

Solution: a)

Monopolistic competition characterizes an industry in which many firms offer products or services that are similar (but not perfect) substitutes. Barriers to entry and exit in a monopolistic competitive industry are low, and the decisions of any one firm do not directly affect those of its competitors. Monopolistic competition is closely related to the business strategy of brand differentiation.

7) Consider the following statements regarding Universal Banking.

1. Universal banking is a system in which banks provide a wide variety of financial services, including commercial and investment services.
2. Universal Banking was conceptualized in India after the recommendation of SH Khan Committee.
3. They are exempted from the CRR and SLR requirements of the RBI.

Which of the above statements is/are correct?

- a) 1, 3
- b) 2, 3
- c) 1, 2
- d) 1, 2, 3

Solution: c)

Universal banking is a system in which **banks provide a wide variety of financial services, including commercial and investment services.**

Banks in a universal system may still choose to specialize in a subset of banking service, even though they technically offer much more to their client base.

The second Narasimham committee of 1998 gave an introductory remark on the concept of the Universal banking. However, the concept of **Universal Banking conceptualized in India after the SH Khan Committee recommended it** as a different concept.

Once the Financial Institution becomes a universal Bank, it would be **compliant with the CRR and SLR requirements of the RBI.**

8) A Balance of Payments (BoP) crisis is a situation when

- a) A nation's Forex reserves fail to be useful for sterilization
- b) A nation's current account transactions supersede capital account transactions
- c) A nation is unable to pay a negative BoP by its Forex reserves
- d) A nation is not receiving enough foreign investment even when GDP is stagnating

Solution: c)

- The outcome of the total transactions of an economy with the outside world in one year is known as the balance of payment (BoP) of the economy.
- Basically, it is the net outcome of the current and capital accounts of an economy. It might be favourable or unfavourable for the economy.
- Even if current accounts transactions supersede capital account, what matter is its magnitude and if it is surplus or deficit.
- However, negativity of the BoP does not mean it is unfavourable. A negative BoP is unfavourable for an economy if only the economy lacks the means to fill the gap of negativity.
- If there is a positive outcome at the end of the year, the money is automatically transferred to the foreign exchange reserves of the economy.
- And if there is any negative outcome, the same foreign exchange is drawn from the country's forex reserves. If the forex reserves are not capable of fulfilling the negativity created by the BoP, it is known as a BoP crisis

9) Consider the following statements.

1. High public debt is always bad for an economy.
2. Only a nation that has a positive trade balance can become a developed country.