

50 Important Concepts

Indian Economy



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50 Important Topics

1. Components of Financial Market –Money Market & Capital Market
2. Alternate Investment Fund (AIF)
3. Specialised Investment Fund
4. Social Stock Exchange
5. Balance of Payment
6. Autonomous Transactions and Accommodating Transactions
7. FDI Vs FPI
8. FCNR(B), NRE and NRO Account
9. Types of Exchange Rate Systems
10. Depreciation and Appreciation (Devaluation and Revaluation)
11. Assets and Liabilities of Banks
12. NBFC vs Banks
13. Payment Bank vs Small Finance Bank
14. Share Buyback



50 Important Topics

15. Asset Reconstruction Company
16. WTO's Special and Differential Payment

Topic 1 - Components of Financial Market - Money Market & Capital Market

Money Market & Capital Market

Money Market	Capital Market
Financial Market where <u>lending and borrowing of short term securities</u> are carried out	Financial Market where <u>lending and borrowing of long term securities</u> are carried out
<u>Maturity period</u> - 1 day to 1 year (short term)	<u>Maturity Period</u> - greater than 1 year (long term)
It provides <u>short term capital</u>	It provides <u>medium and long term capital</u>
<u>Financial Instruments</u> - Treasury Bill; Cash Management Bill; Certificate of Deposits; Commercial Paper; Call/Notice/Term Money etc Note - Money market deals only in <u>debt instruments</u>	<u>Financial Instruments</u> - Shares; Bonds; Debentures; REITs, INVITs; Exchange Traded Funds etc Note - Capital market deals only in both <u>debt and equity instruments</u>
<u>Participants are</u> - Banks, Financial Institutions, Companies, Foreign Investors Note - Participation of Retail investors are quite limited	<u>Participants are</u> - Banks, Financial Institutions, Companies, Foreign Investors, Retail Investors
The <u>purpose</u> of borrowing is mainly to <u>fulfil working capital requirement</u> for the business	The <u>purpose</u> of the borrowing is to <u>fulfil long term credit needs</u> of the business
It usually deals in high value transactions	It deals in both low value and high value transactions
Risk is lower as maturity period is short	Risk is more as maturity period is long
Liquidity is higher here	Liquidity is lower
<u>Regulator</u> is <u>RBI</u>	<u>Regulator</u> is <u>SEBI</u>
Expected return is lower as compared to capital market	Expected return is higher as compared to money market

Topic 2 – Alternate Investment Fund (AIF)

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Alternate Investment Fund (AIF)

Alternative Investment Fund or AIF means any fund established or incorporated in India which is a privately pooled investment vehicle which collects funds from sophisticated investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors.

Parameters	Description
Meaning	It is a privately pooled investment fund which is incorporated in India. It can be in the form of trust/ company/ LLP
Investors	Indian + Foreign
Regulation	All the AIF are registered under SEBI (Alternate investment Funds) Regulations, 2012
Does not include	AIF does not include funds covered under the SEBI (Mutual Funds) Regulations, 1996; SEBI (Collective Investment Scheme) Regulations, 1999 or any other regulations of the Board to regulate fund management services AIFs are privately pooled investment vehicle. Not permitted to make an invitation to the public to subscribe to its securities

ALTERNATIVE INVESTMENT FUND

Types of Alternative Investment Fund

- **Category I**
 - They invest in start-up or early-stage ventures or other areas which the government considers as socially or economically desirable.
 - Examples include venture capital funds (including angel funds), SME Funds, social venture funds, infrastructure funds etc.
- **Category II**
 - They are those which are not classified under Category I or Category III. They do not use leverage or borrowing, except for daily operational needs and as allowed by regulations.
 - Examples include real estate funds, debt funds, private equity funds, and funds of funds.
- **Category III**
 - They are funds which employs complex or diverse trading strategies and may use leverage, including investing in listed or unlisted derivatives.
 - Examples include hedge funds and PIPE (Private Investment in Public Equity)) funds.

Topic 3 – Specialised Investment Fund (SIF)

Specialised Investment Fund (SIF)

- It is a new fund category introduced by SEBI
- It will act as a bridge between Mutual Funds and Portfolio Management Services / AIF
- The Minimum Investment Amount in SIF is Rs. 10 lakhs
 - PMS → Rs. 50 lakhs
 - AIF → Rs. 1 crore
- SIF can be open ended, close ended or interval based
- Investment Strategies which will be offered by the SIF
 - Equity Oriented Investment Strategy
 - Debt Oriented Investment Strategies
 - Hybrid Oriented Investment Strategies

Specialised Investment Fund (SIF)

- Launching of SIF
 - only MFs in operation for at least three years and an average asset under management of not less than ₹10,000 crore, in the immediately preceding three years, can launch SIFs.
 - However, if the newer entrants wish to launch SIF, they can do so after appointing a chief investment officer (with experience of 10 years managing assets worth ₹5,000 crore) and a fund manager (with three years experience handling AUM of ₹500 crore)
- SIF vs Mutual Fund
 - SIFs can invest in both long and short strategies. Unlike traditional mutual funds that thrive mainly when markets rise, SIFs aren't tied to one direction. They can capture opportunities in a bull market, but also generate returns during bearish phases or when markets are flat and range-bound.

Topic 4 – Social Stock Exchange

SOCIAL STOCK EXCHANGE

Key Points to know about Social Stock Exchange

1. Background

- Proposed in the Union Budget 2019–20.
- SEBI constituted a Expert Committee under Ishaat Hussain
- SEBI notified SSE framework in July 2022.
- SSE became operational in 2023.

2. Establishment

- SSE to be set up as separate segment under the existing stock exchanges such as BSE, NSE etc.

3. Objectives

- It enables entities such as NGOs to raise finances for social sector projects such as Education, Housing, Drinking water etc.

4. Eligibility for registration on SSE

- Not for Profit Organisations such as charitable societies registered under the Societies Registration Act, 1860 or company incorporated under section 8 companies under Companies Act 2013
- For profit social enterprise

SOCIAL STOCK EXCHANGE

Key Points to know about Social Stock Exchange

5. Ineligible for registering on SSE
 - Corporate foundations, political or religious organisations, professional or trade associations, infrastructure and housing companies
 - Non Profit Organisations would be deemed ineligible if dependent on corporates for more than 50% of its funding.
6. Non Profit Organisations can raise money from SSE through
 - Issuing Zero Coupon Zero Principal Instruments
 - No interest is paid. No payment of principal amount on maturity
 - Minimum Issue Size is 1 crore
 - minimum application size for subscription at Rs 2 lakhs.
 - Social Impact Funds (Category - 1 AIF registered with SEBI)
 - Donations from Mutual Funds
7. Governance & Oversight
 - SSE functions under SEBI regulation. Hosted by NSE and BSE
 - Mandatory: Annual disclosures, Impact reporting, Utilisation of funds reporting

Topic 5 – Balance of Payment

What is meaning / definition of Balance of Payment (BoP)?

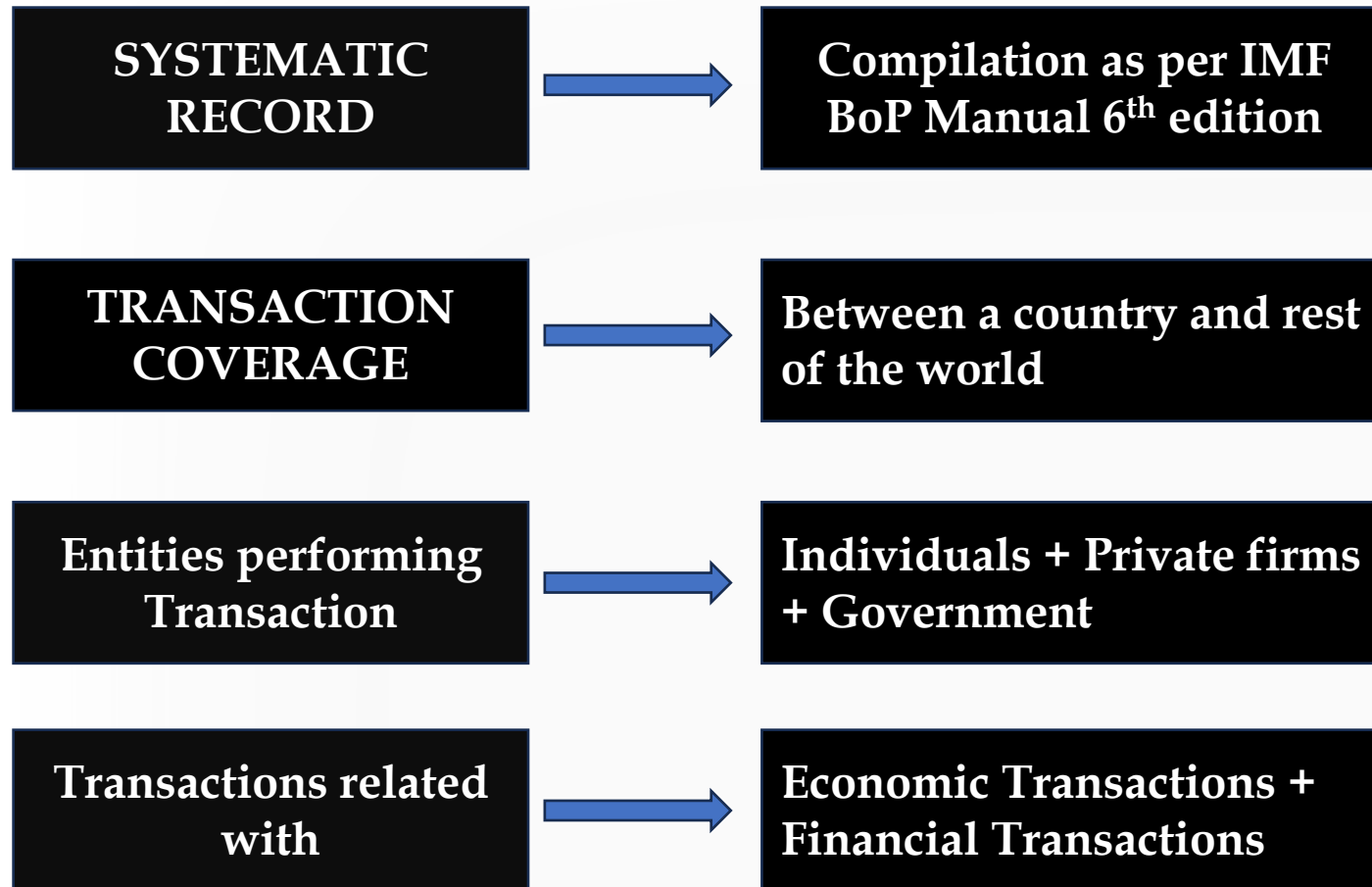
It is **SYSTEMATIC RECORD** of

all **ECONOMIC & FINANCIAL** transactions

between **RESIDENTS** of a country and the **REST of WORLD**

during a given **TIME PERIOD**

What are the Key Observations



What are the Key Observations

FLOW CONCEPT



BoP is measured over a period of time

ACCOUNTING FRAMEWORK



Double Entry Book Keeping.

Credits (+) Inflows → Exports + Decrease in Assets + Increase in Financial Liabilities

Debits (-) Outflows → Imports + Decrease in Liabilities + Increase in Financial Assets

What are the Key Observations

STRUCTURE OF BoP



- a) Current Account
- b) Capital Account
- c) Net error or omissions
- d) Change in Foreign Exchange Reserves

Balancing Factor



Foreign Exchange Reserve

What are the Key Observations

BoP vs GDP



BoP → only external Transactions, include Remittances, sale purchase of stocks/bonds

GDP → both external and internal transactions; does not include remittances.

BoP vs Budget



BoP → only transactions between residents and non residents

Budget → estimated receipt and expenditure of government only

Topic 6 – Autonomous Transactions and Accommodating Transactions

Autonomous Transactions and Accommodating Transactions

Autonomous Transactions	Accommodating Transactions
<p>These Transactions occur on their own</p> <p>These transactions occur independently of the balance of payments situation of a country.</p> <p>They can create surplus or deficit in the BoP</p> <p>All the transactions occurring in Capital and Current Account</p>	<p>transactions undertaken to finance or settle BOP deficits or surpluses.</p> <p>They are done after autonomous transactions to balance the BOP.</p> <p>It leads to changes in Foreign Exchange Reserves</p>



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Topic 7 – FDI vs FPI

FDI vs FPI

Topic 8 - FCNR(B), NRE and NRO Account

FCNR(B), NRE and NRO Account

Parameters	Foreign Currency (Non-Resident) Account (Banks) Scheme [FCNR (B) Account]	Non-Resident (External) Rupee Account Scheme [NRE Account]	Non-Resident Ordinary Rupee Account Scheme [NRO Account]
Who can open Account	NRI and PIO	NRI and PIO	Any person resident outside India for putting through bonafide transactions in rupees.
Currency	Any permitted currency i.e. a foreign currency which is freely convertible	Indian Rupees	Indian Rupees
Type of Account	Term Deposit Only (1-5 years)	Savings, Current, Recurring, Fixed Deposit	Savings, Current, Recurring, Fixed Deposit
Repatriability	Repatriable	Repatriable	Not repatriable except for all current income
Taxability	Income earned in the accounts is exempt from income tax and balances exempt from wealth tax		Taxable

Topic 9 – Types of Exchange Rate Systems

Types of Exchange Rate Systems

1. Fixed Exchange Rate
2. Floating Exchange Rate System
3. Managed Exchange Rate

Topic 10 – Types of Exchange Rate Systems

Types of Exchange Rate Systems

Depreciation / Devaluation & Appreciation / Revaluation

Topic 11 – Assets and Liabilities of Banks

Assets and Liabilities of Banks

Assets = what you own

Liabilities = what you owe

Assets of Banks	Liabilities of Banks
Loans and Advances	Public Deposits
Investments in Government Securities	Borrowings from RBI
Cash in Hand	Borrowings from other banks
Balance with RBI Cash reserves kept with RBI (CRR)	
Money lent to other banks	

Topic 12 - NBFC vs Banks

NBFC vs Banks

	Banks	NBFCs
Deposits	It can accept all types of Deposits (Time Deposits + Demand Deposits)	It cannot accept Demand Deposits (i.e. can only accept Time Deposits)
Payment and Settlement System	It is part of the payment and settlement system. Can issue their cheque book. Support NEFT, RTGS etc	It is NOT part of the payment and settlement system. Cannot issue their cheque book.
Deposit Insurance	Available to depositors of banks	Not available to depositors of NBFC
CRR	It is applicable to banks	It is NOT applicable to NBFC
SLR	It is applicable to banks	It is applicable to only Deposit taking NBFCs
Capital Adequacy Ratio/ Capital to Risk (Weighted) Assets Ratio (CRAR)	It is Applicable to Banks	It is applicable to Deposit Taking NBFCs and Systematically Important NBFC's (15%)

Topic 13 – Payment Banks and Small Finance Banks



Payment Banks and Small Finance Banks

Payment Bank

- A payments bank is a differentiated bank (not universal bank). Limited scope than traditional banks
- Establishment
 - They are set up based on the recommendation of the Nachiket Mor Committee.
 - Budget 2014-2015 announced formation of a new structure for licensing different types of banks including payments banks.
 - Since 2016, 11 entities have received payment bank licenses from RBI.
 - First Payment Bank in India - Airtel Payment Bank

Objective

- To further financial inclusion, especially through savings accounts and payments services
- Target Audience → migrant labour force, low-income households, small entrepreneurs, unorganized sector

Payment Banks and Small Finance Banks

Activities which are ALLOWED

- They can accept only DEMAND DEPOSITS (Current Account & Saving Account). They are not allowed to open Fix deposit or NRI deposits.
- They can accept deposits upto Rs. 2 lakhs (earlier 1 lakh rupees and increased to 2 lakh rupees in 2021)
- Deposit Insurance is available
- They can issue Debit Card
- They can provide Remittance Services; mobile payment/transfers/purchases; net banking and third party transfer
- They can distribute products such as mutual funds, insurance and third party loans
- They can act as Banking Correspondent for other banks

Activities which are NOT ALLOWED

- They are not allowed to open Fix deposit or NRI deposits.
- They cannot lend. They cannot issue Credit Card.
- They cannot establish subsidiaries to engage in Non Banking Financial activities

Payment Banks and Small Finance Banks

Small Finance Banks

- A Small Finance Bank is a differentiated bank (not universal bank). Limited scope than traditional banks
- They can perform nearly all functions of a typical commercial bank, but on a much smaller scale.
- Establishment
 - They are set up based on the recommendation of the Nachiket Mor Committee.

Objective

- To further financial inclusion, especially through savings accounts and payments services
- Target Audience → migrant labour force, low-income households, small entrepreneurs, unorganized sector

Payment Banks and Small Finance Banks

Activities which is ALLOWED

- They can accept all types of deposits (Demand Deposits and Time Deposits)
- There is no restriction on the deposits. They can open Current Account, Saving Account, Fixed Account, Recurring Deposits etc
- Deposit Insurance is available
- They can issue Debit Card and credit cards
- They can lend. Focus is on small lending. Target customers would be: small and marginal farmers; small business units; micro and small industries; and other unorganised sector entities.
- They can provide Remittance Services; mobile payment/transfers/purchases; net banking and third party transfer
- They can distribute products such as mutual funds, insurance and third party loans
- They can act as Banking Correspondent for other banks

Topic 14 – Share Buyback

SHARE BUYBACK

What is a Share Buyback?

- A share buyback, also called a stock repurchase, is when a company decides to buy its own shares from existing shareholders - usually at a price higher than the current market value.

SHARE BUYBACK

Why Do Companies Buy Back Shares?

- To return surplus cash to shareholders
- To boost earnings per share (EPS)
- To show confidence in the company's performance
- To reward shareholders with a premium price
- To prevent dilution of ownership

SHARE BUYBACK

What are the Disadvantage of share buyback?

- Reduces cash reserves
- Fewer shares = less liquidity
- May ignore long term investment

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Topic 15 – Asset Reconstruction Company

ASSET RECONSTRUCTION COMPANY

Points to know

1. ARC's are financial institution which buys NPA from the bank at mutually agreed prices. It then tries to recover the NPA's
2. They are registered by the RBI.
3. They are regulated under SARFAESI Act, 2000
4. They were recommended by Narsimham Committee - II (1998)
5. Working Mechanism of ARC
 - Banks / NBFC's sell stressed loans to ARCs at a discount.
 - Unless the transaction is entirely in cash, the ARC issues security receipts that are redeemable as and when it recovers the specific loan.
 - ARCs also charge bad-loan sellers a management fee of 1.5% to 2% of the value of the asset every year.
 - That apart, they earn from the recoveries made, and upsides are shared with the selling bank or non-banking financial company (NBFC).
6. Based on ownership, ARCs could be public, private or public-private partnership

Topic 16 – WTO - Special and Differential Treatment



WTO - Special and Differential Treatment

- **Context** - China has announced that it will no longer seek access to Special and Differential Treatment in current and new WTO agreements

WTO - Special and Differential Treatment

All About Special and Differential Treatment (SDT)

Meaning

- These are special provisions under WTO Agreements which provide special rights to developing countries
- It give developed countries the possibility to treat developing countries more favourably than other WTO Members

WTO - Special and Differential Treatment

Aim

- To level the playing field in global trade by addressing structural disadvantages of developing economies.
- To ensure that trade liberalisation does not undermine domestic development priorities.

WTO - Special and Differential Treatment

Measures in WTO Agreements for Developing countries / LDC's

- Provisions aimed at increasing trade opportunities
 - Generalized System of Preferences (GSP)
 - Special treatment of LDCs
 - Regional Trade Arrangements
- Provisions to safeguard the interests of developing country Members.
 - Anti Dumping Duty
 - Subsidies and Countervailing Measures
 - Sanitary and Phytosanitary (SPS) Measures

WTO - Special and Differential Treatment

- Provisions allowing longer time periods for implementing Agreements and Commitments
 - Agreement on Agriculture
 - Flexibility to implement reduction commitments - 10 yrs.
 - LDCs no commitments
 - TRIPS Agreement
 - Developing countries - delay by 5yrs
 - LDCs - 11 yrs
- Provision of technical assistance to developing country and LDC members
 - Agreement on SPS
 - Agreement on TBT
 - Agreement on TRIPS

WTO - Special and Differential Treatment

- Provisions related to least-developed country (LDC) Members.
 - Duty-free, quota- free market access and exemptions from strict obligations
- Provisions for support to help developing countries build the capacity to carry out WTO work, handle disputes, and implement technical standards,

THANK YOU