Quiz Date: 11th September 2020

Directions (1-8): Read the following passage carefully and answer the questions given below it. Certain words are given in bold to help you locate them while answering some of the questions.

Even as the finance ministry and the Reserve Bank of India (RBI) ***butt heads*** over the idea of "independence" for the latter, never mind what national goals are, this is as good a time as any to go back to the one area where the two agree: That the primary goal of monetary policy is to target retail inflation. After the creation of the monetary policy committee (MPC), the agreement between the government and RBI shifts the inflation mandate to the MPC. Under the pact signed on 20 February 2015, between the then RBI governor and the government, the main objective of monetary policy is ensuring price stability, with the monetary policy committee mandated to focus on a specific retail inflation rate of 4%, plus or minus 2%.

While it seems good to have clearly definable targets for monetary policy, this unitary focus on inflation is not particularly useful for a complex economy like India, where the bulk of the inflation risks emanate largely from two uncontrollable factors, food and fuel.So, when fuel or food prices fall, as has been the case for much of the Modi era, RBI and the MPC may get credit where it is not due, but since it can slam the brakes whenever inflation seems structural, it cannot be blamed for slowing growth since its mandate is to focus on inflation. The latest retail inflation print of 3.31% for October— the lowest in 13 months—has almost nothing to do with the MPC's actions, and more to do with factors beyond its control.

Now consider how the US Federal Reserve has been given its mandate. There is no specific inflation target. Though the Fed may set itself one, the emphasis is on other objectives simultaneously. Under the mandate given by the US Congress when the Fed was created in 1913, the central bank has to conduct monetary policy "so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates".

The US Fed has a triple objective, though vaguely defined, while the MPC has only one primary goal, which anyway it cannot directly influence since the major components relate to food and fuel, where fiscal policies and global trends have a more direct impact. Put another way, it seems as if the RBI-government pact of 2015 has focused on inflation because this is the only measurable parameter on which the central bank can be held accountable. An inability to measure other things has made other equally important objectives of monetary policy secondary.

Clearly, the US Fed mandate is more flexible, and a better model to follow than the flawed deal signed by RBI and the finance minister. If growth, interest rate stability and inflation were to be a triple mandate, the MPC can follow a more nuanced policy. Right now, the policy is **lopsided**, and unduly focuses only on inflation. In India, unemployment rates are not being measured properly, and so growth and wage inflation may be better gauges than jobs growth. This can change once we have a more accurate measure of the jobs situation as in the US, and jobs can be specifically inserted into the mandate.

It does not make sense to target a specific rate of inflation regardless of what is happening to growth or long-term rates, leave alone employment. India has needlessly been seduced by monetary fundamentalists who have ***sold us a pup***. We need to change the MPC mandate to one that is more nuanced and fluid. More so, when the world is turning topsy-turvy, where deglobalization is gathering

steam, and demographic trends in the world are anyway puncturing growth both in the global economy and in India.

Q1. How does the US fed mandate differ from the RBI Monetary Policy committee?
(a) US fed mandate focused on controlling inflation while MPC's primer objective is promote employment.
(b) US fed mandate has no specific inflation target while MPC focuses on specific retail inflation.
(c) MPC is a better model to follow than US fed mandate.
(d) Both (b) and (c)
(e) None of these

Q2. Why wouldn't the unitary focus of MPC on inflation be fruitful in India?
(I) The economy of India is complex, where food and fuel play a major role to originate inflation.
(II) Since the inflation of Indian Economy is governed by uncontrollable factors.
(III) Fiscal policies and Global trends have a more direct impact on influencing inflation
(a) Only (I)
(b) Only (II)
(c) Only (III)
(d) Both (I) and (II)
(e) All (I) (II) and (III)

Q3. What were the goals of the US Congress mandate?
(I) maximum employment
(II) stable prices
(III) moderate long-term interest rates
(IV) controlling retail inflation
(a) Only (II)
(b) Both (II) and (IV)
(c) Only (I) (II) and (III)
(d) Both (II) and (III)
(e) All (I) (II) (III) and (IV)

Q4. What may seem as a rational behind the RBI-government pact to focus only on inflation?
(a) Central Bank can be held accountable for Inflation which is the only measureable parameter.
(b) To end the conflict between the finance ministry and Reserve Bank of India
(c) Since other parameters are difficult to measure, they become secondary objectives of monetary policy
(d) Both (a) and (c)
(e) None of these

Q5. Why is it required to change the MPC mandate in a more nuanced and fluid form?
(I) International policies are continuously changing leading the world in disorder and utter state of confusion.
(II) Interdependence and integration between the economies of nations are diminishing continuously.
(III) Trends in the movement of human population is hampering the growth in Global economy and in India.
(a) Both (II) and (III)
(b) Only (II)
(c) Only (III)
(d) Both (I) and (II)
(e) All (I) (II) and (III)

Q6. Choose the word which provides a similar meaning to phrase **"butt heads"** given in bold in the passage.
(a) Speculation
(b) Disagreement
(c) Accord
(d) Alliance
(e) Affinity

Q7. Choose the word which provides a similar meaning to the word "**lopsided**" given in bold in the passage.
(a) Coordinate
(b) Even
(c) Consistent
(d) Proportional
(e) Unbalanced

Q8. Choose the option that depicts the meaning of the idiom ***"sold us a pup"*** as given in the passage.
(a) To have bought something that is ultimately worthless.
(b) To buy something in little quantity.
(c) To be very enthusiastic about something.
(d) To be led to believe that a lie is true.
(e) To be scheduled or organized to happen or take place.

Directions (9-15): Read the following passage carefully and answer the questions given below it. Certain words are given in bold to help you locate them while answering some of the questions.

In 1991, India met with an economic crisis relating to its external debt — the government was not able to make repayments on its borrowings from abroad; foreign exchange reserves, which we generally maintain to import petrol and other important items, dropped to levels that were not sufficient for even a fortnight. The crisis was further compounded by rising prices of essential goods. All these led the government to introduce a new set of policy measures which changed the direction of our developmental strategies.

The origin of the financial crisis can be **traced** from the inefficient management of the Indian economy in the 1980s. We know that for implementing various policies and its general administration, the government generates funds from various sources such as taxation, running of public sector enterprises

etc. When expenditure is more than income, the government borrows to finance the deficit from banks and also from people within the country and from international financial institutions. When we import goods like petroleum, we pay in dollars which we earn from our exports.

Development policies required that even though the revenues were very low, the government had to overshoot its revenue to meet challenges like unemployment, poverty and population explosion. The continued spending on development programmes of the government did not generate additional revenue. Moreover, the government was not able to generate sufficiently from internal sources such as taxation. When the government was spending a large share of its income on areas which do not provide immediate returns such as the social sector and defence, there was a need to utilise the rest of its revenue in a highly efficient manner. The income from public sector undertakings was also not very high to meet the growing expenditure. At times, our foreign exchange, borrowed from other countries and international financial institutions, was spent on meeting consumption needs. Neither was an attempt made to reduce such profligate spending nor sufficient attention was given to boost exports to pay for the growing imports.

In the late 1980s, government expenditure began to exceed its revenue by such large margins that meeting the expenditure through borrowings became unsustainable. Prices of many essential goods rose sharply. Imports grew at a very high rate without matching growth of exports. As pointed out earlier, foreign exchange reserves declined to a level that was not adequate to finance imports for more than two weeks. There was also not sufficient foreign exchange to pay the interest that needs to be paid to international lenders. Also no country or international funder was willing to lend to India. India approached the International Bank for Reconstruction and Development (IBRD), popularly known as World Bank and the International Monetary Fund (IMF), and received $7 billion as loan to manage the crisis.

For availing the loan, these international agencies expected India to liberalise and open up the economy by removing restrictions on the private sector, reduce the role of the government in many areas and remove trade restrictions between India and other countries. India agreed to the conditionalities of World Bank and IMF and announced the New Economic Policy (NEP). The NEP consisted of wide ranging economic reforms. The **thrust** of the policies was towards creating a more competitive environment in the economy and removing the barriers to entry and growth of firms. This set of policies can broadly be classified into two groups: the stabilisation measures and the structural reform measures.

Stabilisation measures are short-term measures, intended to correct some of the weaknesses that have developed in the balance of payments and to bring inflation under control. In simple words, this means that there was a need to maintain sufficient foreign exchange reserves and keep the rising prices under control. On the other hand, structural reform policies are long-term measures, aimed at improving the efficiency of the economy and increasing its international competitiveness by removing the rigidities in various segments of the Indian economy.

Q9. Which of the following occurrence did not indicate the extreme financial crisis in late 1980s?
(a) Growth of imports was higher than the growth of exports.
(b) Prices of essential goods increased immensely.
(c) Continuous decline in the generation of funds through taxation and public sector enterprises.
(d) No sufficient funds were available to meet imports form more than two weeks.
(e) No Foreign country or International funder was willing to lend India.

Q10. Which of the following statements is **FALSE** according to the given passage?
(a) Structural reform policies are short-term measures to bring inflation under control.
(b) IBRD lent $7 billion to India to manage its economic crisis.

(c) The origin of the financial crisis can be traced from the inefficient management of the Indian economy in the 1980s.
(d) Sometimes India's foreign exchange was spent on meeting consumption needs.
(e) None of these

Q11. What is/are the factors that led the government to formulate a new set of policy measures for developmental strategies in 1991?
(I) The government was incapable to repay the loans borrowed from international funders.
(II) Foreign exchange reserves were only available to meet necessities like petrol for a fortnight.
(III) Prices of essential products were gradually rising.
(a) Only (I)
(b) Only (II)
(c) Both (II) and (III)
(d) Both (I) and (III)
(e) All (I) (II) and (III)
Q12. What was the condition presented by the International agencies to grant the loans?
(a) To increase the exports by adopting the policies of globalization.
(b) To liberalise the economy by relaxing the government restrictions on the private sector
(c) To adopt the policies that will enhance the revenue from taxations and public sector enterprises
(d) Both (a) and (c)
(e) All (a) (b) and (c)

Q13. Choose the word that expresses the most similar meaning of the word "**TRACED**" given in bold in the passage.
(a) overlooked
(b) suppressed
(c) abolished
(d) detected
(e) interrupted

Q14. Choose the word that expresses the most similar meaning of the word "**PROFLIGATE**" given in bold in the passage.
(a) extravagant
(b) moderate
(c) equitable
(d) volatile
(e) revocable

Q15. Choose the word that is opposite of the word "**THRUST**" given in bold in the passage.
(a) propel
(b) support
(c) repress
(d) catalyst
(e) diversity

Solutions

S1. Ans. (b)
Sol. Refer to the 6th line of the 1st paragraph "…main objective of monetary policy is ensuring price stability, with the monetary policy committee mandated to focus on a specific retail inflation rate of 4%, plus or minus 2%". Also refer to 1st sentence of the 3rd paragraph "Now consider how the US Federal Reserve has been given its mandate. There is no specific inflation target." Hence option (b) is the most suitable answer choice.

S2. Ans. (e)
Sol. MPC's unitary focus on inflation is not particularly useful for a complex economy like India. This can be verified from the second paragraph where it provides the reasons for the same, "While it seems good to have clearly definable targets for monetary policy, this unitary focus on inflation ***is not particularly useful for a complex economy like India, where the bulk of the inflation risks emanate largely from two uncontrollable factors, food and fuel***…The latest retail inflation print of 3.31% for October— the lowest in 13 months—has almost nothing to do with the MPC's actions, and more to do with ***factors beyond its control."*** Also, refer to the 4th paragraph, 1st line "The US Fed has a triple objective, though vaguely defined, while *the MPC has only one primary goal, which anyway it cannot directly influence since* ***the major components relate to food and fuel, where fiscal policies and global trends have a more direct impact***." Hence, option (e) is the most suitable answer choice.

S3. Ans. (c)
Sol. To validate the answer refer to the 2nd sentence on 3rd paragraph, ". Under the mandate given by the US Congress when the Fed was created in 1913, the central bank has to conduct monetary policy "so as to promote effectively the ***goals of maximum employment, stable prices, and moderate long-term interest rates".*** Hence, option (c) is the most viable answer choice.

S4. Ans. (c)
Sol. Refer to the 3rd sentence of 4th paragraph, "Put another way, it seems as if the RBI-government pact of 2015 has focused on inflation because ***this is the only measurable parameter*** on which the central bank can be held accountable. An ***inability to measure other things*** has made other equally important objectives of monetary policy secondary." Hence, option (c) is the most viable answer choice.

S5. Ans. (e)
Sol. The answer can be verified form the 3rd sentence of the last paragraph which states "We need to change the MPC mandate to one that is more nuanced and fluid. More so, ***when the world is turning topsy-turvy***, where ***deglobalization is gathering steam***, and ***demographic trends*** in the world are

anyway ***puncturing growth*** both in the global economy and in India." Hence, option (e) is the most suitable answer choice.

S6. Ans. (b)
Sol. "Butt heads" means engage in conflict or be in strong disagreement. "Disagreement" means lack of consensus or approval. Since they both are synonyms of each other, option (b) becomes the most suitable answer choice.
Speculation means investment in stocks, property, etc. in the hope of gain but with the risk of loss.
Accord means give or grant someone (power, status, or recognition).
Alliance means a relationship based on similarity of interests, nature, or qualities.
Affinity means a natural liking for and understanding of someone or something.

S7. Ans. (e)
Sol. Lopsided means with one side lower or smaller than the other. Unbalanced means (of a person) emotionally or mentally disturbed. Since they both are synonyms of each other, option (e) becomes the most suitable answer choice.

S8. Ans. (a)
Sol. The idiom "sold a pup" means if someone is sold a pup, they buy or accept something that is not as good as they thought it would be. Hence, option (a) is the most feasible answer choice.

S9. Ans. (c)
Sol. To validate the answer refer to the 2nd sentence of 4th paragraph "***Prices of many essential goods rose sharply. Imports grew at a very high rate without matching growth of exports***. As pointed out earlier, ***foreign exchange reserves declined to a level that was not adequate to finance imports for more than two weeks***. There was also not sufficient foreign exchange to pay the interest that needs to be paid to international lenders. Also ***no country or international funder was willing to lend to India***." These lines indicate the occurrence of events during late 1980s of financial crisis.
Also refer to the 1st line of 2nd paragraph "The origin of the financial crisis can be traced from the ***inefficient management*** of the Indian economy in the 1980s. We know that for implementing various policies and its general administration, the government generates funds from various sources such as taxation, running of public sector enterprises etc." This sentence indicates that funds were insufficient to pay foreign debts, however it does not mention anything about the decline in the income generation. Hence, option (c) becomes the most suitable answer choice.

S10. Ans. (a)
Sol. Among the given sentences, option (a) is definitely false. Refer to the 4th sentence of last paragraph "structural reform policies are long-term measures, aimed at improving the efficiency of the economy and increasing its international competitiveness by removing the rigidities in various segments of the Indian economy". All the other sentences are mentioned precisely in the passage. Hence, option (a) becomes the most viable answer choice.

S11. Ans. (e)
Sol. Refer to the 1st paragraph "In 1991, India met with an economic crisis relating to its external debt — the ***government was not able to make repayments on its borrowings from abroad***; ***foreign exchange reserves, which we generally maintain to import petrol and other important items, dropped to levels that were not sufficient for even a fortnight***. The crisis was further compounded by ***rising prices of essential goods***." Hence, option (e) is the most suitable answer choice.

S12. Ans. (b)
Sol. Refer to the 1st sentence of 5th paragraph "For availing the loan, these international agencies expected India ***to liberalise and open up the economy by removing restrictions on the private sector***,

reduce the role of the government in many areas and remove trade restrictions between India and other countries." All the other options are irrelevant in context of the passage. Hence, option (b) is the most viable answer choice.

S13. Ans. (d)
Sol. Traced means find or describe the origin or development of. Detected means discover or identify the presence or existence of. Since both the words are synonyms of each other, option (d) becomes the most viable answer choice.
Overlooked means ignore or disregard (something, especially a fault or offence).
Suppressed means forcibly put an end to.
Abolished means formally put an end to (a system, practice, or institution).
Interrupted means stop the continuous progress of (an activity or process).

S14. Ans. (a)
Sol. Profligate means recklessly extravagant or wasteful in the use of resources. Extravagant means lacking restraint in spending money or using resources. Since both the words are synonyms of each other, option (a) becomes the most viable answer choice.
Moderate means average in amount, intensity, quality, or degree.
Equitable means fair and impartial.
Volatile means liable to change rapidly and unpredictably, especially for the worse.
Revocable means capable of being revoked or cancelled.

S15. Ans. (c)
Sol. Thrust means a strong push. Repress means subdue (someone or something) by force. Since both the words are antonyms of each other, option (c) becomes the most suitable answer choice.
Propel means drive or push something forwards.
Support means bear all or part of the weight of; hold up.
Catalyst means a person or thing that precipitates an event.
Diversity means a range of different things.

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