

## Pre-Mix – 5 MCQs for Prelims

Subject – Economy

Date – 06<sup>th</sup> March 2023

MCQs from CRASH Course and Current Affairs

1. Which of the following factors impact Rupee-Dollar exchange rate?

1. Inflation
2. Political instability on economy
3. Current Account Deficit
4. External Debt

Select the correct code:

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

2. Consider the following statements :

1. Due to strengthening of dollar, many countries bought gold in 2022.
2. SDR can be exchanged among IMF members for dollar.
3. American Depository Receipts are denominated in dollar and used to invest in US companies.

Which of the above statements is/are incorrect?

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

3. Which one if the following statements is incorrect with respect to Palm Oil?

- A. India, Pakistan and other Asian countries have formed Asian Palm Oil Alliance.
- B. India is 2<sup>nd</sup> largest importer of Palm oil in Asia.
- C. Most of Palm Oil imported in India is from Indonesia and Malaysia.

D. None of the above.

4. Which one of the following statements correctly defines “Market-Based Economic Dispatch (MBED)” mechanism?

- A. Method of allocating price or cost differences to one or more markets.
- B. Data mining technique that is used to uncover purchase patterns in any retail setting.
- C. Mechanism for centralised scheduling of power dispatches, both inter-state and intra-state.
- D. Method of determining the value of an asset based on the selling price of similar assets.

5. Consider the following statements:

1. Reduced need to hold foreign exchange reserves.
2. Complete capital account convertibility.

Which of the statements given above is/are consequences of Internationalisation of Rupee?

- A. 1 only
- B. 2 only
- C. Both 1 and 2
- D. None of the above

## Answers with Explanations

Click [here](#) to watch the following topics on YouTube.

1. Which of the following factors impact Rupee-Dollar exchange rate?

1. Inflation
2. Political instability on economy
3. Current Account Deficit
4. External Debt

Select the correct code:

- A. 1 and 2 only
- B. 2, 3 and 4 only
- C. 1, 3 and 4 only

D. 1, 2, 3 and 4

**Answer: D**

**Explanation**

- The US dollar is one of the standard currencies accepted around the world for the trading of commodities. Currency exchange rates also affect foreign exchange trading or forex trading.
- The global foreign exchange market is huge and highly liquid, with large-scale transactions taking place on a daily basis.
- Currency exchange rates always involve two currencies (could be any countries) at a time, one being exchanged for the other. For example, the rupee-dollar exchange rate is represented as USD/INR.

Factors influencing the rupee-dollar exchange rate?

- Inflation
- Interest rates
- Impact of political instability on economy
- Public debt
- Current account deficit

**2. Consider the following statements :**

1. Due to strengthening of dollar, many countries bought gold in 2022.
2. SDR can be exchanged among IMF members for dollar.
3. American Depository Receipts are denominated in dollar and used to invest in US companies.

**Which of the above statements is/are incorrect?**

- A. 1 and 2 only
- B. 2 only
- C. 1 and 3 only

D. 3 only

**Answer: D**

**Explanation**

**Gold Buying Spree Of Central Banks**

- Dollar strengthening against almost all currencies.
- Most countries want to diversify their reserves away from the dollar.
- Gold is considered a safe haven and a natural hedge in uncertain times.

A Depository receipt is a negotiable a financial instrument issued by a bank which represents, foreign company's publicly traded securities.

- American Depository Receipts (ADR) - In the case of ADR, it is issued by the US bank that represents securities of a foreign company trading in the US stock market.
  - ADR is denominated US\$, and through this the US investors can invest in non-US companies.
  - ADRs can be transferred without any stamp duty.

**3. Which one if the following statements is incorrect with respect to Palm Oil?**

- A. India, Pakistan and other Asian countries have formed Asian Palm Oil Alliance.
- B. India is 2<sup>nd</sup> largest importer of Palm oil in Asia.
- C. Most of Palm Oil imported in India is from Indonesia and Malaysia.
- D. None of the above

**Answer: B**

**Explanation**

**Background Information on Palm Oil**

- Palm oil is the world's most widely used vegetable oil with its global production in the year 2020 being over 73 million tonnes (MT).

- It is used as cooking oil, and in everything from cosmetics, detergents, plastics, processed foods, cakes, chocolates, spreads, soaps, shampoo, and cleaning products to biofuel.
- The use of crude palm oil in making biodiesel is being branded as 'green diesel'.
- The oil palm industry has come under criticism for what are reportedly unsustainable production practices leading to deforestation, and exploitative labour practices carried forward from the colonial era.
- However, palm oil is preferred by many as it is inexpensive; oil palms produce more oil per hectare than some other vegetable oil plants like soybean.
- Indonesia and Malaysia together account for almost 90% of the global palm oil production.
- Indonesia producing the largest quantity at over 45 million tonnes in 2021.

**4. Which one of the following statements correctly defines "Market-Based Economic Dispatch (MBED)" mechanism?**

- A. Method of allocating price or cost differences to one or more markets.
- B. Data mining technique that is used to uncover purchase patterns in any retail setting.
- C. Mechanism for centralised scheduling of power dispatches, both inter-state and intra-state.
- D. Method of determining the value of an asset based on the selling price of similar assets.

**Answer: C**

**Explanation**

Recently, there has been a tussle between centre and states over establishing a

centralised market for electricity which is being called as Market-Based Economic Dispatch (MBED) mechanism.

**Detailed Information on MBED mechanism:**

- Union government is planning to end the existing decentralised, voluntary pool-based electricity market.
- It aims to bring in a radically different mandatory pool model on a pan-India basis - called as Market-Based Economic Dispatch (MBED) mechanism.
- Under it, centre envisages centralised scheduling for dispatching the entire annual electricity consumption of around 1,400 billion units.
- This new model proposes a centralised scheduling of power dispatches, both inter-state and intra-state.
- MBED model will put in place a central market operator to dispatch the inter-state as well as intra-state generation plants.
- Centre says it will ensure that the cheapest electricity generating resources across the country are supplied to meet the overall system demand.
- Centre's argument is that the current model of states doing scheduling is suboptimal.
- An algorithm developed by the National Load Dispatch Centre (NLDC) called the Security Constrained Economic Dispatch (SCED) is being cited as a solution.
- SCED is aimed at assisting regulators in making informed calls on scheduling decisions on a nationwide basis.
- Centre says policy is in line with the Centre's 'One Nation, One Grid, One Frequency, One Price' formula.

**5. Consider the following statements:**

1. Reduced need to hold foreign exchange reserves.
2. Complete capital account convertibility.

**Which of the statements given above is/are consequences of Internationalisation of Rupee?**

- A. 1 only
- B. 2 only
- C. Both 1 and 2
- D. None of the above.

**Answer: C**

**Explanation**

### Internationalisation of Rupee

**Context**

- Reserve Bank of India (RBI) deputy governor recently said that there are **many advantages and disadvantages to internationalisation of the rupee.**

**Detailed Information**

- **Internationalisation of the rupee** is a process that involves **increasing use of the local currency in cross-border transactions.**
- It involves **promoting the rupee for import and export trade** and then other current account transactions followed by its use in capital account transactions.
- In simple terms, Rupee will be an international currency **if non-residents are willing and able to trade in it** and invest in rupee-denominated assets.
- Currently, **dollar accounts for 88% of international trade**, but the Rupee accounts for **less than 1.7% of global trade.**

### Advantages of Internationalisation of Rupee

- **Reduce dependence on Dollar:** Due to strengthening of Dollar in recent times, **Rupee has depreciated to an all-time low.**
- **Appreciate currency value:** It will improve the **demand for the rupee** in international trade and thus lead to appreciation of its value.
- **Reduce the volatility in exchange rate volatility:** it would, not be dependent on other currencies like Dollar or Euro.
- **Reduce need to hold foreign exchange reserves:** As India's currency would have global standing, India won't need to store Dollars.
- **Circumvent the sanctions imposed by the West:** India can diversify its trade basket by circumventing the west's sanctions.
- **Improve its standing as a global economic power** and increase India's bargaining power.

### Disadvantages of Internationalization of Rupee

- **Higher influence of international economic events:** present monetary policy may become redundant due to higher external influences.
- **Dangers of Hot Money:** Internationalisation would require allowing of the complete capital account convertibility. This would expand the **risk of outflow of capital as happened in East Asian Crisis of 1997.**



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