EXTERNAL SECTOR OF ECONOMY – MCQ BOOKLET

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1. Balance of Payments (BoP)

Components of BoP: Capital Account (FDI, FII, External Borrowings, NRI Deposits)

1. An Indian businessperson buys shares in a British car company. This transaction will be reflected in :

A. Balance of Trade, but not in Balance of Payments.

B. Balance of Payments, but not in Balance of Trade.

C. both Balance of Payments and Balance of Trade.

D. neither Balance of Payments nor Balance of Trade.

Ans: B

UPSC CAPF-2023

- Balance of Payments (BOP) records all international economic transactions, including financial ones. - Balance of Trade (BOT) primarily records international trade in goods. - Buying foreign shares is a financial investment, recorded in the Capital/ Financial Account of the BOP.

2. Consider the following statements :

- **1. Most of India's external debt is owed by governmental entities.**
- **2. All of India's external debt is denominated in US dollars.**

Which of the statements given above is/are correct?

A. 1 only

B. 2 only

C. Both 1 and 2

D. Neither 1 nor 2

Ans: D

UPSC IAS-2019

Statement 1 is incorrect. India's external debt is owed by various sectors, including sovereign (government) and non-sovereign entities (such as corporate sector, banks, and NRI depositors). Data from the Reserve Bank of India (RBI) consistently shows that non-sovereign debt constitutes a larger portion of India's total external debt than sovereign debt. For instance, non-sovereign debt often accounts for over three-fourths of the total external debt.Statement 2 is incorrect. India's external debt is denominated in multiple currencies. While the US dollar is the dominant currency, a significant portion is also denominated in Indian Rupees (e.g.,

Rupee Denominated Bonds held by non-residents), SDRs, Japanese Yen, Euro, and other currencies. Therefore, not all of India's external debt is denominated in US dollars.

3. Which country has signed an agreement on Civil nuclear cooperation with India in sept. 2008:

A. Australia
B. Japan
C. Brazil
D. France

Ans: D

RPSC RAS Prelims-2008

India signed a civil nuclear cooperation agreement with France in September 2008. This was a significant step in expanding India's nuclear energy program after the Nuclear Suppliers Group (NSG) granted India a waiver to resume nuclear trade.

4. After the US Dollar-denominated debt, which of the following currency-denominated debt is the second largest component in India's external debt at the end of December 2021?

A. SDR
B. Indian Rupee
C. Yen
D. Euro

Ans: D

Civil Judge -2022

Euro-denominated debt is the second largest component of India's external debt after US Dollar-denominated debt as of December 2021.

Components of BoP: Current Account (Goods, Services, Income, Transfers)

5. Which is correct about the opening of Non Resident External account in India?

- **1. NRE accounts can be opened by NRIs and OCBs (Overseas Corporate Bodies) with authorized dealers and banks in all the forms of demand and term deposits.**
- **2. Deposits in this account are allowed in any currency.**

A. 1 only
B. 2 only
C. Both 1 and 2
D. Neither 1 nor 2

Ans: D

GPSC Prelims CSP-2-2019

- Statement 1 is incorrect: NRE accounts can be opened by Non-Resident Indians (NRIs) and Persons of Indian Origin (PIOs). Overseas Corporate Bodies (OCBs) were permitted to open NRE accounts previously, but this facility was withdrawn by the Reserve Bank of India (RBI) in 2003. - Statement 2 is incorrect: Deposits into NRE accounts originate from funds remitted from outside India in freely convertible foreign currency or from balances in existing NRE/FCNR(B) accounts. However, the NRE account itself is maintained in Indian Rupees (INR). While the source of funds for deposit must be foreign currency (or balances in other NRE/FCNR accounts), the account balance is held and transactions are denominated in INR. The statement "Deposits in this account are allowed in any currency" is misleading as the account does not hold foreign currency balances; the funds are converted to INR upon deposit.

6. Which of the following statements are correct regarding World Bank's Remittance Prices Worldwide database?

- **1. According to the report India became the world's largest recipient of remittances by receiving 87 billion dollars in 2021**
- **2. The USA is the biggest source accounting for 20% of these funds**
- **3. India is followed by China, Mexico, Philippines and Egypt**

A. 1, 2 and 3
B. 2 and 3 only
C. 1 and 2 only
D. 1 and 3 only

Ans: C

GPSC Prelims CSP-2-2022

According to the World Bank's Migration and Development Briefs and Remittance Prices Worldwide database updates in 2021, India continued to be the world's top recipient of remittances, with flows projected to reach $87 billion in 2021. The United States remained the largest source country for remittances globally, including for India. In 2021, the ranking of top recipient countries after India was Mexico, followed by China, then the Philippines, and Egypt.

7. Which of the following statements are correct in respect of 'Agreement on use of Local Currencies for cross-border transactions'?

- **(1) India and UAE have signed a memorandum in this Agreement.**
- **(2) This agreement enables a frame work for trade settlements in their respective national currencies.**
- **(3) This Agreement was signed by the Prime Ministers of India and UAE**
- **(4) Peekay Intermark Ltd. and Reserve Bank of India were the first users of this system**

A. 2 and 4
B. 3 and 4
C. 1 and 2
D. 1 and 3

Ans: C

OPSC CS Prelims-2022

India and UAE have agreed to promote the use of their respective local currencies (INR and AED) for cross-border transactions, enhancing trade and economic ties.

8. The terms 'Agreement on Agriculture', 'Agreement on the Application of Sanitary and Phytosanitary Measures' and 'Peace Clause' appear in the news frequently in the context of the affairs of the

A. Food and Agriculture Organization
B. United Nations Framework Conference on Climate Change
C. World Trade Organization
D. United Nations Environment Programme

Ans: C

UPSC IAS-2015

- The World Trade Organization (WTO) is the global international organization dealing with the rules of trade between nations. - The 'Agreement on Agriculture' (AoA) is a WTO agreement that came into effect in 1995, dealing with domestic support, market access, and export subsidies in agriculture. - The 'Agreement on the Application of Sanitary and Phytosanitary Measures' (SPS Agreement) is another WTO agreement concerning the application of food safety and animal and plant health regulations in international trade. - The 'Peace Clause' was a temporary provision within the AoA that restrained countries from challenging, through WTO dispute settlement, certain subsidies that other member states provide to their farmers, provided the subsidies comply with certain conditions.

9. Consider the following statements :

- **1. India is a member of the International Grains Council.**
- **2. A country needs to be a member of the International Grains Council for exporting or importing rice and wheat.**

Which of the statements given above is/are correct ?

A. 1 only
B. 2 only
C. Both 1 and 2
D. Neither 1 nor 2

Ans: A

UPSC IAS-2024

Statement 1 is correct. India is a member country of the International Grains Council (IGC), an intergovernmental organization that seeks to promote international co-operation in grain trade and collects market information. Statement 2 is incorrect. Membership in the International Grains Council is not a mandatory requirement for a country to export or import rice and wheat. Countries engage in international trade of these commodities based on bilateral agreements, WTO regulations, and other trade arrangements, irrespective of IGC membership.

10. Term 'Balance of Payment' is used in relation to which of the following?

A. Annual sale of a factory
B. Tax collection
C. Exports & Imports
D. None of the above

Ans: C

UPPSC Upper Mains-2012

The term 'Balance of Payment' (BoP) refers to a systematic record of all economic transactions between residents of a country and the rest of the world during a specific period, typically a year. It includes transactions related to trade in goods (exports and imports), services, income, and capital flows.

11. The Government of India has replaced FERA by

A. 1he Competition Act
B. The FEMA
C. The Monopolies Act
D. The MRTP Act

Ans: B

UPPSC Upper Mains-2007

- FERA was characterized by strict regulations and criminal penalties for violations. - FEMA is a more liberal law, classifying transactions into 'capital account' and 'current account' and facilitating external trade and payments. - FEMA treats violations as civil offenses, unlike FERA.

12. The World Bank has recently sanctioned e loan of 944 million dollars to India, for which of the following sectors, the loan is not meant for ?

A. Rural finance system
B. Vocational Training Programmes
C. Community-based water management projects
D. Rural roads and sanitation

Ans: B

UPPSC Upper Mains-2007

World Bank loans are tied to specific projects or policy reform programs. While the World Bank supports a wide range of development sectors in India, the components of any given loan are defined by the agreement for that particular project/program.

13. In the year 2001, India offered a grant of five million dollars to Tajikistan to

A. tackle the drought situation
B. set up a software Technology Park
C. promote mineral exploration
D. procure defence equipment

Ans: A

UPPCS Prelims-2002

Tajikistan faced a severe drought and food crisis in 2000-2001. India provided significant humanitarian assistance, including food grains, medicines, and financial aid, to help the country cope with the situation. While cooperation in other areas like IT was also discussed, the specific grant of five million dollars was largely directed towards humanitarian relief efforts prompted by the drought.

14. Consider the following statements: Most international agencies which fund development programmes in India on intergovernmental bilateral agreements, mainly provide

- **I. Technical assistance.**
- **II. Soft loans which are required to be paid back with interest.**
- **III. Grants, not required to be paid back.**
- **IV. Food assistance to alleviate poverty.**

Of these statements

A. II and IV and correct
B. I, II and III are correct
C. I, II and IV are correct
D. III and IV are correct

Ans: B

UPPCS Prelims-1996

Development assistance from international agencies typically includes financial aid (loans and grants) and technical expertise. The terms of financial aid, especially for development, are often 'soft' or concessional.

15. Which country has highest loan from world bank after India:

A. South Africa
B. Brazil
C. Iran
D. Maxico

Ans: B

RPSC RAS Prelims-2010

India has consistently been one of the largest borrowers from the World Bank group. Following India, countries like Brazil, Indonesia, China (historically a large borrower, though less so recently), and others have held the position of the second or third largest borrower, depending on the specific year and World Bank reports. Brazil is a strong candidate among the given options.

16. Which among the following will be a debit entry in India's balance of payments?

A. Imports of goods by India
B. Income of Indian investments abroad
C. Receipts of transfer payments
D. Exports of services by India

Ans: A

westbengal/WBCS Main 2019 Paper 5-2019

Credit entries in the BoP represent inflows of funds into the country. Exports, income receipts from abroad, and receipts of transfers are examples of credit entries.

17. In May 2024, with which of the following countries India has signed a Visa Waiver Agreement for diplomatic passports? - Question not attempted

A. Maldives
B. Italy
C. Moldova
D. Greece

Ans: C

Department Recruitment 2024 (Research Scholar)-2024

Visa waiver agreements, especially for diplomatic passports, facilitate easier travel for government officials, promoting diplomatic relations and official engagements between countries.