from one another. While both are based on Blockchain, that's where the similarities end. Cryptocurrency is a currency that is fungible, or interchangeable. For example, if you own one crypto token, such as Ethereum, the next Ethereum you hold will have the same value. However, NFTs are non-fungible, which means that the value of one NFT is not the same as another. Hence, statement 3 is not correct.
- ✓ According to the official key of UPSC, option (a) was the correct answer.
- ✓ Easy-to-Misread concept questions under exam pressure

## QUESTION 4

The money multiplier in an economy increases with which one of the following?

- (a) Increase in the Cash Reserve Ratio in the banks
- (b) Increase in the Statutory Liquidity Ratio in the banks
- (c) Increase in the banking habit of the people
- (d) Increase in the population of the country

## 4.Explanation

- ✓ The money multiplier measures the maximum amount of money that a banking system generates with each unit of central bank money.
- ✓ The money multiplier in an economy increases with the increase in the banking habits of the people.
- ✓ According to the official key of UPSC, option (c) was the correct answer.
- ✓ It seems to be an environment concept. However, UPSC connects it to economy

## QUESTION 5

With reference to 'Water Credit', consider the following statements:

1. It puts microfinance tools to work in the water and sanitation sector.
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- (d) 1, 2 and 3

## 5.Explanation

- ✓ The most urgent and profound crisis that India faces is the shortage of water. India's current water consumption stands at 1,385 m<sup>3</sup> per capita, is a third of the global average and below that of low-income countries.
- ✓ Water.org is a global non-profit organization working to bring water and sanitation to the world. We help remove the barriers between people living in poverty and access to the safe water and sanitation solutions they need to survive and thrive. Hence, statement 2 is not correct and statement 3 is correct.
- ✓ Water.org offers a portfolio of smart solutions that break down the barriers between people living in poverty and access to safe water and sanitation. Hence, statement 1 is correct.
- ✓ According to the official key of UPSC, option (c) was the correct answer.