TEST – 4 (Textbook) (SOLUTION)
(INSTA Prelims Test Series 2023)

24. Correct Answer : D

Answer Justification :

Statement 1: Banks maintain a minimum cash balance out of the deposits they receive. The RBI monitors the banks in actually maintaining cash balance including cash reserve ratio or certain statutory ratios. We will cover details in upcoming tests.

Statement 2: Similarly, the RBI sees that the banks give loans not just to profit-making businesses and traders but also to small cultivators, small scale industries, to small borrowers etc.

Periodically, banks have to submit information to the RBI on how much they are lending, to whom, at what interest rate, etc.

Statement 3: Banks need to report spurious transactions to Financial Intelligence Unit. The norms are regulated by RBI. We will cover more on this later.

Q Source: AR: Page 49: Standard Xth Economics NCERT: Understanding Economic Development

25. Correct Answer : A

Answer Justification :

S1: A barrier to trade is a government-imposed restraint on the flow of international goods or services. The most common barrier to trade is a tariff—a tax on imports. Tariffs raise the price of imported goods relative to domestic goods (goods produced at home).

An import quota is a type of protectionist trade restriction that sets a physical limit on the quantity of a good that can be imported into a country in a given period of time.

S2: FDI is related to the capital sector and overall investment policy of the nation. FDI is not considered a trade component.

S3: Tax on imports can effectively clog imports from competitor nations, for e.g. Chinese imports in India. More on this later.

Q Source: AR: Page 64: Standard Xth Economics NCERT: Understanding Economic Development

26. Correct Answer : B

Answer Justification :

The decision of the Monetary Policy Committee (MPC) earlier this month to institute a new instrument called the Standing Deposit Facility (SDF) as the floor in the Liquidity Adjustment Facility (LAF) corridor is a significant milestone.

The SDF as a liquidity management instrument was recommended by the 'Expert Committee to Revise and Strengthen the Monetary Policy Framework' (Chairman Urjit R Patel) in January 2014. In 2018, the Section 17 of the RBI Act, 1934, was amended to empower the RBI to introduce this instrument, which has now been launched in 2022.

With this, the fixed-rate overnight reverse repo has ceased to be the floor of the LAF corridor. However, the reverse repo continues to remain in the toolkit of the RBI as a monetary policy instrument and its operation will be at the discretion of the RBI for purposes specified from time to time.

SDF as it stands currently has the following features viz; (a) it is the floor of the LAF corridor, replacing the hitherto fixed rate reverse repo; (b) **it is a monetary policy instrument to absorb liquidity without any collateral (collaterals in this case are normally government securities) with an interest rate of 3.75 per cent; (c) it is operated on an overnight basis,** with the flexibility to absorb liquidity for longer tenor with appropriate pricing; (d) deposits under the SDF **shall not be reckoned as balances eligible for the maintenance of the cash reserve ratio (CRR) under Section 42 of the RBI Act, 1934, but shall be an eligible asset for maintenance of the statutory liquidity ratio (SLR)** under Section 24 of the Banking Regulation Act, 1949.

Q Source:https://www.thehindubusinessline.com/opinion/standing-deposit-facility-a-policy-milestone/article65329381.ece