1. Answer: B) 2 and 3 only

The call money market in India allows both banks and non-banking financial companies (NBFCs) to borrow and lend short-term funds on an overnight basis.

- The **call money market** (overnight funds) is **restricted to banks and primary dealers** for both borrowing and lending.
- **NBFCs are not permitted to borrow** in the call money market, though they may participate in other segments of the money market like **term money** or **commercial paper**.

The Bond Yield in India moves inversely to the bond price and is directly influenced by the Reserve Bank of India's repo rate changes.

- **Bond yields and prices have an inverse relationship**, and bond yields in India are **directly affected by changes in the RBI's repo rate**, which influences the overall interest rate structure.

The Securities Transaction Tax (STT) is applicable on both buying and selling of equity shares and derivatives on recognized stock exchanges in India.

- For **equity delivery trades**, STT is applicable on **both buy and sell**.
- For **intraday equity trades**, STT is applicable **only on the sell side**.
- For **derivatives**, STT is usually levied **only on the sell side** (e.g., options and futures).

2. Answer: A) 1 and 2 only

An increase in the Reserve Bank of India's reverse repo rate generally leads to a fall in liquidity in the banking system.

- The **reverse repo rate** is the rate at which the **RBI borrows money from banks**.
- When the **reverse repo rate increases**, it becomes more attractive for banks to **park excess funds with the RBI**, leading to a **reduction in liquidity** available for lending in the market.

A rise in bond yields in India implies falling bond prices and is often associated with expectations of rising inflation.

- **Bond yields and prices move inversely**.
- Rising bond yields can signal **expectations of inflation**, which erodes the real return from fixed-income instruments, prompting investors to sell bonds, driving down prices.

The Open Market Operations (OMOs) by RBI always involve the purchase of government securities to inject liquidity.

- While **RBI purchases government securities in OMOs** to **inject liquidity**, it also **sells government securities to absorb excess liquidity**.
- OMOs are a **two way tool**:
  - **Purchase = Liquidity injection**
  - **Sale = Liquidity absorption**

3. Answer: B) 2 and 3 only

Debentures are always secured by the issuer's assets, unlike bonds.

- **Debentures can be either secured or unsecured**.
- In India, the term **"secured debenture"** exists legally, and **many are unsecured**, especially when issued by financially strong companies.
- **Bonds**, on the other hand, can also be secured or unsecured, depending on the terms of issuance.

Commercial Papers (CPs) are issued by corporations to raise short-term funds and are traded in the capital market.

- **CPs are indeed issued by companies** to raise **short-term funds**, typically with maturities from **7 days to 1 year**.
- However, they are **not traded in the capital market (i.e., stock exchanges)**.
- Instead, they are part of the **money market** and are traded **over-the-counter (OTC)**, usually among institutional investors.

Masala Bonds are rupee-denominated bonds issued abroad by Indian entities and expose foreign investors to currency risk.

- **Masala Bonds** are **rupee-denominated bonds issued overseas** by Indian entities.
- Since the bond is in **INR** and the investor holds it in a **foreign currency**, **foreign investors bear the currency risk**, not the Indian issuer.

4. Answer: A) 1 only

The Securities and Exchange Board of India (SEBI) regulates both primary and secondary markets in India.

- **SEBI** is the **statutory regulator** of the **securities markets** in India.
- It **regulates both the primary market** (new issues/IPO) and **secondary market** (stock exchanges, trading, etc.).

Foreign Portfolio Investors (FPIs) in India can invest in listed equities, but not in corporate bonds.

- **FPIs are allowed to invest** in a wide range of instruments in India, including:
  - **Listed equities**
  - **Corporate bonds**
  - **Government securities**
- In fact, SEBI and RBI have established limits and frameworks for **FPI investment in corporate debt**.

Buyback of shares by a listed company in India must be completed within one year of the board's approval.

- As per **SEBI (Buy-back of Securities) Regulations**, a buyback must be **completed within 6 months** (not one year) from the date of **board or shareholder approval**, depending on the method.

5. Answer: B) 1 and 3 only

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- **Index futures** (like those on Nifty or Sensex) are **cash-settled** because an **index is not a tangible asset** you can't deliver the index itself.
- Settlement is based on the **difference between contract price and final index value** at expiry.
- In India, **stock options** (on individual equities) are **American style** they can be exercised **any time before expiry**.
- **Index options** (like Nifty options) are **European style** they can be exercised **only on expiry**.
- However, **only one style applies to each category**, so **both styles don't apply to the same contracts**.
- Hence, while both styles **exist**, a **single options contract is not offered in both styles** on Indian exchanges.
- **RBI regulates currency derivatives and interest rate derivatives**, particularly those involving **banks and over the counter (OTC) trades**.
- Exchange-traded currency derivatives are jointly regulated by SEBI and RBI.

6. Answer: C) 3 only

NBFCs in India can accept demand deposits if registered with the RBI and classified as deposit-taking (NBFC-D).

- NBFCs, even if deposit-taking (NBFC-D), are **not allowed to accept demand deposits**.
- **Demand deposits** (like savings or current accounts) are strictly the domain of **banks**.
- NBFC-Ds can only accept **term deposits**, subject to strict regulatory norms.
- While it's true that **NBFCs are not part of the core payment and settlement system**,
  - **Select NBFCs (e.g., Bajaj Finance)** have been **permitted by RBI to issue credit cards** in partnership with banks or under specific licensing.
- So this statement is **not entirely accurate** anymore due to recent regulatory changes.

Infrastructure Finance Companies (IFCs) are a subtype of NBFCs that must deploy at least 75% of total assets in infrastructure loans.

- **IFCs** are a category of **NBFCs**, and as per RBI norms, they must **deploy at least 75% of their total assets towards infrastructure lending**.
- They also need to meet higher capital adequacy and net owned fund requirements.

7. Answer: A) 1 and 2 only

The Asian Infrastructure Investment Bank (AIIB) is a multilateral development bank headquartered in Beijing, and India is its second-largest shareholder.

- The **AIIB** is indeed a **multilateral development bank headquartered in Beijing**, China.
- **India is the second-largest shareholder** after China, giving it significant voting power within the institution.

The New Development Bank (NDB) was established by the BRICS nations and is open to other developing countries for membership.

- The **NDB was established by the BRICS nations** (Brazil, Russia, India, China, South Africa) in 2015.
- It has since **opened its membership to other developing countries** (e.g., Bangladesh, UAE, Egypt, Uruguay have joined as members).

Unlike the World Bank, the NDB provides loans only in US dollars to avoid exchange rate volatility.

- The **NDB provides loans in multiple currencies**, including **local currencies** (like Chinese yuan, Indian rupee, etc.), to **reduce exchange rate risk** for borrowers.
- In contrast, the **World Bank primarily lends in hard currencies** like the US dollar.
- So this statement is **incorrect** the NDB explicitly promotes **local currency financing**, **not just USD loans**.

8. Answer: A) 2 only

The Finance Commission recommends the vertical and horizontal distribution of divisible taxes between the Union and the States, but it has no role in grants-in-aid from the Consolidated Fund of India.

- The **Finance Commission does recommend**:
  - **Vertical distribution** (between Centre and States),
  - **Horizontal distribution** (among States), **and**

- **Grants-in-aid to States** under **Article 275** from the **Consolidated Fund of India**.
- it **does have a role in recommending grants-in-aid**, making the statement incorrect.

Article 280 of the Constitution mandates the President to constitute a Finance Commission every five years or earlier as deemed necessary.

- As per **Article 280**, the **President of India** must **constitute a Finance Commission every five years**, or **earlier if necessary**.

The recommendations of the Finance Commission are binding on the Government of India, once tabled in Parliament.

- The **Finance Commission's recommendations are advisory** in nature.
- The **Government is not bound** to accept them, though they are usually implemented **fully or partially** after deliberation.

9. Answer: B) 2 only

The Revenue Deficit reflects the excess of revenue expenditure over revenue receipts, and does not include interest payments.

- The **Revenue Deficit** is **indeed the excess of revenue expenditure over revenue receipts**.
- However, **interest payments are part of revenue expenditure**, so they **are included** in revenue deficit calculations.
- Therefore, saying it "does not include interest payments" is **incorrect**.

Effective Revenue Deficit was introduced to exclude grants given for the creation of capital assets from the revenue deficit.

- **Effective Revenue Deficit** = **Revenue Deficit** – **Grants for creation of capital assets**.
- It was introduced to better reflect the productive nature of some revenue expenditure.

Primary Deficit is calculated by subtracting capital expenditure from fiscal deficit.

- The **Primary Deficit** is calculated as: **Primary Deficit = Fiscal Deficit – Interest Payments**
- It shows the borrowing requirement **excluding interest obligations**, not capital expenditure.

Dividends and profits from PSUs and the RBI are considered part of non-tax revenue.

- **Dividends and profits** from **Public Sector Undertakings (PSUs)** and **the Reserve Bank of India (RBI)** are classified as **non-tax revenue receipts** in the Union Budget.

The GST Compensation Cess collected by the Union Government is credited to the Consolidated Fund of India and shared with the States.

- The **GST Compensation Cess** is **not credited to the Consolidated Fund of India**.
- Instead, it is credited to a **non-lapsable GST Compensation Fund**, established under the **GST (Compensation to States) Act, 2017**.
- It is **used exclusively to compensate states** for revenue losses due to the implementation of GST.
- Therefore, the statement is **incorrect** in both fund classification and mechanism of sharing.

10. Answer: A) 2 only

Disinvestment receipts are classified as non-tax revenue receipts in the Union Budget.

- **Disinvestment receipts** (i.e., proceeds from sale of government equity in PSUs) are classified as **capital receipts**, **not non-tax revenue**.
- Capital receipts include **borrowings** and **recovery of loans**, along with **disinvestment proceeds**, as they involve **reduction in government assets**.

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11. Answer: A) 1 and 2 only

The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 originally mandated the elimination of revenue deficit and reduction of fiscal deficit to 3% of GDP by 2008–09.

- The **original FRBM Act, 2003** aimed to:
  - **Eliminate revenue deficit** by **March 2008**.
  - Reduce **fiscal deficit** to **3% of GDP** by **2008–09**.
- These targets were deferred due to events like the **2008 global financial crisis**.

The NK Singh Committee (2017) on FRBM recommended a legally enforceable fiscal deficit target of 3% of GDP with a 0.5% escape clause under exceptional circumstances.

- The **NK Singh Committee** recommended:
  - A **medium-term fiscal deficit target of 3% of GDP**.
  - An **"escape clause" of 0.5%** for **extraordinary circumstances** (e.g., war, national calamity, structural reforms).
- The idea was to introduce flexibility while maintaining fiscal discipline.

The FRBM Act applies equally to both the Central Government and the State Governments.

- The **FRBM Act, 2003** applies **only to the Central Government**.
- **States are required** to enact **their own FRBM laws** based on guidelines from the Centre (per Article 293), but these are **separate legislations**, not governed directly by the central FRBM Act.

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13. Answer: A) 1 and 2 only

Tax buoyancy measures the responsiveness of tax revenue growth to changes in GDP without controlling for discretionary changes in tax policy.

- **Tax buoyancy** reflects the **total responsiveness** of tax revenue to GDP growth, including **both automatic responses** and **discretionary policy changes** (like new taxes, rate changes, or exemptions).

Tax elasticity accounts for the automatic response of tax revenue to income changes, excluding discretionary changes such as new taxes or rate changes.

- **Tax elasticity** measures how tax revenues change **purely in response to income (GDP) changes**, **excluding** the impact of **discretionary changes** in tax policy.
- It provides a better measure of the **underlying efficiency and responsiveness** of the tax system.

A high tax buoyancy necessarily implies a proportional increase in tax compliance and tax base.

- A **high tax buoyancy** may result from:
  - Strong GDP growth,
  - Discretionary tax hikes,
  - Better enforcement or compliance,
  - Expansion of the tax base.

14. Answer: A) 1 and 2 only

In India, deficit financing by the government typically refers to the monetization of fiscal deficit by borrowing from the RBI.

- **Traditionally**, deficit financing in India referred to the **RBI printing money** (i.e., **monetizing the deficit**) to fund government expenditure.
- However, **this practice was phased out** post-1997 through agreements between the RBI and Government of India.
- So while **historically true**, **currently** the government finances deficits mainly by **market borrowing**
- Still, in the **conceptual or textbook sense**, **deficit financing = monetization by central bank**

The practice of direct monetization of deficit by the RBI is currently prohibited under the FRBM Act and is only allowed under exceptional circumstances.

- Under the **FRBM Act**, **direct monetization** (i.e., RBI directly buying government bonds in the primary market) is **prohibited**.
- It can only happen under **exceptional circumstances** (e.g., national emergency or structural reforms), with **Parliamentary approval**.

Deficit financing may lead to inflationary pressure, but its effect is neutralized if the borrowing is used for revenue expenditure rather than capital investment.

- If borrowing is used for **capital investment** (like infrastructure), it can **increase supply capacity**, potentially **mitigating inflation** in the long term.
- If it's used for **revenue expenditure** (like subsidies, salaries), it **boosts demand without increasing supply**, making it **more inflationary**.

15. Answer: B) 1 and 3 only

The Consolidated Fund of India is the most important of all government accounts and includes all revenues and loans raised by the Union Government.

- The **Consolidated Fund of India (CFI)** is the **chief government account**.
  - All **revenue receipts** (taxes and non-tax revenues),
  - All **loan recoveries**, and
  - All **borrowings**.
- **All government expenditures**, unless otherwise specified, are **incurred from this fund**.

Money can be withdrawn from the Contingency Fund of India only after prior approval of Parliament through an Appropriation Act.

- **Money can be withdrawn immediately** from the **Contingency Fund of India without prior parliamentary approval**, to meet **urgent or unforeseen expenditures**.
- However, **Parliamentary approval is required later** to **replenish** the fund via an **Appropriation Bill**.

The Contingency Fund of India is held by the President of India and is used for unforeseen expenditures pending parliamentary approval.

- The **Contingency Fund** is held **at the disposal of the President** under **Article 267 of the Constitution**.
- It is used for **urgent, unforeseen expenditures**, and **replenished later** through Parliamentary approval.

16. Answer: D) All of the above

The internal debt of the Government of India includes borrowings from market loans, treasury bills, and small savings schemes.

- **Internal debt** refers to borrowings made **within the country**.
- It includes:
  - **Market loans** (like government securities),
  - **Treasury bills**, and
  - Borrowings from **small savings schemes** (e.g., NSC, PPF).

The Public Debt Management Cell (PDMC) under the Ministry of Finance is a temporary arrangement until the establishment of a statutory Public Debt Management Agency (PDMA).

- The **PDMC** was set up in **2016** as an **interim, non-statutory body**.
- It operates under the **Department of Economic Affairs (DEA)** and is a **precursor to a full-fledged PDMA**, which is yet to be established through legislation.

Public debt includes both liabilities bearing interest as well as non-interest bearing obligations of the government.

- **Public debt** consists of:
  - **Interest-bearing liabilities** (like market borrowings, bonds), and
  - **Non-interest-bearing liabilities** (like some short-term obligations and special securities).
- Thus, the definition **does include both types** of liabilities.

17. Answer: (b) 2 and 4 only

FDI up to 100% is allowed under the automatic route in sectors like pharmaceuticals and telecommunications, without any need for government approval.

- **Telecommunications**: 100% FDI allowed; **up to 49% via automatic route**, **beyond that requires government approval**.
- **Pharmaceuticals**:
  - **Greenfield pharma**: 100% FDI via **automatic route**.
  - **Brownfield pharma**: 100% allowed, but **only up to 74% via automatic route**, beyond that needs approval.
- Hence, this statement is **not fully correct FDI is not 100% automatic in all cases**.

FDI in the defence sector is capped at 49% under the automatic route and beyond that requires government approval, provided it leads to access to modern technology.

- FDI in the **defence sector**:
  - **Up to 49%** via **automatic route**.
  - **Beyond 49%** requires **government approval**, and must lead to **access to modern or state-of-the-art technology**.

FDI in multi-brand retail trading is completely prohibited in India under all circumstances.

- FDI in **multi-brand retail trading** is **not completely prohibited**.
- It is **allowed up to 51%** under the **government approval route**, subject to **conditions** (e.g., minimum investment, sourcing norms, state-level permissions).

Foreign investment in Limited Liability Partnerships (LLPs) is permitted under the automatic route in sectors where 100% FDI is allowed without performance-linked conditions.

- FDI in **LLPs** is allowed under the **automatic route**, **only in sectors** where:
  - **100% FDI is permitted**, and
  - **There are no FDI-linked performance conditions** (e.g., minimum capitalization, export obligation, etc.).

18. Answer: (b) 1, 2 and 3 only

Foreign Portfolio Investors are permitted to invest in both government securities and corporate bonds subject to aggregate limits.

- FPIs **can invest** in:
  - **Government securities (G-secs)** (central and state),
  - **Corporate bonds**,
- **Subject to overall limits** set by the **RBI** and **SEBI** under the **Medium-Term Framework** or **Voluntary Retention Route (VRR)**.

FPI investment in any Indian company is subject to sectoral caps as applicable under FDI policy.

- Though **FPI and FDI** are different routes of investment, **sectoral caps** under the **FDI policy** are also **applicable to FPIs**.
- If FPI holdings in a company exceed **10% individually** (or **total 24% by default**), it can trigger **reclassification** into FDI.

Category I FPIs include entities like sovereign wealth funds, pension funds, and regulated entities from FATF-compliant jurisdictions.

- As per **SEBI's 2019 FPI regulations**, **Category I** FPIs include:
  - **Government and government-related investors** (like **sovereign wealth funds**, **pension funds**),
  - Regulated entities from **FATF-compliant countries**.

FPIs are not permitted to invest in unlisted debt securities or security receipts issued by Asset Reconstruction Companies (ARCs).

- FPIs **are allowed** to invest in **unlisted debt securities** and **security receipts** issued by **ARCs**, subject to **certain conditions**.
- This was permitted under RBI guidelines to deepen debt markets.

19. Answer: (d) 1, 3 and 4 only

The Consolidated FDI Policy is released annually by the Department for Promotion of Industry and Internal Trade (DPIIT) and outlines sector-wise guidelines for FDI.

- The **DPIIT** under the Ministry of Commerce **releases the Consolidated FDI Policy**, which **summarizes sector-specific guidelines** for foreign investment.
- While the **release may not happen exactly annually**, it is periodically updated and published.

Any investment made by a person resident outside India that results in at least 10% equity holding in an unlisted Indian company is classified as Foreign Direct Investment.

- The **10% threshold** for FDI classification **applies to listed companies**, as per **RBI and SEBI guidelines**.
- **In unlisted companies**, **any equity investment** by a foreign entity is treated as **FDI**, **regardless of percentage**.

FDI and FPI are differentiated primarily based on the intent and duration of the investment, with FDI implying a lasting interest and FPI being relatively short-term and passive.

- This is the **key distinction**:
  - **FDI** = long-term, strategic, with management influence.
  - **FPI** = short-term, market-driven, **passive investment** (e.g., in shares or bonds).

Investments by Non-Resident Indians (NRIs) on a non-repatriation basis are considered domestic investment and not foreign investment.

- As per **RBI guidelines**, **NRI investments on a non-repatriation basis** are **treated as domestic investment**, **not foreign direct investment**.
- This is aimed at encouraging capital flow without adding to foreign liabilities.

20. Answer: (c) 1, 2 and 4 only

The government may prescribe a security clearance for foreign investment in sectors having implications on national security, including telecom and civil aviation.

- The government does indeed require **security clearances** for **foreign investments** in sectors such as **telecom**, **civil aviation**, **defence**, and other sensitive sectors where national security is a concern.

As per Press Note 3 of 2020, any investment from an entity based in a country sharing land border with India requires prior government approval, regardless of the sector.

- **Press Note 3 (2020)** mandates that any **investment from countries sharing land borders** with India (e.g., China, Pakistan, Nepal) must have **prior government approval**, regardless of the **sector**.

Foreign investment in Indian stock exchanges is permitted only through the government route, subject to a cap of 26%.

- Foreign investment in Indian stock exchanges is allowed with a **cap of 49%**:
  - **26% via government route** (subject to prior approval).
  - **Up to 23% via the automatic route**.
- This is **incorrect** because the cap is higher than 26% and allows for both government and automatic routes.

Any transfer of ownership of an Indian entity from resident to non-resident due to foreign investment in sensitive sectors requires mandatory review by the Ministry of Home Affairs.

- For sectors like **defence**, **telecom**, and other sensitive areas, any **transfer of ownership or control** to a **non-resident** requires a **mandatory review** by the **Ministry of Home Affairs (MHA)** to ensure no security risks.

21. Answer: A. 1 and 2 only

India's financial market resilience is largely dependent on regulatory harmonization between SEBI, RBI, IRDAI, and PFRDA.

Regulatory harmonization among key financial regulators like **SEBI (Securities and Exchange Board of India)**, **RBI (Reserve Bank of India)**, **IRDAI (Insurance Regulatory and Development Authority of India)**, and **PFRDA (Pension Fund Regulatory and Development Authority)** is critical for the **resilience** of India's financial markets. This helps in maintaining **market stability**, investor confidence, and **systemic risk management**.

Shallow financial inclusion restricts the transmission of monetary policy and limits the effectiveness of government stimulus programs.

Shallow financial inclusion means that a significant portion of the population lacks access to banking and financial services, which can **hinder the effectiveness** of **monetary policy transmission** (such as interest rate changes by RBI) and **stimulus programs**. If people do not have access to credit or savings accounts, it limits their ability to respond to policy measures.

The rapid growth of fintech and digital financial services poses no significant threat to systemic stability due to its decentralized nature.

While **fintech** and **digital financial services** have grown rapidly and offer many benefits, they **can pose risks** to **systemic stability**, especially if there is a lack of regulation, oversight, or if they grow too quickly without adequate risk management frameworks. Although fintech is more **decentralized**, its rapid growth can lead to risks related to **cybersecurity**, **data privacy**, and the **interconnectedness** of financial systems.

22. Answer: A. 1 and 3 only

The liberalization of foreign portfolio investment (FPI) norms has helped in enhancing capital inflows but also increased India's exposure to global capital flight risks.

The liberalization of **FPI norms** has indeed encouraged **capital inflows**, boosting India's financial markets by attracting foreign investors. However, this also exposes the country to **global capital flight risks**—when foreign investors pull out their funds rapidly in response to global economic or political instability, affecting market stability and liquidity in India.

The development of GIFT City as a financial hub is aimed solely at promoting domestic fintech startups.

While **GIFT City (Gujarat International Finance Tec-City)** aims to promote **fintech startups** and other financial services, its purpose is **not solely** limited to this. GIFT City is designed as a **global financial services hub**, attracting both **domestic and international financial institutions**, offering a range of services like banking, insurance, capital markets, and other financial products, not just fintech.

Regulatory forbearance during economic crises often distorts financial market efficiency in the medium term.

- **Regulatory forbearance** (e.g., temporary relaxation of regulatory norms or rules during crises) may help stabilize the financial system in the short term. However, over the **medium term**, it can distort **financial market efficiency** by delaying necessary adjustments, leading to issues like the accumulation of non-performing assets (NPAs) or mispricing of risk.

23. Answer: C. 1, 2 and 3

- A **deep and efficient bond market** is crucial for India as it can help **reduce reliance on foreign capital** by providing an alternative source of domestic funding for infrastructure projects. The **bond market** can serve as a key channel for long-term financing, particularly for sectors like infrastructure, which require long-term capital.

Increasing retail participation in equity markets without corresponding improvements in financial literacy could lead to greater systemic risk.

Retail participation in equity markets can enhance market liquidity, but if this growth is not accompanied by increased **financial literacy**, it could expose investors to risks like **poor investment decisions** and **market volatility**, potentially exacerbating **systemic risk**. Lack of understanding of market dynamics and risks could also lead to greater market manipulation or herd behavior, especially in times of economic stress.

The dominance of the banking sector in financial intermediation in India inhibits the development of alternative sources of capital, such as corporate bonds and venture capital.

The **banking sector** in India plays a dominant role in financial intermediation, but this can sometimes limit the growth of **alternative sources of capital**, like **corporate bonds** or **venture capital**. A **bank-centric financial system** may restrict the ability of businesses to access diversified forms of financing, especially for smaller and newer companies that might benefit from alternative capital sources.

24. Answer: D. All of the above

Commercial Paper (CP) is an **unsecured promissory note** issued by companies to meet their **short-term financing needs**. It is typically issued by large corporations and has a maturity period of up to **one year**. The issuance of CPs is regulated by the **RBI** under its **monetary policy** guidelines.

Certificate of Deposit is a negotiable time deposit issued by scheduled commercial banks and some financial institutions with flexible maturity periods, typically ranging from 91 days to one year.

Certificate of Deposit (CD) is a **negotiable time deposit** issued by **scheduled commercial banks** and certain financial institutions. The maturity period for CDs is usually between **91 days and one year**, making them a popular tool for short-term investment.

Call Money refers to extremely short-term funds lent and borrowed for one day by banks and primary dealers to manage their daily liquidity requirements.

Call Money is the money that is borrowed and lent **overnight** or for **one day** by **banks** and **primary dealers** to manage their **daily liquidity**. It is a key component of the **money market** and helps in the short-term liquidity management of the financial system.

Zero-Coupon Bonds are issued at a discount to their face value, do not carry a coupon rate, and are redeemed at face value upon maturity.

Zero-Coupon Bonds are issued at a **discount** to their **face value** and do not pay **regular interest (coupon rate)**. Instead, the investor receives the **face value** upon maturity, making the difference between the purchase price and the redemption value the **implied interest**.

25. Answer: B. 1 and 3 only

- **Infrastructure Investment Trusts (InvITs)** are designed to pool funds from investors to invest in **operational infrastructure projects** such as toll roads, power transmission, and infrastructure assets. They allow **retail and institutional investors** to participate in infrastructure investments, which were previously limited to large players. InvITs also provide regular income to investors from the revenue generated by these infrastructure projects.

The distribution of income by InvITs is taxed through Dividend Distribution Tax (DDT) at the trust level to simplify taxation for unit holders.

The **Dividend Distribution Tax (DDT)** was **removed** in the **Finance Act 2020** for most types of distributions, including InvITs. Instead, **income received by investors** from InvITs is **taxed in the hands of the unit holders** as per their respective tax slabs. The tax treatment has shifted to direct taxation on the income of the investors rather than levying DDT at the trust level.

InvITs are classified as borrowers under the SARFAESI Act, 2002, allowing them to access structured debt and enforce security interests in case of defaults.

InvITs are recognized as **borrowers** under the **Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002**, which enables them to access structured debt. Additionally, InvITs have the ability to **enforce security interests** in the case of defaults, allowing greater flexibility in managing their financial obligations.

26. Answer: (a) VAT is a multi-point, destination-based tax applied on the value addition at each stage in the supply chain, ultimately borne by the final consumer.

VAT is indeed a **multi-point tax**, which means it is applied at each stage of the production and distribution process where value is added. It is **destination-based**, meaning the tax is collected in the state where the final consumer consumes the goods or services. Ultimately, the **final consumer** bears the burden of the tax, while businesses can claim credits for the tax they have paid on their inputs.

VAT operates under the direct control of the Central Government and is uniformly implemented across all states as per centrally issued guidelines.

VAT is primarily a **state-level tax** in India, not under the direct control of the **Central Government**. While the **central government** provides guidelines, VAT is **administered by the states**, and each state can set its own VAT rules, which may vary slightly. VAT was implemented with the aim of uniformity, but it is **not uniformly controlled by the Central Government**.

VAT ensures no tax-on-tax effect and thus replaces all state and central indirect taxes in a single, unified framework.

While VAT reduces the **tax-on-tax effect** (i.e., the cascading effect), it **does not replace all state and central indirect taxes**. Before the introduction of **GST**, VAT only replaced sales tax at the state level, but there were still other indirect taxes like **excise duty** and **service tax** at the central level. VAT did not unify all indirect taxes into a single framework.

VAT is levied by the central government and administered by a centrally-appointed authority to ensure uniformity in tax rates and procedures.

This statement is incorrect because **VAT is levied by state governments**, not the **Central Government**. Each state administers its own VAT system, and while there was an attempt for uniformity through a **model VAT law**, it was still up to each state to implement the law. The **central government** does not levy VAT nor administer it through a centrally-appointed authority.

27. Descending order based on contribution to revenue:

Corporation Tax – The largest contributor.
Income Tax (excluding corporation tax) – Second largest.
Customs Duties – Third largest.
Union Excise Duties – Fourth largest.

Corporation Tax – This is typically the largest contributor to the central government's tax revenue. It is a direct tax levied on the profits of companies and is a major source of revenue for the government.

Income Tax (excluding corporation tax) – Income tax is also a significant contributor, but it generally ranks lower than corporation tax. It is levied on individuals and Hindu Undivided Families (HUFs), among others.

Customs Duties – Customs duties are levied on goods imported into India, and they are an important source of revenue, but typically they do not surpass income and corporation taxes.

Union Excise Duties – Excise duties, which are levied on the manufacture of goods, used to be a major contributor but their share has been declining, particularly with the introduction of the Goods and Services Tax (GST). However, they still contribute significantly but usually less than customs duties and income taxes.

28. Answer: (a) 1, 2, and 4 only

SEBI (Securities and Exchange Board of India) was established under the SEBI Act, 1992 and is the regulator of the securities markets in India. It has the authority to regulate both **primary** (IPO) and **secondary** (stock exchanges) markets. It can also **impose penalties** for **insider trading**, **fraudulent trade practices**, and **market manipulation**.

"Credit Rating Agencies in India are statutorily mandated to register with SEBI and provide ratings for financial instruments issued by corporates and public sector entities."

SEBI regulates **Credit Rating Agencies (CRAs)** under SEBI (Credit Rating Agencies) Regulations, 1999. All CRAs must be registered with SEBI. They rate debt instruments issued by **companies** and **public sector entities**.

"Stock Exchanges in India are recognized by the RBI and are primarily responsible for executing monetary policy through open market operations."

Stock exchanges in India are **recognized and regulated by SEBI**, **not the RBI**. Also, **open market operations (OMOs)** are a monetary policy tool used by the **RBI**, which involves buying/selling government securities to control liquidity. Stock exchanges are **not responsible** for implementing OMOs.

"Custodian of Securities is a market intermediary that facilitates holding and transferring securities on behalf of clients and is vital in foreign portfolio investment."

Custodians hold securities on behalf of clients, handle settlement, and are **essential intermediaries for Foreign Portfolio Investors (FPIs)** in India. They are regulated by SEBI and are crucial for facilitating FPI participation.

29. Answer: (a) 1 and 4 only

"The government primarily uses Treasury Bills and dated securities to meet its short-term and long-term borrowing needs, respectively."

- **Treasury Bills (T-Bills)** are short-term instruments (maturity of 91, 182, or 364 days).
- **Dated securities** (also called G-Secs) are long-term instruments with maturities ranging from 5 to 40 years.
This is the standard borrowing practice of the Government of India.

"The RBI conducts auctions of government securities, but private banks and mutual funds are not permitted to participate directly in such auctions."

Private banks, mutual funds, insurance companies, and other institutional investors **can participate** directly in government security auctions conducted by RBI through the **Negotiated Dealing System (NDS)**.

"Bonds issued by municipalities in India are exempt from all forms of taxation to encourage local bodies to raise infrastructure capital independently."

Municipal bonds **may** be tax-exempt **if specifically notified**, but **not all municipal bonds are exempt** from all forms of taxation. Tax treatment depends on the structure of the bond (e.g., tax-free bonds under certain conditions).

"Corporate bonds in India are regulated by SEBI and require a minimum credit rating to be listed and traded on exchanges."

SEBI regulates **corporate bonds**, and to be listed on stock exchanges, they typically require a **minimum credit rating** from a registered **Credit Rating Agency (CRA)**.

30. Answer: (a) 1 and 2 only

"Vertical fiscal imbalance arises because the revenue-raising powers are concentrated with the Centre, while the expenditure responsibilities lie heavily with the states."

This is the textbook definition of **vertical fiscal imbalance**. The **Centre** has broader taxation powers (e.g., income tax, GST, excise), while **States** have significant expenditure responsibilities (health, education, etc.).

"Horizontal fiscal imbalance refers to disparities among states in terms of income, capacity to raise taxes, and developmental needs, which cannot be corrected solely through tax devolution."

Horizontal fiscal imbalance occurs due to differences in states' economic capacity. It is true that **tax devolution alone** cannot address it; hence **grants-in-aid** and special allocations are needed.

"The Finance Commission recommends the distribution of net proceeds of taxes between the Centre and States, but its recommendations are binding on the Union Government under Article 281."

While the **Finance Commission** does recommend tax devolution, **its recommendations are advisory** and **not binding**. Article **281** requires the President to lay the report before Parliament **with an explanatory memorandum**, but it does **not make them binding**.

"Grants-in-aid provided under Article 275 of the Constitution are discretionary in nature and are not influenced by the Finance Commission's recommendations."

Grants under **Article 275** are **non-discretionary** and are **based on the recommendations** of the **Finance Commission**. In contrast, **Article 282** permits discretionary grants.

31. **Answer: (a) 2, 3, and 4 only**

"GST has replaced all indirect taxes levied by both the Centre and States, including property tax and stamp duty, with the aim of creating a single national market."

While **GST** subsumed many central (excise duty, service tax) and state taxes (VAT, entry tax), it **did not replace property tax** or **stamp duty**, which are still **levied by local bodies and state governments**, respectively.

"Under the GST (Compensation to States) Act, 2017, the Centre is mandated to compensate states for revenue losses arising out of GST implementation for a period of five years."

This is a key provision of the Act. States were assured compensation for any shortfall in revenue (calculated over a base year with 14% annual growth) for **five years** from GST implementation (2017–2022).

"GST Council is a constitutional body with the power to decide tax rates, exemptions, and administrative issues by a consensus-based approach involving both Union and State governments."

Established under **Article 279A**, the **GST Council** is a **constitutional body** that decides on key aspects of GST, usually through **consensus**, with representation from both **Centre and States**.

"The revenue from Integrated GST (IGST) is shared between the Centre and States based on the destination principle and settled through a clearing mechanism."

IGST is levied on **inter-state** supply of goods and services, and the **revenue is apportioned** between the Centre and the destination state via a **clearinghouse mechanism**, aligning with the **destination-based** nature of GST.

32. Answer: (d) All of the above

"The launch of Government-backed retail schemes like Sovereign Gold Bonds and Floating Rate Savings Bonds aims to deepen financial inclusion and reduce dependence on physical assets."

These instruments provide alternatives to physical gold and fixed deposits, helping channel household savings into formal financial markets and reducing the demand for physical assets like gold.

"Initiatives like SEBI's SCORES platform and Investor Protection Funds have increased investor confidence and grievance redressal transparency."

SCORES (SEBI Complaints Redress System) is an online platform that enhances transparency and responsiveness in complaint resolution. **Investor Protection Funds (IPFs)** also support compensation and awareness.

"The penetration of equity markets in India remains significantly lower than global averages due to lack of capital market literacy, rural outreach, and a persistent preference for traditional savings."

Despite growing participation, **India's equity participation** is still low compared to developed markets. Major reasons include **low financial literacy**, limited access in **rural areas**, and cultural preferences for **real estate, gold, and bank deposits**.

"SEBI has mandated the use of e-KYC and Aadhaar for simplifying onboarding of retail investors and improving real-time compliance monitoring."

SEBI has supported the use of **e-KYC** and **Aadhaar-linked verification** to streamline investor onboarding, reduce paperwork, and enable better compliance through digital tracking.

33. Answer: (b) 2, 3, and 4 only

"NBFCs are permitted to accept public deposits and are regulated under the Banking Regulation Act, 1949, in the same manner as scheduled commercial banks."

- While **some NBFCs (NBFC-D)** are allowed to accept public deposits, **NBFCs are not regulated under the Banking Regulation Act, 1949**, in the same manner as banks.

- They are governed primarily by the **RBI Act, 1934**, and have **stricter restrictions** compared to banks (e.g., no demand deposits, no payment system participation).

"RBI has introduced a four-tier regulatory structure for NBFCs based on their size, interconnectedness, and systemic importance."

- In 2021, the **RBI implemented a Scale-Based Regulatory Framework**, categorizing NBFCs into:
  - **Base Layer**
  - **Middle Layer**
  - **Upper Layer**
  - **Top Layer (if needed)** Based on **size, activity, and risk perception.**

"The failure of large NBFCs can cause asset-liability mismatches and contagion risks across the financial system, highlighting their systemic significance."

- Examples like **IL&FS** and **DHFL** demonstrated how NBFC failures can trigger liquidity stress and systemic risks.
- Their **interconnectedness with banks, mutual funds, and capital markets** increases contagion risk.

"Liquidity coverage ratios (LCRs) and prudential norms applicable to banks have now been gradually extended to larger NBFCs to ensure financial resilience."

- The RBI has introduced **LCR requirements for NBFCs in the Upper Layer**, in line with **Basel III** norms.
- **Prudential regulations**, including **capital adequacy**, are increasingly aligned with banking norms for larger NBFCs.

34. Answer: (d) All of the above

"Shallow corporate bond markets and limited participation from retail investors and institutional buyers restrict efficient monetary policy transmission in India."

- India's corporate bond market lacks depth and liquidity.
- Limited investor participation hinders the efficient **pass-through of policy rate changes** to **market interest rates**.

"The Marginal Cost of Funds based Lending Rate (MCLR) and external benchmark-based lending rates have been introduced to improve transmission of policy rate changes to borrowers."

- The **MCLR** (2016) and later the **external benchmark system** (e.g., repo rate-linked lending) were introduced to **enhance the transparency and speed** of transmission of RBI's policy rates to **loan interest rates**.

"Open market operations and variable rate reverse repos are used by RBI to manage short-term liquidity and anchor overnight interest rates within the policy corridor."

- The RBI uses **OMO** (buying/selling G-Secs) and **VRRR** to **inject or absorb liquidity**, keeping overnight rates (like the **call money rate**) within the **policy corridor** (between repo and reverse repo).

"The market for Treasury Bills and government securities is the primary channel through which changes in monetary policy get reflected in interest rate movements."

- **G-Secs and T-Bill yields** are **sensitive to policy changes** and serve as benchmarks for other interest rates in the economy, affecting **monetary transmission**.

35. Answer: (a) 1 and 3 only

- SEBI's **LODR** regulations are designed to enhance **transparency**, **accountability**, and **good governance** in listed entities.
- They include obligations for timely and accurate disclosures, promoting investor protection and market integrity.
- **Independent directors** are **appointed by the company itself** and are not directly nominated by the **Ministry of Corporate Affairs (MCA)**.
- The **Board of Directors** of a company nominates independent directors, and their appointment is subject to shareholder approval.
- The **MCA** only provides guidelines and ensures that the independence of these directors is maintained.
- **NFRA** was established under the **Companies Act, 2013** to oversee the quality of audits and regulate auditors.
- It plays a critical role in ensuring **compliance** with accounting and auditing standards, enhancing **transparency** and **integrity** in corporate financial disclosures.

- **Insider trading** and **fraudulent practices** are primarily **regulated by SEBI**, under the **SEBI Act, 1992**, not the **Companies Act, 2013**.
- SEBI has the power to investigate and penalize such offenses.
- The **National Company Law Tribunal (NCLT)** is responsible for matters related to **corporate restructuring**, **insolvency**, and **company law** but does not handle securities market violations like insider trading.

36. Answer: (a) 1, 2, and 3 only

- **Foreign Portfolio Investment (FPI)** is a part of **non-debt capital** in the **Balance of Payments (BoP)**.
- FPIs include investments in equities, bonds, and other financial instruments, which can be easily withdrawn or shifted due to the short-term nature of such investments, making it a **volatile component** of the capital account.
- The **Liberalised Remittance Scheme (LRS)** allows Indian residents to remit a certain amount of money abroad for investments in assets like **equities**, **bonds**, and **real estate**.
- This scheme provides increased flexibility for **capital outflows** and enables Indian investors to diversify their portfolios internationally.
- **Capital outflows** from **Foreign Portfolio Investors (FPIs)** can lead to a reduction in the demand for domestic bonds, resulting in a rise in **bond yields**.
- These outflows can also lead to a **weaker currency** due to higher demand for foreign currencies.
- This can complicate the **monetary policy** objectives of the **Reserve Bank of India (RBI)**, such as controlling inflation and stabilizing the exchange rate.
- India **does not** have a **fully capital account convertible regime**.
- While **India's capital account** has been gradually liberalized, there are still certain **restrictions** on the movement of capital, especially for **residents**. The **Reserve Bank of India (RBI)** still imposes limits and regulations on foreign investments and remittances.
- For example, there are limits on **foreign direct investment (FDI)** and **foreign portfolio investment (FPI)**, as well as restrictions on **outward remittance** under the **LRS**.

37. Answer: (a) 2, 3, and 4 only

- **P2P lending platforms** in India are regulated by the **Reserve Bank of India (RBI)**, not **SEBI**.
- Under the **RBI's regulations**, P2P platforms are not allowed to collect deposits. They are restricted to facilitating loans between lenders and borrowers, and they must adhere to a **loan limit** for each lender.
- The platforms must operate within prescribed **credit limits** and cannot collect deposits from retail investors beyond these thresholds.

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- The **RBI's Regulatory Sandbox** allows fintech companies to test their products and services in a controlled environment with real customers, while the **RBI** ensures compliance with regulations.
- This initiative helps in fostering innovation in the **fintech space**, while also ensuring **consumer protection** and maintaining **systemic stability**.
- **Algorithmic trading** can improve **market efficiency**, but it also has the potential to cause **flash crashes** (sudden and sharp declines in market prices) due to automated sell-offs or high-frequency trading strategies.
- If not properly regulated, it can also contribute to **unfair market manipulation**, such as **front-running** and **market manipulation through spoofing**, which could harm retail investors.
- **Payment aggregators**, **online lenders**, and **robo-advisors** operate under **different regulatory frameworks**. The absence of a uniform regulatory approach may lead to **regulatory arbitrage**, where companies can exploit regulatory gaps to bypass restrictions, thus increasing risks to **consumer protection** and **systemic stability**.

38. Answer: (a) 1, 2, and 4 only

- A **steepening yield curve** typically reflects investor expectations of **higher future inflation or interest rates**, suggesting an economic expansion.
- Conversely, an **inverted yield curve** occurs when short-term rates are higher than long-term rates, often viewed as a signal of an **upcoming recession** or **liquidity crunch** due to expectations of economic slowdown.
- **Open Market Operations (OMO)** involve the **RBI buying or selling government securities** in the open market to influence **liquidity** and **interest rates**.
- **Operation Twist** is an RBI initiative where it buys long-term securities while simultaneously selling short-term ones to **flatten or steepen the yield**

curve to manage **government borrowing costs** and **market liquidity**.

- **Government securities** are issued through **primary markets** in **auctions** conducted by the **RBI** on behalf of the government.
- In the **secondary market**, securities are traded between **market participants**, and negotiated deals can occur between large institutional investors, such as **banks**, and other entities.
- The **Public Debt Management Agency (PDMA)** was **proposed** to be set up to take over the management of public debt from the **Ministry of Finance**, but it **has not yet fully taken over the function** as of now. The **RBI** still plays a key role in managing government debt issuance and other debt management functions. The **PDMA** is still in the process of becoming fully operational.

39. (a) 1, 2, and 4 only.

- **SEBI** (Securities and Exchange Board of India) regulates **exchange-traded derivatives** (like futures and options on stocks, indices, etc.).
- **RBI** regulates **OTC derivatives**, such as **Interest Rate Swaps (IRS)** and **Currency Swaps**, particularly for currency and interest rate risk management.
- **Stock index futures and options** are indeed the most liquid derivatives in India. The **cash market** (spot market) does not usually exceed the volume in derivatives trading, particularly in highly liquid instruments like **Nifty** and **Sensex** futures and options.
- Derivatives trading in India is **allowed for both hedging and speculation purposes**. While the regulatory framework encourages **hedging**, it also permits **speculative trading** as long as it follows the rules set by SEBI and exchanges.
- **SEBI** took over the regulation of **commodity derivatives** after the **merger with the Forward Markets Commission (FMC)**. The commodity derivatives market includes trading in both **agricultural** and **non-agricultural commodities** like **metals**, **energy products**, and **agricultural commodities**.

40. (a) 2, 3, and 4 only.

- **Non-Deliverable Forwards (NDFs)** are **not regulated by SEBI**. NDFs are offshore contracts, meaning they are primarily governed by the regulations of the jurisdictions where they are traded (such as Singapore or Hong Kong). The **RBI** has some regulatory oversight, but they don't operate within India's domestic legal and settlement framework. The transactions are non-deliverable (i.e., they do not involve actual exchange of currency).
- **Global crude prices** affect India's current account deficit and thus influence exchange rate movements, especially because India is a large importer of oil.
- **Interest rate differentials** between India and developed economies (like the US) also play a role in exchange rate volatility, as investors seek higher returns in markets with higher interest rates.
- **Foreign Portfolio Investment (FPI) activity** impacts capital flows, influencing the demand and supply of the rupee.
- **India's current account** is indeed almost fully convertible, meaning that there are no major restrictions on transactions such as imports and exports of goods and services.
- However, **capital account convertibility** remains **partial**, with restrictions on certain capital flows such as foreign direct investment (FDI), foreign portfolio investment (FPI), and other capital flows, which are subject to specific limits and end-use restrictions.
- **Market Stabilization Scheme (MSS)** is used by the RBI to absorb excess liquidity in the market to manage inflationary pressures.
- **Sterilized forex intervention** involves the RBI buying or selling foreign exchange reserves to influence the exchange rate without affecting domestic liquidity.

41. **(a) 1, 2, and 4 only.**

- Debt mutual funds **can face liquidity risks** during times of heavy redemptions, especially when they hold **lower-rated or illiquid securities**. In such situations, it may be difficult to liquidate those securities without impacting the market price, which can result in losses for investors.
- **SEBI's risk-o-meter** is a tool designed to help investors understand the **risk profile** of different mutual fund schemes. It categorizes funds based on their risk level (e.g., low, medium, high) to allow investors to make more informed decisions.
- Unlike **banks**, mutual funds **do not have capital adequacy ratio requirements**. Instead, mutual funds are regulated to ensure transparency, liquidity, and prudent investment practices, but they don't have a specific capital adequacy ratio like banks do. The primary focus for mutual funds is the protection of investor interests

through various risk management practices, disclosure norms, and diversification.

- **Side-pocketing** is a mechanism introduced by **SEBI** to manage situations where a mutual fund holds **illiquid or stressed assets**. This allows the fund to segregate such assets into a side-pocket, thereby protecting the interests of **long-term investors** while dealing with short-term redemption pressures.

42. (a) 1, 2, and 4 only.

- **Vertical fiscal imbalance** refers to the situation where the **Centre** has more revenue-raising power than the **States**, but the **States** have larger expenditure responsibilities. This mismatch creates an imbalance and the Centre often provides financial transfers to States to address these imbalances.
- **Horizontal fiscal imbalance** pertains to disparities among States in terms of their **economic capacity** to raise revenue and meet expenditure needs. This imbalance is often addressed through **grants-in-aid** and **tax devolution**, but these measures may not fully equalize the fiscal capacities of all States, particularly poorer States.
- While the **Finance Commission's recommendations** on **tax devolution** are important, they are **not binding** on the **Union Government**. The Union Government is required to consider them but has the discretion to **accept or modify** them. Parliament can also amend or override these recommendations. Article 280 mandates the setting up of the Finance Commission, but it does not bind the Union Government to follow its recommendations.

- The introduction of **GST** has indeed **reduced the fiscal autonomy of States** to an extent because it has **subsume key sources of revenue**, such as **VAT**, **Entry Tax**, and **Entertainment Tax**, into the **GST system**. While this has simplified tax systems and improved efficiency, it has also curtailed the ability of States to independently raise revenue from certain sectors.

43. (a) 1, 2, and 4 only.

- The **FRBM Act** does set **fiscal targets**, such as limits on the **fiscal deficit** and **public debt**, but it includes an **escape clause**. This allows the government to **deviate from the prescribed targets** in situations like **economic crises** or **national security emergencies**, ensuring fiscal flexibility when necessary. This escape clause is designed to address unforeseen circumstances.
- **Off-budget borrowings** (e.g., from **PSUs**, **food subsidy arrears**, etc.) are not accounted for in the official **fiscal deficit** calculations, meaning the reported fiscal deficit doesn't fully reflect the **total borrowing** the government undertakes. This leads to a **potential underreporting** of the actual **public debt**, which can mislead policymakers and investors

- The **Public Debt Management Cell (PDMC) does not function under the RBI**. It functions under the **Ministry of Finance**. The PDMC is responsible for **formulating debt strategy**, managing the **maturities** of debt, and minimizing **cost-risk trade-offs** to ensure the **sustainability of public debt**. While the RBI plays an important role in managing the government's debt in terms of issuance and market operations, the PDMC itself operates under the Ministry of Finance.
- A **high primary deficit** suggests that the government is borrowing to meet its **non-interest expenditures**. Even if the **fiscal deficit** (which includes interest payments) is under control, a high primary deficit implies that the government will need to borrow more, increasing its **interest burden** over time. This can eventually lead to a **debt trap**, where interest payments become unsustainable, forcing the government to borrow more to service existing debt.

44. (a) 1, 3, and 4 only.

- The **Statement of Revenue Foregone** is presented in the Union Budget to show the **estimated cost** incurred by the government due to **tax exemptions** (both in **direct taxes** like income tax and **indirect taxes** like GST). This statement provides transparency on the **revenue loss** that the government faces due to various **tax incentives**.
- While tax expenditure is a concern in terms of its impact on the budget, **there is no statutory cap of 2% of GDP** on tax expenditure in India. The statement is not accurate. Tax expenditure is not directly capped by a percentage of GDP, though its size and implications are often reviewed in the context of fiscal policy and tax reforms.
- **Tax expenditure** reduces the **tax base** and, in turn, affects **tax buoyancy** (the ability of the tax

system to respond to economic growth). **Tax elasticity** also declines because exemptions and deductions limit the government's capacity to increase revenue as the economy grows. A high level of tax expenditure can **undermine the government's ability** to use taxes effectively as **automatic stabilizers**, which are essential for economic stabilization during cycles of growth and recession.

- **Rationalization of tax exemptions** (removing unnecessary or inefficient exemptions) and **better targeting** (ensuring that benefits reach the intended beneficiaries) are key to improving **equity** (fairness) and **efficiency** in the public finance system. This helps in **broadening the tax base**, reducing distortions, and making the tax system more **progressive** and **effective**.

45. **(d) All of the above**

- **Outcome budgeting** emphasizes **results-based management** where the focus is on the **impact** and **effectiveness** of spending, not just the allocation of funds. This approach aims to measure the **social outcomes** or **results** achieved from government spending, ensuring that resources are used efficiently to meet specific objectives.
- The **Plan and non-Plan classifications** were used in India to distinguish between expenditures related to planned development (e.g., infrastructure, development schemes) and other non-planned activities. However, these classifications were **discontinued** in **2017** to enhance **expenditure transparency** and provide a more **holistic approach** to budgeting, enabling better **fiscal analysis**.
- **Social sector schemes** often face challenges at the **State level** in terms of **utilization**. These challenges include **bureaucratic delays**, **capacity constraints** at the State level, and **delays in fund releases** from the central government. As a result, even though funds are allocated, **implementation** may be delayed or ineffective.
- **Capital expenditure** (investment in infrastructure, assets, etc.) has a **higher fiscal multiplier** than **revenue expenditure** (recurring expenses like salaries, subsidies, etc.). During **economic slowdowns**, the government typically focuses on **capital expenditure** to **boost employment** and **create long-term assets**, which can stimulate economic growth and recovery.

46. (d) All of the above.

- **Cesses** and **surcharges** collected by the Central Government are **not part of the divisible pool** of taxes that is shared with the States. This means that these collections are **excluded from the revenue pool** that is allocated between the Centre and States, reducing the effective share of States in the **central tax revenue**.
- **Centrally Sponsored Schemes** (CSS) often come with **rigid guidelines** that leave little room for States to tailor the welfare programs to meet their **local needs** and **circumstances**. This limits the ability of States to design programs that are more suited to their specific **socio-economic conditions**.
- **Article 275** of the Constitution allows the Centre to provide grants-in-aid to States. These grants can be **general-purpose grants** or **specific-purpose grants** (tied to particular schemes or objectives), based on the recommendations of the **Finance Commission**. The Finance Commission plays a key role in determining the distribution of such grants.
- The **15th Finance Commission** introduced **performance-based incentives** for States. These incentives are linked to **population stabilization** (encouraging States to control population growth) and **tax effort** (incentivizing States to improve their own revenue generation capabilities).

47. (a) 1 and 2 only.

- **Cesses and surcharges** are **not part of the divisible pool** of taxes shared between the Centre and States. The increase in these collections reduces the amount available for devolution to the States, thus lowering their share of the central tax revenue. This leads to a **reduction in states' share** of the divisible pool.
- The **recommendations** of the **Finance Commission** regarding tax devolution are **advisory**, not binding. While the government generally follows these recommendations, they are not **legally binding** on the central government. The government can **modify or disregard** them based on policy considerations.
- **Centralization of fiscal powers** can sometimes lead to inefficiencies, as it limits the **flexibility of States** to allocate funds as per local needs. In fact, **over-centralization** may **reduce the efficiency** of expenditure, as States often have better knowledge of local requirements and challenges. While centralization might

streamline certain functions, it doesn't always improve **service delivery** at the State level.

- The exclusion of **cesses** and **surcharges** from the divisible pool **adversely affects the fiscal autonomy** of States. These are effectively **non-divisible** taxes, and their growing share means States receive less revenue, which **undermines fiscal federalism**. The **principles of fiscal federalism** suggest that there should be a fair and equitable distribution of resources between the Centre and States. The increasing share of non-divisible taxes contradicts this principle.

48. **(a) 1, 2, and 3 only.**

- The **FRBM Act** (Fiscal Responsibility and Budget Management Act) aims to **limit the fiscal deficit** to **3% of GDP**. However, it does provide for relaxation in the event of **exceptional circumstances**, such as **natural disasters** or **economic shocks**.
- The **Public Debt Management Cell (PDMC)**, which is part of the **Ministry of Finance**, is responsible for **formulating** and **implementing** India's **debt strategy**, including decisions on **borrowing**, **debt management**, and **servicing the debt**.
- There has been an increase in the government's reliance on **short-term borrowings** in recent years. This increases the **rollover risk**, as the government must **refinance** this short-term debt regularly. If market conditions are unfavorable, this can lead to **liquidity issues** or higher borrowing costs.
- While the **FRBM Act** has helped improve **fiscal discipline** and reduced the **fiscal deficit** over time, it has **not led to a significant reduction** in the **government's interest burden**. In fact, the **interest burden** has remained a **significant component** of India's fiscal expenditure, due to the large volume of government debt.

49. (b) 2 and 4 only.

- The **Statement of Revenue Foregone** provides an estimate of the **revenue loss** from **tax concessions**, but it is not always comprehensive or entirely accurate. There are challenges in quantifying the exact revenue impact due to the complexity of tax exemptions and incentives.
- The **Statement of Revenue Foregone** has often been criticized for its **lack of transparency**, making it difficult to fully evaluate the **effectiveness** and **equity** of the tax expenditures. The absence of detailed information on the **beneficiaries** and their actual impact reduces the **accountability** of such measures.
- While tax expenditures are often aimed at promoting **investment** and **economic growth**, they can also have significant **impacts on income distribution**. For instance, certain exemptions or concessions may disproportionately benefit higher-income groups or large corporations, rather than promoting broad-based economic growth.
- Over time, the government has introduced **measures** to **improve transparency** regarding tax expenditures, including efforts to publish more **detailed information** about the **beneficiaries** and the **impact** of these expenditures. However, these measures still face challenges in achieving full transparency.

50. (a) 1, 3, and 4 only.

- **Subsidies** and **interest payments** have indeed taken up a growing share of government expenditure, which reduces the resources available for **capital formation** and investments in **infrastructure development**. This has been a concern in many economies, including India, as fiscal space for developmental spending becomes constrained.

2. **Outcome-based budgeting** (OBB) has been introduced to improve the efficiency and effectiveness of public spending, but it has not yet led to **significant** improvements across all sectors. The **impact** has been mixed, with challenges in defining and measuring **outcomes**. The implementation of OBB has been hampered by issues related to **monitoring** and **evaluation**.

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- One of the key challenges in the **implementation of outcome-based budgeting** is the **lack of clear performance indicators** and **inadequate monitoring mechanisms**. Without proper systems in place to track outcomes and assess performance, the objectives of OBB cannot be effectively achieved.
- The **shift towards outcome-based budgeting** has aimed to improve **accountability** in public spending and focus on **measurable outcomes**, which, in theory, should improve **service delivery**. While challenges remain, the framework has helped bring more attention to the **results** of public expenditure.

51. Answer: **(a) 2, 3, and 4 only**

- While the **PLI (Production-Linked Incentive)** scheme does support domestic production, **it is designed to be WTO-compliant**. The incentives are linked to production/sales within India and are not directly contingent on exports, helping it avoid violating the WTO's **Agreement on Subsidies and Countervailing Measures (ASCM)**.
- India opted out of **RCEP** due to valid concerns over its **growing trade deficit with China**, potential **deindustrialization**, and **non-tariff barriers** affecting Indian exports.
- The **RoDTEP (Remission of Duties and Taxes on Export Products)** scheme replaced the **MEIS (Merchandise Exports from India Scheme)** to comply with WTO norms. It aims to **refund embedded taxes and duties** (not covered under GST) and **enhance export competitiveness**.
- Recent shifts in policy highlight India's emphasis on **Atmanirbhar Bharat**, **critical supply chains**, and **strategic autonomy**, especially post-COVID and amid global geopolitical tensions. The focus is no longer just on liberalization but on **resilience and national interest**.

52. Answer: **(a) 1, 2, and 3 only**

- FDI in India follows two routes:
  - **Automatic Route**: No prior approval required.
  - **Government Route**: Requires prior approval by the government.
- Sectors such as **multi-brand retail**, **defense**, and **media** have **sectoral caps and specific conditions**, and are **partially open**.
- **Foreign Portfolio Investments (FPI)** are considered **hot money**—prone to **quick entry and exit** depending on global interest rates, risk sentiment, etc., causing **currency and market volatility**.
- Historically, **Mauritius and Singapore** were top FDI sources due to favorable **Double Taxation Avoidance Agreements (DTAAs)**.
- This has raised concerns of **round-tripping**—Indian money coming back as FDI—and lack of **transparency in beneficial ownership**.
- India **does not have full capital account convertibility**. There are **sectoral limits**, **end-use restrictions**, and **regulatory approvals** for both **FDI** and **FPI**.
- The **Liberalised Remittance Scheme (LRS)** applies to resident individuals and doesn't imply full capital account convertibility for FDI or FPI.

53. Answer: **(a) 1, 2, and 4 only**

- India's **current account deficit (CAD)** is heavily influenced by the **trade balance**.
- Rising imports of **crude oil, gold, electronics**, etc., without a corresponding rise in **exports** or **invisibles (like remittances and services)**, leads to CAD widening.
- **Services exports**, especially in **IT, ITeS, financial services, and consulting**, generate a **significant surplus**.
- This surplus helps **partially offset** the **merchandise trade deficit**.
- While **currency depreciation** can improve export competitiveness, it does **not always** improve the **trade balance** due to:
  - **Inelastic import demand** (e.g., crude oil).
  - **Supply-side constraints** in exports (e.g., low production capacity, regulatory bottlenecks).
  - **Higher import costs** inflating the bill even if volumes remain constant.
- Therefore, the effect of depreciation is **not automatic** or **guaranteed**.
- India's export industries (e.g., electronics, pharma, automobiles) often rely on **imported components**, making export growth **import-dependent** in the **near term**.

54. Answer is: **(a) 1, 2, and 3 only**

The **Peace Clause**, adopted at the WTO **Bali Ministerial Conference (2013)**, provides temporary protection to developing countries like India from legal challenges over breaching subsidy limits for public stockholding (e.g., MSP for food security), under specific conditions.

In **2019**, the WTO ruled that India's **MEIS, EPCG, SEZ-related subsidies**, and other export-linked incentives violated ASCM rules, as India had surpassed the threshold for exemption from these disciplines.

India, along with South Africa, led efforts at the WTO for a **TRIPS waiver** during the COVID-19 pandemic, arguing for flexibility in patent rules for vaccines and treatments in public health emergencies.

In 2016, the **WTO Dispute Settlement Body ruled against India** in a case brought by the **United States**, stating that India's **domestic content requirements (DCRs)** under the **National Solar Mission** violated WTO non-discrimination rules and were **not justified** under the General Agreement on Tariffs and Trade (GATT) exceptions.

55. (a) 1, 2, and 3 only

- Empirical data shows that India's trade deficits have widened with many FTA partners, such as ASEAN, Korea, and Japan, suggesting **limited competitiveness** of Indian exports.
- The CEPA with the UAE, signed in 2022, enhances India's **market access** to the Gulf and leverages the UAE's position as a **re-export and trade logistics hub**.
- India has flagged **misuse of FTAs**, especially via **third-country dumping** (e.g., Chinese goods through ASEAN), prompting tighter enforcement of **Rules of Origin** under the Customs (Administration of Rules of Origin under Trade Agreements) Rules (CAROTAR), 2020.
- While some sectors may benefit, **many MSMEs have reported negative impacts** due to increased competition. The benefits are **sector-specific**.

56. (a) 1, 2, and 3 only

Press Note 3 of 2020 mandates prior approval for FDI from neighboring countries, particularly to prevent takeovers during times of crisis, reflecting India's concerns for strategic autonomy and national security.

The Resilient Supply Chain Initiative (RSCI) launched with Japan and Australia focuses on reducing India's dependency on a single country for critical supplies, aligning with India's broader geopolitical and economic strategy.

India's recent Free Trade Agreements (FTAs), especially with the EU, include non-trade clauses such as human rights provisions and carbon border adjustments, reflecting India's balancing act between trade, sustainability, and geopolitical concerns.

While India's trade with China reached record levels, this statement reflects ongoing dependence on China for intermediate goods rather than showcasing India's strategic autonomy. The political tensions and trade imbalance are concerning, and it doesn't fully align with the idea of "strategic autonomy."

57. **(a) 1, 2, and 3 only**.

The World Trade Organization (WTO) has ruled that India's Special Economic Zones (SEZ) tax incentives, like profit-linked deductions under Section 10AA of the Income Tax Act, are trade-distorting export subsidies, as they provided incentives based on export performance, which violated WTO rules.

The **DESH Bill** (Development of Enterprise and Services Hubs) aims to replace SEZs with integrated hubs that allow both export- and domestic-market-oriented production, which would streamline the process through a single-window clearance system, addressing some of the operational challenges of SEZs.

Export-Oriented Units (EOUs) are governed under the **Companies Act**, and they are allowed to import raw materials duty-free, provided that 100% of their output is exported, similar to the SEZ model, but under a different regulatory framework.

While SEZs and EOUs have certain exemptions and relaxations to enhance global competitiveness, they are **not entirely outside the purview of domestic labor laws** and **environmental regulations**. For example, SEZs must comply with labor laws regarding workers' rights, and environmental regulations still apply to ensure sustainability.

58. **(a) 1, 2, and 3 only**.

India has seen a shift in FDI inflows with sectors like **digital services, fintech, and telecom** attracting the majority of foreign investments, while the **manufacturing sector** accounts for a smaller share of total FDI inflows, less than 20%. This highlights a trend where service sectors dominate FDI rather than manufacturing.

Under India's FDI policy, **FDI in the defense sector** is allowed up to **74% under the automatic route**, provided the investment leads to access to modern technology or capability development. This is part of the government's effort to promote technological advancements in defense manufacturing.

The **Start-up India initiative** and the **Department for Promotion of Industry and Internal Trade (DPIIT)** recognition mechanism have created pathways for foreign investors to invest in start-ups in sectors that may otherwise be restricted. This allows foreign investors to bypass some of the usual sectoral caps and invest under more favorable and simplified rules.

Despite various efforts to encourage investment in backward states, FDI inflows have not led to **balanced regional development**. States like **Bihar, Odisha, and Chhattisgarh** have not seen a proportional share of the FDI inflows relative to their economic needs. The majority of FDI tends to flow to more developed states like Maharashtra, Delhi, and Karnataka, largely due to their better infrastructure, investment climate, and industrial base.

59. **(a) 1, 2, and 3 only**.

India has imposed a 2% Equalisation Levy on non-resident e-commerce companies targeting Indian users, even if they do not have a physical presence in India. This levy was introduced to tax digital businesses that profit from Indian users without having a physical footprint, addressing the challenges of taxing cross-border digital transactions.

India has consistently opposed binding WTO rules on e-commerce, primarily because it perceives such rules as limiting its **domestic digital policy space**, including issues related to **data localization**, **digital sovereignty**, and **internet governance**. India advocates for greater control over data and digital infrastructure within its borders, which may be restricted by global norms.

The **services trade surplus** has indeed helped **India manage its current account deficit**, especially when the **merchandise trade deficit** is widening. India has a substantial surplus in services exports (primarily IT and business services), which helps offset the deficit from imports of goods like oil and electronics.

Under **GATS (General Agreement on Trade in Services)**, India is **not required to allow foreign firms to store and transfer Indian users' data freely across borders without regulatory restrictions**. In fact, India has pushed for **data localization** in certain sectors and has enacted laws such as the **Personal Data Protection Bill** to safeguard data privacy, which is in contrast to GATS provisions that favor free flow of data.

60. **(d) All of the above**.

- **Vodafone and Cairn Energy tax disputes**: This statement discusses legal and regulatory risks. The retrospective tax issue created a perception of unpredictability in India's tax policies, which could deter foreign investment. This is an important risk for foreign investors concerned with the legal environment.
- **ESG related fund flows and SEBI disclosures**: This statement introduces the environmental, social, and governance (ESG) risk dimension. The requirement for ESG disclosures increases the regulatory burden but also indicates a shift toward sustainable investment practices, which may affect foreign investments.
- **Currency hedging mechanisms**: This statement addresses financial risk—specifically currency risk. It mentions that currency hedging is accessible and cost-effective for investors, which helps mitigate exchange rate risks, a key consideration for foreign investors.
- **OECD's BEPS framework and minimum global tax commitments**: This statement highlights the global tax risk, as India's foreign investment treaties are influenced by the OECD framework, impacting tax stability and predictability for foreign investors.

61. **(d) All of the above**.

Commercial Paper (CP): This is indeed an unsecured short-term debt instrument issued by corporations to meet their short-term funding needs. Typically, CPs have maturities ranging from a few days to a year.

Certificate of Deposit (CD): A CD is a negotiable money market instrument issued by banks and financial institutions, typically with a maturity ranging from 7 days to one year (although the typical maturity is 91 days to one year).

Call Money: Call money refers to short-term borrowing and lending between banks, typically with a maturity of one day. The borrowing and lending are generally at very short terms and are mainly used for interbank liquidity management.

Zero-Coupon Bonds: These are indeed bonds issued at a discount and do not pay periodic interest. The face value is paid at maturity.

62. **(b) 1 and 3 only**.

- **Infrastructure Investment Trusts (InvITs)**: This statement is correct. InvITs are investment vehicles that pool money from investors to invest in infrastructure projects like roads, power plants, etc. They provide a way for investors to gain exposure to infrastructure assets.
- **Income distributed by InvITs is subject to Dividend Distribution Tax (DDT)**: This statement is **incorrect**. As of recent regulations, InvITs are not subject to Dividend Distribution Tax (DDT). Instead, the income distributed by InvITs is taxed at the level of the investor (i.e., as income in the hands of the investor), rather than being taxed at the level of the trust.
- **InvITs are recognized as borrowers under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002**: This statement is **correct**. InvITs are treated as borrowers under this act, which deals

with the securitization and asset reconstruction processes. This allows InvITs to raise capital using securitized assets.

63. (d) It is basically a subject of the central government, and state governments are merely facilitators for its successful implementation.

(a) **It is a multi-point destination-based system of taxation**: VAT in India is a multi-point tax that is levied at each stage of the production and distribution process. It is also a destination-based tax, meaning the tax is ultimately collected by the state where the goods or services are consumed.

(b) **It is a tax levied on value addition at each stage of the production-distribution chain**:. VAT is indeed levied on the value added at each stage, which ensures that tax is paid on the incremental value created at each point in the supply chain.

(c) **It is a tax on final consumption of goods or services and must ultimately be borne by the consumer**: VAT is designed to be passed on to the final consumer, and the burden of the tax ultimately falls on the consumer who purchases the goods or services.

(d) **It is basically a subject of the central government, and state governments are merely facilitators for its successful implementation**: VAT in India is primarily a state-level tax. Each state has the authority to levy and collect VAT on goods and services within its jurisdiction. While the central government provides a framework, it is not primarily responsible for VAT collection, which is done by state governments.

64. **(b) 1, 2, 3, 4**.

Corporation Tax: This is one of the largest sources of tax revenue for the central government, as it is levied on the income of companies.

Tax on income other than corporation tax (i.e., personal income tax): This is another significant source of revenue for the central government, with personal income tax contributing substantially to gross revenue.

Customs: Customs duties, which are levied on goods imported into India, also contribute significantly to the central government's tax revenue.

Union Excise Duties: These duties are levied on the manufacture of goods in India and contribute a notable share of the central revenue.

65 . **(d) All of the above**.

- **Commercial Paper**: This is an **unsecured promissory note** issued by companies to meet short-term liabilities. It is indeed regulated by the **Reserve Bank of India (RBI)**, which sets guidelines on who can issue it and the terms of the issue.
- **Certificate of Deposit**: A **Certificate of Deposit (CD)** is indeed a **negotiable time deposit** issued by scheduled commercial banks and certain financial institutions. However, the maturity period is typically **between 7 days and 1 year** (not flexible, but within this range), rather than having completely flexible maturity periods. It's mainly issued for specific time durations such as 91 days to one year.
- **Call Money**: This refers to **extremely short-term funds** lent and borrowed for **one day** by banks and primary dealers to manage their daily liquidity needs. It is used primarily for very short periods, usually for one day, to meet immediate liquidity requirements.
- **Zero-Coupon Bonds**: These bonds are **issued at a discount** to their face value, **do not carry periodic interest (coupon rate)**, and are redeemed at **face value** upon maturity. Investors gain the difference between the discounted price at issue and the face value at redemption as their return.

66. **(b) 1 and 3 only**.

- **InvITs are designed to pool investor money to invest in operational infrastructure projects, thereby enabling greater participation from retail and institutional investors**: Infrastructure Investment Trusts (InvITs) are designed to pool funds from both retail and institutional investors to invest in operational infrastructure projects such as highways, power plants, and renewable energy projects. They provide a way for investors to gain exposure to infrastructure assets.
- **The distribution of income by InvITs is taxed through Dividend Distribution Tax (DDT) at the trust level to simplify taxation for unit holders**: The distribution of income by InvITs is **not** subject to Dividend Distribution Tax (DDT). Instead, the income is taxed at the unit holder level. InvITs typically pass on income to investors, and the tax is paid by investors on the income they receive. The taxation of InvIT income is not simplified by DDT at the trust level, as it is taxable in the hands of the investor.
- **InvITs are classified as borrowers under the SARFAESI Act, 2002, allowing them to access**

structured debt and enforce security interests in case of defaults: InvITs are recognized as borrowers under the **Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002**, which allows them to access structured debt and enforce security interests in case of defaults. This gives InvITs certain rights under the act, such as the ability to secure financing using their assets.

67. (a) VAT is a multi-point, destination-based tax applied on the value addition at each stage in the supply chain, ultimately borne by the final consumer.

(a) **VAT is a multi-point, destination-based tax applied on the value addition at each stage in the supply chain, ultimately borne by the final consumer**:
VAT is indeed a multi-point tax (levied at multiple stages of the supply chain), and it is **destination-based** (tax is levied in the state where the goods or services are consumed). The tax is applied on the **value addition** at each stage and is ultimately **borne by the final consumer**.

(b) **VAT operates under the direct control of the Central Government and is uniformly implemented across all states as per centrally issued guidelines**:. VAT is primarily a **state-level tax**. While the Central Government provides a framework, VAT is administered and levied by state governments, and there may be differences in VAT rates and procedures across different states.

(c) **VAT ensures no tax on tax effect and thus replaces all state and central indirect taxes in a single, unified framework**: While VAT eliminates the **tax-on-tax effect** (i.e., cascading taxes), it **does not replace all state and central indirect taxes**. VAT replaced many state-level sales taxes, but there are still other indirect taxes, such as excise duties (levied at the central level) and service taxes (which have since been subsumed under GST).

(d) **VAT is levied by the central government and administered by a centrally-appointed authority to ensure uniformity in tax rates and procedures**:. VAT is levied by state governments, not the central government. Each state has its own VAT laws and rates, and while there may be some guidelines from the central government, it is the responsibility of state authorities to administer VAT.

68. **(c) The Place of Supply determines the jurisdiction for levying GST and can vary based on the type of supply .**

- Under the **GST regime**, the **Place of Supply** determines which state (or Union Territory) has the jurisdiction to levy GST, and it can vary depending on whether the transaction is for **goods** or **services**.
- The Place of Supply provisions ensure that the correct tax (SGST, CGST, or IGST) is levied based on the location of supply. For example:
  - For **goods**, the place of supply is typically the **location of the goods** at the time of supply.
  - For **services**, the place of supply can depend on factors such as whether the service is provided to a business or individual, the nature of the service, or whether it's provided in a specific location.
- The place of supply is not always where the supplier is situated; it depends on the nature of the supply.
- The place of supply for goods is typically the **location where the goods are delivered**, not the location of the buyer.
- The Place of Supply is **very relevant** for service-based transactions to determine the applicable GST and the jurisdiction.

69. **(a) 1, 2, and 4 only**.

- **SEBI is empowered under the SEBI Act, 1992 to regulate both primary and secondary markets and can impose penalties on insider trading and fraudulent trade practices**: SEBI (Securities and Exchange Board of India) is empowered by the **SEBI Act, 1992** to regulate both primary and secondary markets in India. It also has the authority to impose penalties on practices like **insider trading** and **fraudulent trade practices**.
- **Credit Rating Agencies in India are statutorily mandated to register with SEBI and provide ratings for financial instruments issued by corporates and public sector entities**: Credit Rating Agencies (CRAs) in India must register with **SEBI** and are required to provide ratings for financial instruments issued by corporates and public sector entities, as part of SEBI's regulation to ensure transparency and reliability in the financial markets.
- **Stock Exchanges in India are recognized by the RBI and are primarily responsible for executing monetary policy through open market operations**:

Stock exchanges in India are recognized and regulated by **SEBI**, not the RBI. The RBI (Reserve Bank of India) is responsible for **monetary policy** and conducting **open market operations** (OMOs) to manage liquidity and interest rates. Stock exchanges facilitate trading of securities, but they are not directly involved in executing monetary policy.

- **Custodian of Securities is a market intermediary that facilitates holding and transferring securities on behalf of clients and is vital in foreign portfolio investment**: A **custodian of securities** is a financial institution that holds and safeguards securities on behalf of clients, such as foreign portfolio investors (FPIs). Custodians play a critical role in facilitating the transfer and safekeeping of securities, especially in international investments.

70. **(a) 1 and 4 only**.

- **The government primarily uses Treasury Bills and dated securities to meet its short-term and long-term borrowing needs, respectively**: Treasury Bills (T-Bills) are short-term instruments (up to one year) issued by the government to meet short-term borrowing needs, while **dated securities** (long-term bonds) are used for long-term borrowing needs. Both are common instruments used by the government for raising funds.
- **The RBI conducts auctions of government securities, but private banks and mutual funds are not permitted to participate directly in such auctions**:
  Private banks, mutual funds, and other market participants are indeed allowed to participate directly in auctions of government securities conducted by the **RBI**. These participants are active in the primary market for government securities.
- **Bonds issued by municipalities in India are exempt from all forms of taxation to encourage local bodies to raise infrastructure capital independently**:
  While **municipal bonds** in India are often given certain tax benefits (such as tax exemptions on interest income in specific cases), they are **not entirely exempt from all forms of taxation**. The tax exemptions depend on the specific bond and the nature of the investment.
- **Corporate bonds in India are regulated by SEBI and require a minimum credit rating to be listed and traded on exchanges**: **Corporate bonds** in India are regulated by **SEBI** (Securities and Exchange Board of India), and they must obtain a minimum **credit rating** to be listed and traded on recognized exchanges. This is done to ensure that investors have an idea of the creditworthiness of the issuing company.

71. **(a) 1 and 2 only**.

- **Vertical fiscal imbalance arises because the revenue-raising powers are concentrated with the Centre, while the expenditure responsibilities lie heavily with the states**: **Vertical fiscal imbalance** refers to the situation where the **Centre** has significant revenue-raising powers (such as income tax, customs duties, etc.), but the responsibility for delivering public services (like education, health, etc.) largely lies with the **states**. This mismatch can lead to a fiscal imbalance between the levels of government.
- **Horizontal fiscal imbalance refers to disparities among states in terms of income, capacity to raise taxes, and developmental needs, which cannot be corrected solely through tax devolution**:
  Horizontal fiscal imbalance refers to disparities between **states** in terms of income, capacity to raise taxes, and developmental needs. It is a challenge that **tax devolution** alone cannot fully address, as some states may require additional financial support to meet their developmental needs, which is why **grants-in-aid** are also provided.
- **The Finance Commission recommends the distribution of net proceeds of taxes between the Centre and States, but its recommendations are binding on the Union Government under Article 281**: The **recommendations of the Finance Commission** regarding the distribution of tax revenues between the Centre and the States are **not binding** on the **Union Government**. Under Article 281, the **President** may lay the **Finance Commission's report** before Parliament, but the Union Government is not legally bound by the Finance Commission's recommendations.
- **Grants in aid provided under Article 275 of the Constitution are discretionary in nature and are not influenced by the Finance Commission's recommendations**:
  Grants in aid under **Article 275** of the Constitution are **not discretionary**. These grants are **guided by the recommendations** of the **Finance Commission**, which determines the

quantum and distribution of grants to the states based on their specific needs.

72. **(a) 2, 3, and 4 only**.

1. **GST has replaced all indirect taxes levied by both the Centre and States, including property tax and stamp duty, with the aim of creating a single national market**:
   While **GST** has replaced many **indirect taxes** levied by both the **Centre** and **States** (such as excise duties, service tax, VAT, and others), **property tax** and **stamp duty** are not covered under GST. These taxes continue to be levied by state governments.
2. **Under the GST (Compensation to States) Act, 2017, the Centre is mandated to compensate states for revenue losses arising out of GST implementation for a period of five years**:
   Under the **GST (Compensation to States) Act, 2017**, the **Centre** is required to compensate states for any **revenue losses** they face due to the implementation of GST for a period of **five years** (from 2017 to 2022).
3. **GST Council is a constitutional body with the power to decide tax rates, exemptions, and administrative issues by a consensus-based approach involving both Union and State governments**:
   The **GST Council** is indeed a **constitutional body**, established under **Article 279A** of the Constitution. It has the authority to decide tax rates, exemptions, and other administrative issues related to GST. Decisions in the GST Council are made by a **consensus-based approach** involving both the **Union and State governments**.
4. **The revenue from Integrated GST (IGST) is shared between the Centre and States based on the destination principle and settled through a clearing mechanism**:
   The revenue from **IGST** (which applies to inter-state transactions) is indeed shared between the **Centre and States** based on the **destination principle** (i.e., the state where the goods or services are consumed). This revenue is then settled through a **clearing mechanism** under the GST system.

73. **(d) All of the above**.

- **The launch of Government-backed retail schemes like Sovereign Gold Bonds and Floating Rate Savings Bonds aims to deepen financial inclusion and reduce dependence on physical assets**:
  This statement reflects an **effort** to promote financial inclusion by providing safer and more accessible investment options compared to traditional physical assets (like gold). It aims to deepen participation in financial markets. This aligns with efforts to make financial markets more accessible, though it is not a **direct challenge** but rather a **strategy** for democratization.
- **Initiatives like SEBI's SCORES platform and Investor Protection Funds have increased investor confidence and grievance redressal transparency**:
  This is also an **effort** aimed at addressing investor concerns and building confidence in India's financial markets. **SCORES** (SEBI Complaints Redress System) provides a mechanism for resolving investor grievances transparently, and **Investor Protection Funds** offer security for investors, enhancing the trust factor. This contributes to improving financial market accessibility.
- **The penetration of equity markets in India remains significantly lower than global averages due to lack of capital market literacy, rural outreach, and a persistent preference for traditional savings**:
  This statement highlights a **key challenge** in the democratization of financial markets. Despite efforts, **equity market penetration** remains low due to several barriers, including limited **capital market literacy**, lack of **rural outreach**, and strong reliance on **traditional savings** options, such as bank deposits and physical assets like gold.
- **SEBI has mandated the use of e-KYC and Aadhaar for simplifying onboarding of retail investors and improving real-time compliance monitoring**:
  This is another **effort** by SEBI to simplify the process of onboarding retail investors and improve compliance monitoring. The **use of e-KYC** and **Aadhaar** has made the process more efficient, reducing paperwork and ensuring better monitoring of compliance. This initiative helps in increasing retail investor participation and improving market transparency.

74. **(b) 2, 3, and 4 only**.

- **NBFCs are permitted to accept public deposits and are regulated under the Banking Regulation Act, 1949, in the same manner as scheduled commercial banks**: **Non-Banking Financial Companies (NBFCs)** are not permitted to accept public deposits unless they are

specifically registered with the **RBI** for that purpose (under the **NBFCs Acceptance of Public Deposits Directions, 1998**). Additionally, **NBFCs** are not regulated under the **Banking Regulation Act, 1949** in the same way as scheduled commercial banks. They are regulated under the **RBI Act, 1934** and other relevant provisions.

- **RBI has introduced a four-tier regulatory structure for NBFCs based on their size, interconnectedness, and systemic importance**:
  The **RBI** has indeed introduced a **four-tier regulatory structure** for NBFCs based on their size, systemic importance, and interconnectedness. This structure aims to differentiate the regulatory requirements for large, medium, and small NBFCs, with stricter norms applied to those that have a larger impact on the financial system.
- **The failure of large NBFCs can cause asset-liability mismatches and contagion risks across the financial system, highlighting their systemic significance**:
  The failure of large NBFCs can have serious **systemic risks**, as their **asset-liability mismatches** and financial interconnections can lead to **contagion effects**. This has become more evident during instances like the **IL&FS crisis** in 2018, where the failure of a large NBFC led to widespread disruptions in the financial market.
- **Liquidity coverage ratios (LCRs) and prudential norms applicable to banks have now been gradually extended to larger NBFCs to ensure financial resilience**:
  In response to the growing importance of NBFCs and the risks associated with them, the **RBI** has gradually extended certain **prudential norms** (such as **Liquidity Coverage Ratios** or LCRs) that are applicable to scheduled commercial banks to larger **NBFCs**. This is to ensure that these entities maintain sufficient liquidity and financial resilience.

75. **(d) All of the above**.

- **Shallow corporate bond markets and limited participation from retail investors and institutional buyers restrict efficient monetary policy transmission in India**:
  The **shallow corporate bond markets** and the **limited participation** from **retail investors** and **institutional buyers** indeed hinder the efficient transmission of **monetary policy** in India. A deeper and more active bond market could help in better transmission of changes in policy rates, as it would make borrowing costs more sensitive to central bank actions.
- **The Marginal Cost of Funds based Lending Rate (MCLR) and external benchmark-based lending rates have been introduced to improve transmission of policy rate changes to borrowers**:
  The introduction of **MCLR** (Marginal Cost of Funds based Lending Rate) and **external benchmark-based lending rates** (such as the repo rate) by banks is aimed at improving the transmission of policy rate changes to the borrowers. These mechanisms are designed to make lending rates more responsive to changes in the **policy rate** set by the **RBI**.
- **Open market operations and variable rate reverse repos are used by RBI to manage short-term liquidity and anchor overnight interest rates within the policy corridor**: **Open market operations (OMOs)** and **variable rate reverse repos** are tools used by the **RBI** to manage **short-term liquidity** in the system and to anchor **overnight interest rates** within the **policy corridor**. These tools help maintain the desired level of liquidity and ensure that short-term interest rates are aligned with the policy stance.
- **The market for Treasury Bills and government securities is the primary channel through which changes in monetary policy get reflected in interest rate movements**:
  The market for **Treasury Bills** and **government securities** is a key mechanism through which changes in **monetary policy** are transmitted to the broader economy. Movements in the **yield on government securities** closely track changes in the **policy rates**, reflecting the impact of policy adjustments on borrowing costs.

76. **(a) 1 and 3 only**.

1. The **LODR Regulations**, issued by **SEBI**, require listed companies to make timely and adequate disclosures, ensure fair corporate governance practices, and protect investor interests. It is a key framework to enhance **transparency and accountability**.
2. Independent directors are **not nominated by the Ministry of Corporate Affairs (MCA)**. They are appointed by the company's **board and shareholders**, subject to meeting independence criteria as defined under the **Companies Act, 2013** and **LODR Regulations**. There is no direct nomination by the government, except in rare cases for certain public sector enterprises.

3. **NFRA** was established under the Companies Act, 2013, to oversee **auditing and accounting standards** in India, especially for large listed and public interest entities. It enhances **audit quality** and ensures better **corporate financial disclosures**, contributing to market integrity.
4. **Insider trading and fraudulent trade practices** are primarily dealt with under the **SEBI Act**, not just the Companies Act. SEBI has powers to initiate **civil and quasi-criminal proceedings**. Such cases are adjudicated by **SEBI's adjudicating officers**, and appeals go to **SAT (Securities Appellate Tribunal)**, not **solely the NCLT**. NCLT deals with company law matters, but **not exclusively with securities market violations**.

77. (a) 1, 2, and 3 only.

1. FPIs are classified as **non debt capital** flows in the **BoP**. They are **liquid and easily reversible**, making them **volatile** a major concern for **financial market stability**, especially during periods of global uncertainty.
2. Under the **LRS**, Indian residents are allowed to **remit up to USD 250,000 per financial year** for permitted capital and current account transactions, including investment in **foreign stocks, bonds, real estate**, and more. This has broadened access to international markets.
3. Large and **sudden FPI outflows** can lead to a **sell-off in bonds and equities**, pushing up yields, **depreciating the rupee**, and making it harder for the RBI to manage **inflation and interest rates**, thus complicating **monetary policy transmission**.
4. India **does not** have **full capital account convertibility**. While **non-residents** enjoy more liberal rules, **residents face several restrictions** especially on capital account transactions. The regime remains **partially convertible**, with **managed controls** on certain flows to safeguard economic stability.

78. **(a) 2, 3, and 4 only**.

1. P2P lending platforms in India are **regulated by the Reserve Bank of India (RBI) not SEBI**. Additionally, they are **not allowed to collect "deposits"** in the conventional sense. Instead, they facilitate loans between lenders and borrowers, and **investment limits are strictly regulated**. For example, individual lenders cannot invest more than ₹50 lakh across all P2P platforms, and there are borrower-wise caps as well.
2. The **RBI's Regulatory Sandbox** is designed to allow fintech firms to **test new products, services, or business models** in a controlled environment with **regulatory oversight**, promoting innovation while safeguarding consumer interests and maintaining financial stability.
3. **Algorithmic trading** can improve market efficiency and liquidity, but **if unregulated**, it can cause **flash crashes**, market **volatility**, or even **manipulation**. Therefore, SEBI has implemented rules governing **algo trading**, including approvals for trading software and audit trails.
4. This is a genuine **regulatory dilemma**. Different fintech activities fall under the jurisdiction of **RBI, SEBI, or even MeitY**, depending on their function, which can lead to **overlaps, gaps, or regulatory arbitrage**, where entities exploit loopholes due to lack of coordination or uniformity.

79. **(a) 1, 2, and 3 only**.

1. This is a widely accepted interpretation in macroeconomics. A **steep yield curve** suggests that investors expect **higher inflation or interest rates** in the future, while an **inverted curve** often signals **economic slowdown or recession** concerns.
2. The **RBI** uses **OMOs** to buy or sell government securities to manage liquidity and **influence interest rates**. **Operation Twist** is a specific strategy where the RBI buys long-term bonds and sells short-term ones (or vice versa) to **reshape the yield curve** and affect **borrowing costs**.
3. Government securities are issued in the **primary market through transparent auctions** conducted by the RBI. The **secondary market** involves trading of existing securities, but **new issues are not made via negotiated deals**. Large banks may participate in these markets, but there are **no negotiated G-sec issuances** in the secondary market.
4. Although there were proposals to set up a **Public Debt Management Agency**, it **has not yet been fully implemented or separated** from the RBI. Currently, **RBI continues to manage public debt** on behalf of the **Ministry of Finance**, and **PDMA** has **not taken over the full debt issuance function**.

80. **(a) 1, 2, and 4 only**.

1. **SEBI** regulates **exchange traded derivatives** (e.g., stock, index, commodity derivatives), while the **RBI** regulates **OTC derivatives**, such as

interest rate swaps, currency swaps, and forward contracts. The two regulators work in tandem but cover different segments of the derivatives ecosystem.

2. This is true **stock index derivatives**, particularly **Nifty and Bank Nifty options**, constitute the **largest share of trading volume** in Indian markets, often far exceeding activity in the cash (spot) market. India is one of the **most active equity derivatives markets** globally by volume.
3. While **hedging** is one legitimate use, **speculative and arbitrage trading** is **also permitted** in the derivatives market in India, especially in **exchange-traded derivatives**. Retail investors actively participate in options and futures for speculative purposes, and SEBI regulates these activities to ensure transparency, not to ban speculation.
4. In 2015, the **Forward Markets Commission (FMC)** was merged with **SEBI**, and since then SEBI regulates **commodity derivatives** including both **agricultural (like spices, pulses)** and **non-agricultural (like metals, energy)** commodities.

81. **(a) 2, 3, and 4 only**.

The **NDF (Non-Deliverable Forward) market** is an **offshore market**, typically located outside India (e.g., in Singapore, London). It is **not regulated by SEBI** and does **not fall under India's domestic legal or settlement framework**. These are mainly used for **hedging rupee exposure by non-residents** and can influence domestic exchange rates, but they operate **outside RBI or SEBI's direct regulatory jurisdiction**.

Crude prices affect India's **import bill** and trade deficit.

Interest rate differentials with the US or EU affect **capital flows**.

Foreign Portfolio Investment (FPI) flows can cause **sharp inflows/outflows**, impacting the exchange rate.

India has **full current account convertibility** (for trade and services), but **capital account convertibility** is **partial**, with **limits on FDI, FPI, external borrowings, and resident remittances**. It is **guided by RBI and government regulations**, including sectoral caps and use restrictions.

Sterilized intervention (buying/selling forex + offsetting liquidity effects through OMO or MSS).

MSS, where government securities are issued to **absorb excess liquidity** from forex interventions, ensuring inflation and monetary stability.

82. **(a) 1, 2, and 4 only**.

1. This has been a **significant concern**, particularly after events like the **Franklin Templeton debt fund crisis**. **Lower-rated or illiquid bonds** can't be easily sold during redemptions, leading to **liquidity mismatches** and stress on fund operations.
2. SEBI introduced the **Risk O Meter** and **fund categorization norms** to enhance **transparency and comparability** of mutual fund schemes, allowing investors to align choices with their **risk appetite**.
3. **Mutual funds are not required to maintain capital adequacy ratios** like banks. They are **pass-through vehicles**, meaning investment risks are borne by investors. While **AMCs must maintain net worth thresholds**, they **do not maintain capital buffers** to absorb portfolio losses like banks do.
4. **Side-pocketing** is a **regulatory mechanism** that allows fund houses to **segregate stressed assets** from the main portfolio during a **credit event**, protecting **existing investors** from dilution of returns due to redemptions. SEBI permitted this after cases like IL&FS and DHFL defaults.

83. **(a) 1, 2, and 4 only**.

1. This is a core feature of India's fiscal structure: the **Centre has greater taxation powers**, while **States have more expenditure responsibilities** (like health, education, local governance), creating a **vertical imbalance** that must be addressed through transfers.
2. **Horizontal imbalances** occur due to differences in **income levels, tax bases, development needs**, etc., among States. While **tax devolution** helps, it often must be **supplemented with grants-in-aid** under Article 275 to achieve equity.
3. The **Finance Commission's recommendations are advisory**, not binding. The **President places them before Parliament**, and the **Union Government** decides whether to **accept, modify, or reject** them, though typically they are followed in spirit.
4. **GST** subsumed several **state-level indirect taxes**, thereby limiting the **States' independent taxation powers**. Though States receive compensation (till 2022) and a share of GST revenues, their **autonomy over indirect taxation** has decreased.

84. **(a) 1, 2, and 4 only**.

1. The **FRBM Act** sets targets for **fiscal deficit, revenue deficit**, and **debt levels**. However, it

includes an **escape clause** (as amended in 2018) that allows temporary deviation from targets due to events like **natural calamities, war, or severe economic slowdowns**.

2. This is a **known issue** in India's fiscal accounting. Off-budget borrowings—such as loans taken by **public sector entities on behalf of the government**—are **not included in the official fiscal deficit**, causing **underreporting of the actual debt burden**.
3. The **PDMC** is housed in the **Ministry of Finance**, not RBI. While **RBI currently manages public debt operationally**, the **PDMC** is a temporary arrangement meant to evolve into a **full-fledged Public Debt Management Agency (PDMA)**. It assists the government in **debt strategy**, but **does not function under RBI**.
4. The **primary deficit** is the **fiscal deficit minus interest payments**. A **high primary deficit** suggests the government is borrowing not just to pay interest but also to fund expenses, which can **accumulate debt and raise the risk of a debt trap** over time.

85. (a) 1, 3, and 4 only.

1. This **Statement** is published annually as part of the **Union Budget** and provides an **estimate of revenue lost** due to **tax exemptions, deductions, and concessions**, thereby giving insights into **tax expenditure**.
2. There is **no statutory cap** on tax expenditure in India. While concerns exist about excessive exemptions benefiting the wealthy or corporations, the 2% figure is not legally mandated it's **notional or advisory at best**.
3. Excessive **tax exemptions reduce tax buoyancy** (responsiveness of tax revenue to GDP growth) and **elasticity** (revenue growth without rate changes). This weakens the role of taxes as **automatic stabilizers** in counter-cyclical fiscal policy.
4. **Streamlining exemptions** ensures that **tax benefits are better targeted**, reducing **inefficiencies and regressive benefits**. This improves **equity** (fairness) and **efficiency** (resource allocation) in fiscal management.

86. **(d) All of the above**.

1. **Outcome budgeting** is an approach where **public spending** is assessed based on the **results** or **impact** it generates, rather than just the **input** (money allocated). This system helps in improving the **efficiency** and **effectiveness** of public expenditure.
2. In **2017**, the Indian government **discontinued the Plan and non-Plan expenditure classification** to simplify the budget process and make it more **transparent**. This move aimed to shift the focus from categorizing expenditure based on **schemes** to categorizing based on **functions**.
3. Even though substantial **central funding** is allocated for **social sector programs**, challenges at the **state level** such as **bureaucratic delays**, **capacity constraints**, and **slow disbursement** often affect the **utilization** and **implementation** of these funds.
4. **Capital expenditure** (for infrastructure, investment) usually has a **higher fiscal multiplier** than **revenue expenditure** (like salaries or subsidies) because it stimulates economic growth through **employment creation** and **asset development**, making it particularly valuable during **economic slowdowns**.

87. **(d) All of the above**.

1. Cesses and surcharges are not part of the **divisible pool** of taxes, which means they are not shared with the States under the **Finance Commission** recommendations. This results in a reduction in the share of States in the **Central tax revenue**, creating a disparity.
2. **Centrally Sponsored Schemes (CSS)** have **rigid guidelines** set by the Centre, which restricts the ability of States to design **welfare programs** that are more suited to **local conditions** and **needs**. This limits the **fiscal autonomy** of States in determining priorities.
3. **Article 275** of the **Indian Constitution** allows the **Centre** to provide **grants** to States, both for **general purposes** and for **specific purposes**, based on the recommendations of the **Finance Commission**. These grants help in addressing the **horizontal fiscal imbalances** among States.
4. The **15th Finance Commission** introduced **performance-based incentives**, including rewards for **population stabilization** (reducing the population growth rate) and for increasing the **tax effort** of States. This approach incentivizes States to focus on **sustainable growth** and **improved revenue mobilization**.

88. **(a) 1 and 2 only**.

1. The introduction of **cesses and surcharges** by the **central government** has **increased the share of non-divisible taxes**, which are **not shared** with the states, reducing the amount of money available to the states from the **divisible pool** of tax revenues.

2. While the **Finance Commission's recommendations** on tax devolution carry significant weight and are **considered authoritative**, they are not **legally binding** on the **central government**. The **Union Government** may **modify or adjust** these recommendations as per its policies and priorities.
3. The **increasing centralization** of fiscal powers has often been **criticized** for **reducing the fiscal autonomy of states**. It has not necessarily led to more **efficient public expenditure** or **improved service delivery** at the state level. In fact, some argue it restricts states' ability to **tailor solutions** to local needs.
4. The **exclusion of cesses and surcharges** from the **divisible pool** is generally viewed as **detrimental** to the **fiscal autonomy** of states. This practice **reduces the revenue** available to states and is seen as undermining the **principles of fiscal federalism** that call for more balanced revenue-sharing between the Centre and states.

89. (a) 1, 2, and 3 only

1. The **FRBM Act** sets a **3% fiscal deficit target** of GDP but allows **flexibility** during exceptional circumstances (e.g., war, natural disasters, etc.).
2. The **Public Debt Management Cell (PDMC)**, established by the Ministry of Finance, **formulates debt strategy**, manages borrowing plans, and oversees **debt servicing**.
3. There has been an **increased reliance on short-term borrowings**, which can lead to **rollover risks** (the risk of having to refinance frequently) and **liquidity pressures** in case of unforeseen economic conditions.
4. While the **FRBM Act** has aimed at **controlling fiscal deficits**, it has not necessarily led to a significant reduction in the **interest burden**, as the government still faces a substantial debt load and interest obligations.

90. (b) 2 and 4 only

1. While the **Statement of Revenue Foregone** provides estimates of the revenue loss due to tax exemptions and concessions, it often lacks a comprehensive and **accurate estimate** in certain cases, particularly for complex concessions and indirect impacts. It may also omit information on the **distributional impacts** of these exemptions.
2. **Transparency issues** often arise in the **Statement of Revenue Foregone**, which makes it difficult to evaluate the **effectiveness**, **equity**, and **distributional impact** of tax expenditures and whether they are benefiting the intended segments of society.
3. Tax expenditures often **affect income distribution** by favoring particular sectors or income groups. While some tax expenditures aim at promoting **investment and economic growth**, they can have **uneven impacts** on income distribution, benefiting wealthier individuals or corporations more than lower-income groups.
4. The government has made efforts to improve **transparency and accountability** in **tax expenditures**, such as **publishing beneficiary details** for certain schemes and ensuring better oversight in recent years, though challenges still remain.

91. **(a) 1, 3, and 4 only**

1. A growing share of public expenditure is being allocated to **subsidies** and **interest payments**, which limits the resources available for **capital formation** and **infrastructure development**, hindering long-term economic growth.
2. While **outcome-based budgeting** aims to improve the efficiency and effectiveness of public expenditure by linking funding to measurable outcomes, its actual impact has been mixed. It has **not led to significant improvements** across all sectors, as challenges related to **performance measurement** and **monitoring** persist.
3. **Outcome-based budgeting** has faced challenges due to the **lack of clear performance indicators** and **inadequate monitoring mechanisms**, which have made it difficult to accurately assess outcomes and achieve the desired improvements in public expenditure efficiency.
4. The shift towards **outcome-based budgeting** has improved **accountability** in public spending by making ministries and agencies more responsible for achieving measurable outcomes. This shift has also **improved service delivery**, although to varying degrees across sectors.

92. (a) 2, 3, and 4 only

1. The **PLI scheme (Production-Linked Incentive)** does incentivize domestic production in select sectors, and while it does aim to enhance export potential, it has been carefully designed to avoid being non-compliant with the **WTO's Subsidies and Countervailing Measures Agreement**. The PLI is structured to focus on incentivizing production without distorting global trade practices significantly.

2. India's withdrawal from the **RCEP (Regional Comprehensive Economic Partnership)** was largely driven by concerns about **deindustrialization** and a **surge in trade deficit**, particularly with **China**, due to a potential increase in cheap imports flooding the Indian market and harming domestic industries.
3. The **RoDTEP (Remission of Duties or Taxes on Export Products)** scheme was introduced to replace earlier schemes like **MEIS (Merchandise Exports from India Scheme)** and aims to refund **embedded taxes** (such as taxes on raw materials, energy, etc.) that cannot be refunded under **GST**, thus enhancing the competitiveness of Indian exports.
4. India's **foreign trade policy** has increasingly focused on **trade security**, the **security of critical supply chains**, and **strategic autonomy**, in response to global geopolitical shifts and supply chain vulnerabilities. This marks a shift away from a purely liberalized trade approach to one that is more focused on **self-reliance** and **strategic interests**.

93. (a) 1, 2, and 3 only

1. **Foreign Direct Investment (FDI)** in India is regulated through two main routes: the **automatic route** and the **government route**. Certain sectors, like **multi-brand retail**, **defense**, and **media**, remain partially restricted or subject to caps, reflecting India's cautious approach to foreign ownership in sensitive areas.
2. **Foreign Portfolio Investments (FPI)** tend to be more sensitive to **global economic conditions**, and since they are often short-term in nature, they can lead to **capital outflows** and contribute to **exchange rate volatility**, particularly during periods of global financial uncertainty or shifts in investor sentiment.
3. A significant portion of **FDI inflows** into India are routed through **tax havens** like **Mauritius** and **Singapore**, a practice known as **round-tripping**. This raises concerns about **beneficial ownership** and **tax avoidance**, prompting regulatory scrutiny on improving transparency and curbing misuse of these routes.
4. While **FDI** is treated as part of India's **capital account** under the liberalized regime, **FPI** is treated differently. **FPI** is regulated more strictly due to its short-term nature and impact on market volatility. The **Liberalized Remittance Scheme (LRS)** primarily applies to **resident individuals**, allowing them to remit funds abroad for certain purposes, but does not apply to FPI or FDI directly.

94. (a) 1, 2, and 4 only

1. **India's current account deficit (CAD)** tends to widen when **merchandise imports**, particularly **crude oil** and **electronics**, increase faster than **exports** and **invisible items** like **services** and **remittances**. The **trade deficit** is primarily driven by high imports in these categories.
2. **India's services exports**, particularly from the **IT** and **consulting** sectors, have consistently generated a **surplus** in the **services trade balance**, helping to offset the larger **merchandise trade deficit**. This surplus has been a key factor in moderating the overall current account deficit.
3. While a **depreciating rupee** can make **exports cheaper** and **imports costlier**, it does not necessarily improve the trade balance if there are **supply-side bottlenecks** or other structural issues. For example, **high dependency on imported inputs** (like crude oil or electronics) means that even with a weaker currency, the **cost of imports** may remain high, limiting the improvement in the trade balance.
4. **India's reliance on imports of intermediate goods** (raw materials, parts) and **capital goods** (machinery and equipment) suggests that the country's **export growth** could remain **import-intensive** in the short to medium term. These imports are necessary for producing exportable goods, which creates a structural challenge for improving the trade balance.

95. (a) 1, 2, and 3 only

The **Peace Clause** under the WTO's **Agreement on Agriculture** does protect **India's subsidies** under the **Minimum Support Price (MSP)** regime from legal challenges. This clause shields certain subsidies provided by developing countries, as long as they are within specific limits, from being contested under WTO rules.

India's export promotion schemes, including the **Special Economic Zones (SEZs)** and the **Merchandise Exports from India Scheme (MEIS)**, have faced WTO scrutiny. The WTO has ruled that these schemes violated the **Agreement on Subsidies and Countervailing Measures (ASCM)**, as they provided export subsidies deemed to be unfair.

India has been an advocate for a **waiver of Intellectual Property Rights (IPR)** protections

under the **TRIPS Agreement** for **vaccines** and **essential medicines**, particularly during global health crises like the **COVID-19 pandemic**, to ensure wider access to essential treatments.

India's **local content requirement** for **solar power procurement** was ruled against by the WTO. The WTO found that India's **local content requirements** for solar panels violated trade rules by discriminating against foreign suppliers. The WTO did not exempt this requirement for energy security reasons.

96. (d) All of the above

1. India's **trade deficit** with **FTA partners** like ASEAN, **South Korea**, and **Japan** has indeed widened in recent years after the implementation of these agreements. This suggests that Indian **exports** have not been able to fully take advantage of the preferential access provided by FTAs, potentially due to limited competitiveness in some sectors.
2. The **India-UAE Comprehensive Economic Partnership Agreement (CEPA)** has been significant in providing **market access** in **West Asia**, especially for industries like textiles, gems, and jewellery. **Dubai** acts as a major **re-export hub**, and the agreement facilitates trade flow to and from the region.
3. **Rules of Origin** (RoO) clauses in **FTAs** are designed to ensure that goods traded between member countries meet specific criteria. However, there have been instances where these rules are **circumvented**, and third countries may **dump** their products into the Indian market under the concessional duty rates offered by FTAs. This has raised concerns about trade protectionism and unfair competition.
4. **MSMEs (Micro, Small, and Medium Enterprises)** in India have benefitted from **FTAs** due to **better access to imported intermediate goods** and being part of **regional production networks**. This has helped Indian industries integrate into regional supply chains and lower production costs.

97. (d) All of the above

1. **Press Note 3 of 2020** was introduced to address **security concerns** and **prevent opportunistic takeovers** during the COVID-19 pandemic, specifically in the context of **FDI** (Foreign Direct Investment) from countries that share a **land border** with India (e.g., China). The regulation was aimed at protecting India's strategic interests during times of crisis.
2. The **Resilient Supply Chain Initiative (RSCI)**, launched with **Japan** and **Australia**, is aimed at **de-risking India's trade dependence** on any single country and creating **redundant** global supply chains. This initiative aligns with India's strategic goals of diversifying its supply chain sources and enhancing economic resilience in the face of geopolitical tensions.
3. In recent **Free Trade Agreements (FTAs)**, India has increasingly incorporated **non-trade clauses** addressing issues like **human rights** and **environmental concerns** (such as **carbon border adjustment mechanisms**), in line with **EU's Green Deal**. These provisions reflect India's growing focus on **sustainable development** and maintaining **geopolitical autonomy** while engaging in trade.
4. Despite **political tensions**, **India's merchandise trade with China** reached an all-time high in **2023**, primarily driven by **India's structural import dependence** on **Chinese intermediate goods** (such as electronics, machinery, and chemicals). This highlights the complexity of India-China trade relations, where strategic concerns coexist with economic dependencies.

98. (a) 1, 2, and 3 only

1. The **WTO** ruled that India's **Special Economic Zones (SEZ)** tax incentives, particularly the **profit-linked deductions** under **Section 10AA** of the **Income Tax Act**, were **trade-distorting export subsidies**. This ruling was part of a dispute with the **EU** and **Japan**, who argued that these incentives provided an unfair advantage to Indian exporters, violating global trade rules.
2. The **DESH (Development of Enterprise and Services Hub) Bill** seeks to replace the current **SEZ** regime with more flexible **integrated hubs** that allow both **export-oriented** and **domestic-market-oriented production**. This new structure would provide more **streamlined regulations** and a **single-window clearance system**, aimed at simplifying business processes and improving India's competitiveness.
3. **Export-Oriented Units (EOUs)** are different from SEZs in that they are governed under the **Companies Act**, and they allow businesses to import **raw materials duty-free**, provided they export **100% of their output**. EOUs have a focus on **export production** but are subject to different regulatory structures than SEZs.
4. While **SEZs** do offer exemptions from certain domestic **labor laws** and **environmental regulations** to promote greater

competitiveness, **EOUs** are not fully exempt from these regulations. EOUs are required to adhere to the **same labor and environmental laws** as any other domestic business. However, they enjoy benefits like duty-free imports of raw materials for export purposes.

99. (a) 1, 2, and 3 only

1. In recent years, India has seen a shift in the composition of **FDI inflows**, with sectors like **digital services**, **fintech**, and **telecom** dominating the inflows, while the **manufacturing sector** accounts for less than **20%** of the total. This shift reflects the growing importance of **technology-driven sectors** in the global economy.
2. Under the **FDI policy**, investment in the **defense sector** is allowed up to **74% under the automatic route**, provided the foreign investment leads to the development of **modern technology** or capability enhancement. This is aimed at strengthening **defense manufacturing** in India.
3. The **Start-up India initiative** and the **DPIIT (Department for Promotion of Industry and Internal Trade)** recognition mechanism allow foreign investors to invest in **start-ups**, including in **restricted sectors**, under **simplified rules**. This provides a **flexible route** for foreign investment, particularly in the start-up ecosystem.
4. While FDI policies aim to attract investment in various sectors, the reality is that **FDI inflows** have been largely concentrated in more developed regions like **Mumbai**, **Delhi NCR**, and **Bangalore**. **Backward states** like **Bihar**, **Odisha**, and **Chhattisgarh** have not seen a proportional share of FDI despite proactive policies, and there is still a significant regional imbalance in FDI distribution.

100. (a) 1, 2, and 3 only

1. India imposed a **2% Equalisation Levy** on non-resident e-commerce companies that cater to Indian consumers, even if they do not have a **physical presence** in India. This levy is aimed at taxing digital transactions involving non-resident companies that provide services such as online advertising, digital goods, and e-commerce.
2. India has expressed concerns about **binding WTO rules on e-commerce**, particularly in relation to **data localization** and **digital sovereignty**. India seeks the **freedom** to implement its own digital policies, including regulations on **data storage** and **cross-border data flow**, without being bound by international rules that could restrict its domestic policy space.
3. India has consistently run a **services trade surplus**, primarily driven by **IT services exports**, which has helped offset the widening **merchandise trade deficit**. This **services surplus** has been a key factor in managing India's **current account deficit**.
4. While the **General Agreement on Trade in Services (GATS)** governs the trade in services, it does not explicitly require countries like **India** to allow **unrestricted cross-border transfer of data**. In fact, **India** has been pushing for **data localization** and has not agreed to policies that would allow **unrestricted data flow** without regulatory oversight, which it sees as important for **national security** and **data privacy**.

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