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.

Components of BoP: Financial Account (Official Reserve Account)

18. Which of the following statements is/are correct?

- **Most of India's reserves is held in the form of foreign currency.**
- **There is no cost of holding foreign currency as reserves by a nation.**

Select the correct answer using the code given below.

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

Ans: A

UPSC CDS-1-2024

- Statement 1 is correct. India's foreign exchange reserves are composed of Foreign Currency Assets (FCA), Gold, Special Drawing Rights (SDRs), and Reserve Tranche Position (RTP) in the IMF. Foreign Currency Assets, held in major currencies, consistently form the largest component, typically accounting for over 90% of the total reserves. - Statement 2 is incorrect. Holding foreign currency reserves incurs costs. These include the opportunity cost (the return that could have been earned if the funds were invested domestically or in higher-yield assets instead of low-yield reserves), potential losses due to exchange rate fluctuations (if the reserve currency depreciates), and administrative costs of managing the reserves.

19. Which of the following is/are treated as artificial currency?

A. ADR
B. SDR
C. GDR
D. Both ADR and GDR

Ans: B

HPPSC HPAS Prelims-2014

SDRs are not a currency in the traditional sense, as they are not held by the public or used for transactions in the same way as physical currencies. However, they function as a unit of account for the IMF and some other international organizations and represent a potential claim on the freely usable currencies of IMF members. They are sometimes referred to as "paper gold" or "artificial currency" due to their role as a reserve asset.

20. Which of the following terms are components of forex reserves?

- **1. Foreign Currency Assets**
- **2. Gold**
- **3. Special Drawing Rights**
- **4. The Reserve in the Internatior Monetary Fund**

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

Ans: D

OPSC CS Prelims-2022

- 1. Foreign Currency Assets (FCA): This is the largest component, consisting of foreign currencies held as deposits, bonds, and securities. - 2. Gold: The RBI holds a portion of reserves in the form of gold. - 3. Special Drawing Rights (SDRs): These are international reserve assets created by the IMF and allocated to its members. They can be exchanged for freely usable currencies. - 4. The Reserve in the International Monetary Fund: This refers to India's Reserve Tranche Position (RTP) in the IMF, which is essentially a part of its quota that it can draw upon freely.

21. Which one of the following groups of items is included in India's foreign-exchange reserves?

A. Foreign-currency assets, Special Drawing Rights (SDRs) and loans from foreign countries
B. Foreign-currency assets, gold holdings of the RBI and SDRs
C. Foreign-currency assets, loans from the World Bank and SDRs
D. Foreign-currency assets, gold holdings of the RBI and loans the World Bank

Ans: B

UPSC IAS-2013

Foreign exchange reserves are assets held by a central bank in foreign currencies, used to back liabilities and influence monetary policy. The major components of India's foreign exchange reserves are FCAs (investments in foreign government securities, deposits in foreign central banks/BIS), Gold, SDRs (an international reserve asset created by the IMF), and the Reserve Position in the IMF (India's share in the IMF quota).

22. The problem of international liquidity is related to the non-availability of

A. goods and services
B. gold and silver
C. dollars and other hard currencies
D. exportable surplus

Ans: C

UPSC IAS-2015

International liquidity refers to the availability of financial assets that can be readily used to settle international transactions, primarily reserves of convertible foreign currencies (hard currencies), gold, and drawing rights with international institutions like the IMF (SDRs).

23. Recently, which one of the following currencies has been proposed to be added to the basket of IMF's SDR?

A. Rouble
B. Rand
C. Indian Rupee
D. Renminbi

Ans: D

UPSC IAS-2016

- The SDR is an international reserve asset created by the IMF to supplement the official reserves of member countries. - The value of the SDR is based on a basket of key international currencies. Prior to 2016, the basket consisted of the US dollar, Euro, Japanese Yen, and British Pound. - In 2015, the IMF's Executive Board decided to include the Chinese Renminbi (RMB) in the SDR basket, effective October 1, 2016.

24. Which of the following best describes the term 'import cover', sometimes seen in the news?

A. It is the ratio of value of imports to the Gross Domestic Product of a country
B. It is the total value of imports of a country in a year
C. It is the ratio between the value of exports and that of imports between two countries
D. It is the number of months of imports that could be paid for by a country's international reserves

Ans: D

UPSC IAS-2016

- Import cover is calculated as the total value of international reserves divided by the average monthly value of imports. - It indicates how many months a country can continue to pay for imports if its sources of foreign exchange earnings (like exports, remittances, capital inflows) were to cease. - A higher import cover indicates a stronger external position and greater resilience to external shocks. A common benchmark is 3-4 months of import cover, considered adequate by many international financial institutions.

25. "Gold Tranche" (Reserve Tranche) refers to

A. a loan system of the World Bank
B. one of the operations of a Central Bank
C. a credit system granted by WTO to its members
D. a credit system granted by IMF to its members

Ans: D

UPSC IAS-2020

- Gold Tranche or Reserve Tranche is associated with the IMF. - It represents an unconditional drawing right for member countries. - It is part of a country's quota contribution to the IMF.

26. Special Drawing Rights is the currency of International Monetary Fund. This is in the form of

A. Paper currency
B. Gold
C. Silver and gold both
D. Book keeping entry only

Ans: D

APPSC Group-II-Mains-paper-2-2025

The Special Drawing Right (SDR) is an international reserve asset created by the International Monetary Fund (IMF) to supplement its member countries' official reserves. It is not a currency itself, nor is it a claim on the IMF. Rather, it is a potential claim on the freely usable currencies of IMF members. SDRs are held by countries as part of their foreign exchange reserves and are accounted for as bookkeeping entries; there is no physical form (paper currency, gold, or silver).

27. Which of the following are included in the Reserve Bank of India's Foreign Exchange Reserves (FER) ? a. Foreign Currency Assets (FCA) b. Gold c. Special Drawing Rights (SDR) d. Reserve Tranche Position

A. a and b only
B. b, c and d only
C. a, b and c only
D. All the above

Ans: D

APPSC Group-II-Mains-paper-2-2025

All the components listed - Foreign Currency Assets, Gold, Special Drawing Rights, and Reserve Tranche Position - are standard components of a country's official foreign exchange reserves, as reported by central banks like the RBI.

28. All of the following are international reserves except

A. SDRs
B. Gold
C. Foreign credits not yet received
D. Foreign Currency Assets

Ans: C

WBCS_Main-Paper-5-2022

International reserves are assets held by a country's central bank or monetary authority that can be readily used to meet balance of payments needs, intervene in foreign exchange markets, and maintain confidence in the stability of the national currency and economy. Standard components of international reserves include foreign currency assets (holdings of other countries' currencies), gold, Special Drawing Rights (SDRs - a type of international reserve asset created by the IMF), and the Reserve Position in the IMF. Foreign credits that have been agreed upon but not yet received are future inflows, not current assets held by the monetary authority.

29. Indian Foreign Exchange Reserves comprises of

A. Gold & SDR
B. Reserve Tranche Position(RTP) in the IMF
C. Foreign Currency Asset (FCA)
D. All of the above

Ans: D

westbengal/WBCS Main 2019 Paper 5-2019

Foreign exchange reserves are assets held by a central bank in foreign currencies. They serve multiple purposes, including supporting the country's currency by providing liquidity, managing exchange rate volatility, and providing confidence to the market and international community.

30. What is the correct descending order of share of following components in Indian Foreign Exchange Reserves in March, 2025, starting from largest to smallest ? 1. Gold Reserves 2. Foreign Currency Assets 3. Reserve position with the IMF 4. SDRs

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

Ans: C

ukpsc 2025-2025

This question requires knowledge of the composition of India's foreign exchange reserves and the relative proportions of its different components. This is a recurring theme in economic surveys and reports.

31. Which of the following are a part of India's Foreign Exchange Reserves : (i) Foreign Currency Assets (ii) Gold Reserves (iii) Foreign Assets Held by Indian Individuals or Businesses (iv) Reserve Position with the International Monetary Fund (IMF) Select the correct answer given below

A. (i), (ii) and (iv) only
B. (ii), (iii) and (iv) only
C. (i), (ii) and (iii) only
D. (i) and (ii) only

Ans: A

Paper I 5

This question tests the understanding of the components that constitute a country's foreign exchange reserves as defined by central banking authorities like the RBI.

32. As per the World Gold Council Report, what is the rank of India in terms of its gold reserve?

A. 4th
B. 6th
C. 7th
D. 9th

Ans: B

J.E (Electrical 2020)-2020

The World Gold Council is a global authority on the gold market. Their reports provide insights into the gold holdings of central banks, which are a measure of a nation's gold reserves.

33. How much were India's foreign exchange reserves at the end of December 2024 ?

A. USD 629 Billion
B. USD 578 Billion
C. USD 640.3 Billion
D. USD 653.97 Billion

Ans: D

RO ARO pre -2023

This question tests current affairs knowledge, specifically regarding India's economic indicators like foreign exchange reserves, and requires precise figures for a given period.

34. Foreign Exchange Reserves of India are kept in the custody of

A. International Bank for Reconstruction and Development
B. International Monetary Fund
C. Government Treasury
D. Reserve Bank of India

Ans: D

Uttarakhand Special Subordinate Education -2009

The RBI manages and maintains India's foreign exchange reserves to ensure stability in the external sector, support international trade, and manage the country's balance of payments.

35. Reserve Tranche Position (RTP) is a term used in context with

A. Reserve Bank of India
B. Federal Reserve Bank of America
C. World Bank
D. International Monetary Fund

Ans: D

tfs gk -2021

RTP is the first part of a member country's financial obligation to the IMF that can be readily used to meet balance of payments needs.

Current Account Convertibility (CAC) and Capital Account Convertibility (CAC)

36. What does FEMA, 1999 aim at?

A. Prohibiting Foreign Tourists

B. Controlling imports
C. Prohibiting NRI investment
D. Facilitating external trade and payment

Ans: D

MPSC CS Prelims-2012

FEMA replaced the more restrictive Foreign Exchange Regulation Act (FERA), 1973. FERA was aimed at conserving foreign exchange. FEMA, in contrast, reflects a liberalized approach, focusing on managing rather than strictly controlling foreign exchange, thereby facilitating international transactions.

Definition and Significance of Balance of Payments (BoP)

37. Which international agency is the provider of soft loans to developing countries of Asia?

A. International Monetary Fund
B. Asian Development Bank
C. World Bank
D. International Development Association

Ans: B

APSC CCE Prelims Exam-2006

The Asian Development Bank (ADB) is a regional development bank whose mission is to promote social and economic development in Asia and the Pacific. It provides loans, grants, and technical assistance to its member countries, including concessional financing ("soft loans") through its Asian Development Fund (ADF) window to its poorest and most vulnerable developing members. The International Development Association (IDA) is part of the World Bank Group and provides soft loans but to the poorest countries worldwide, not specifically or exclusively focused on Asia, although many Asian countries are recipients. The IMF focuses on macroeconomic stability and balance of payments.

38. In which year, Kushal Konwar was hanged by the British and for what cause?

A. 1930, spearheading Quit India Movement in Upper Assam
B. 1921, facilitating Non-Cooperation Movement and Satyagraha in Sivsagar
C. 1942, declared guilty of conspiracy for a train derailment near Golaghat.
D. None of the above

Ans: C

APSC CCE Prelims Exam-2014

- Kushal Konwar was associated with the Quit India Movement (1942). - He was convicted in connection with the 1942 train derailment near Golaghat. - He was hanged on June 15, 1943.

39. The High Altitude Warfare School of the Indian Army is located at

A. Siachen
B. Manali
C. Gulmarg
D. Leh

Ans: C

APSC CCE Prelims Exam-2016

- HAWS is a training establishment that trains Indian Army personnel in mountain and winter warfare. - It conducts specialized courses covering survival, movement, and combat techniques in high altitude and snow-bound areas.

40. Regarding the composition of the Legislative Council, all following statements are correct, except

- **(1) 1/3rd of the total number of Council shall be elected from local bodies.**
- **(2) 1/12th of the total number of Council shall be elected by graduates.**
- **(3) 1/12th of the total number of Council shall be elected by Teachers.**
- **(4) 1/13th of the total number of Council shall be elected by Legislative Assembly.**

A. (1)
B. (2)
C. (3)
D. (4)

Ans: D