2025 Prelims Economics Report Card

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for
IAS Classes and Study Material

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Total Questions = 9
Hits = 8
Missed = 1

PrepMate IAS

Prelims 2025 Questions	PrepMate IAS Notes - Hits
Q1. With reference to investments, consider the following: 1. Bonds 2. Hedge Funds 3. Stocks 4. Venture Capital How many of the above are treated as Alternative Investment Funds? a. Only one b. Only two c. Only three d. All the four **Correct Option: (b)**	An Alternative Investment Fund (AIF) is an option for investors seeking investment avenues beyond stocks and bonds. AIFs pool money from their investors and invest it in private equity, hedge funds, real estate and other investments. Shares (Stocks) and Bonds are mainstream financial instruments of capital market. Hedge Funds and Venture Capital fall under Alternate Investment Funds. **Economics, Chapter 12 Capital Market Page 205**

CAPITAL MARKET

A capital market is a financial market where exchange of funds is for a period of 1 year or more. Various capital market instruments are as follows:

■ **Long-term loans:** These loans are taken for a period of more than 1 year.

■ **Shares:** A share is one of the equal parts into which a company's capital is divided, entitling the holder to a proportion of the profits. Shareholders are owners of the company. Shares are of two types: equity and preference.

Equity shareholders are given share out of profits or repayment of capital on liquidation only after settling the claims of preference shareholders. Thus, they are the primary risk bearers in the company.

Preference shares are called so because their claim in profits and repayment of capital on liquidation is settled before payment is made to equity shareholders.

■ **Debentures:** These refer to the unit of debt or loan. Debentures are issued at a fixed rate of interest by the company. Debenture holders are the lenders of the company. The interest on debenture is required to be paid even if the company suffers losses.

■ **Bonds:** Bonds, like debentures, carry fixed rate of interest. Usually bonds are issued by the government to collect money to carry out its expenditure. For example, the Government of India launched infrastructure bonds to raise funds for infrastructure development in India.

Venture Capital

Venture capital refers to finance provided by investors to start-up companies and small businesses that are believed to have long-term growth potential. For start-ups without access to capital markets, venture capital is an essential source of money. Risk is typically high for investors, but the potential for above-average returns is an attractive payoff.

Venture capital does not always take a monetary form; it can be provided in the form of technical or managerial expertise. For new companies or start-up ventures that have a limited operating history, venture capital funding is increasingly becoming a popular capital raising source, as funding through loans or other debt instruments is not readily available.

Prelims 2025 Questions	PrepMate IAS Notes - Hits
Q2. Which of the following are the sources of income for the Reserve Bank of India? I. Buying and selling Government bonds II. Buying and selling foreign currency III. Pension fund management IV. Lending to private companies V. Printing and distributing currency notes Select the correct answer using the code given below. a. I and II only b. II, III and IV c. I, III, IV and V d. I, II and V **Correct Option: (d)**	Statements I, II and V are correct. Statement III is incorrect. There is a separate Pension fund regulatory development authority in India. RBI does not have any role in Pension Fund Management. Statement IV is also incorrect. RBI is engaged in lending to banks, but not private companies. **Economics, Chapter 5 Monetary Policy Page 82** The RBI is an independent apex monetary authority that also regulates banks and provides important financial services such as storage of foreign exchange reserves, availability of credit, accept deposits from government and banks. Specifically, the RBI performs the following important functions: **1. Issue of bank notes:** The RBI has the sole right to issue currency notes except one-rupee notes, which are issued by the Ministry of Finance. This function of the RBI has a number of advantages: (i) it brings uniformity in issue of notes; (ii) it makes possible effective state supervision; (iii) it is easier to control and regulate credit in accordance with the requirements in the economy. **2. Banker to the government:** As banker to the government, the RBI manages the banking needs of both Central and State Governments. It has to maintain and operate the government's deposit accounts. It collects receipts of the funds and makes payments on behalf of the government. It issues and manages government securities. It represents the Government of India as the member of the IMF and the World Bank.

3. Custodian of cash reserves of commercial banks: The commercial banks hold deposits in the Reserve Bank, and the latter has the custody of the cash reserves of the commercial banks.

4. Custodian of country's foreign currency reserves: The Reserve Bank has the custody of the country's reserves of international currency, and this enables the Reserve Bank to deal with crisis connected with adverse balance of payments position.

5. Lender of last resort: The commercial banks approach the Reserve Bank in times of emergency to tide over financial difficulties, and the Reserve Bank comes to their rescue though it might charge a higher rate of interest.

6. Central clearance and accounts settlement: Since commercial banks have their surplus cash reserves deposited in the Reserve Bank, it is easier to settle the claim of these banks on each other through entries in the books of the Reserve Bank. The clearing of accounts has now become an essential function of the Reserve Bank.

7. Controller of credit: Since credit money forms the most important part of supply of money, and since the supply of money has important implications for economic stability, the importance of control of credit becomes obvious. Credit is controlled by the Reserve Bank in accordance with the economic priorities of the government.

8. Regulator of banks and non-banking financial companies: Opening a bank or a non-banking financial company (NBFC) requires a license from the RBI. It ensures that financial interest of the depositors is not hampered. It also keeps checks that the banks and NBFCs adhere to capital adequacy norms, etc.

Prelims 2025 Questions	PrepMate IAS Notes - Miss
Q3. Consider the following statements: Statements I: In India, income from allied agricultural activities like poultry farming and wool rearing in rural areas is exempted from any tax. Statement II: In India, rural agricultural land is not considered a capital asset under the provisions of the Income-tax Act, 1961. Which one of the following correct in respect of the above statements? a. Both Statement I and Statement II are correct and Statement II explains Statement I b. Both Statement I and Statement II are correct but Statement II does not explain Statement I c. Statement I is correct but Statement II is not correct d. Statement I is not correct but Statement II is correct **Correct Option: (d)**	

Prelims 2025 Questions	PrepMate IAS Notes - Hits
Q4. Consider the following statements: Statements I: As regards returns from an investment in a company, generally, bondholders are considered to be relatively at lower risk than stockholders. Statement II: Bondholders are lenders to a company whereas stockholders are its owners. Statement III: For repayment purpose, bondholders are prioritized over stockholders by a company. Which one of the following is correct in respect of the above statements? a. Both Statement II and Statement III are correct and both of them explain Statement I b. Both Statement I and Statement II are correct and Statement I explains Statement II c. Only one of the Statements II and III is correct and that explains Statement I d. Neither Statement II nor Statement III is correct	**Economics, Chapter 12 Page 205** ■ **Shares:** A share is one of the equal parts into which a company's capital is divided, entitling the holder to a proportion of the profits. Shareholders are owners of the company. Shares are of two types: equity and preference. Equity shareholders are given share out of profits or repayment of capital on liquidation only after settling the claims of preference shareholders. Thus, they are the primary risk bearers in the company. Preference shares are called so because their claim in profits and repayment of capital on liquidation is settled before payment is made to equity shareholders. ■ **Debentures:** These refer to the unit of debt or loan. Debentures are issued at a fixed rate of interest by the company. Debenture holders are the lenders of the company. The interest on debenture is required to be paid even if the company suffers losses. ■ **Bonds:** Bonds, like debentures, carry fixed rate of interest. Usually bonds are issued by the government to collect money to carry out its expenditure. For example, the Government of India launched infrastructure bonds to raise funds for infrastructure development in India.

Correct Option: (a)	**Difference between Bonds and Debentures** Debentures and bonds are types of debt instruments that can be issued by a company. In some markets (India, for instance), the two terms are interchangeable, but in the United States, they refer to two separate kinds of debt-based securities. Debentures have a more specific purpose than bonds. Both can be used to raise capital, but debentures are typically issued to raise short-term capital for upcoming expenses or to pay for expansions. Another important difference is that debentures are never asset backed (they are not secured by any collateral) and are only backed by the credit of the issuer. On the other hand, bonds are secured by particular collateral. However, as mentioned above, debentures and bonds are used almost interchangeably in India.

Prelims 2025 Questions	PrepMate IAS Notes - Hits
Q5. Consider the following statements: I. Capital receipts create a liability or cause a reduction in the assets of the Government. II. Borrowings and disinvestment are capital receipts. III. Interest received on loans creates a liability of the Government. Which of the statements give above are correct? a. I and II only b. II and III only c. I and III only d. I, II and III **Correct Option: (a)**	**Economics, Chapter 6 Fiscal Policy, Page 106** **Capital Receipts** These receipts have implications of more than 1 year. Examples include loans from the public. If the government takes loan, it is required to repay the loan along with interest. **Revenue Receipts** These receipts have implications of less than or equal to 1 year. Examples are tax collected by the government. The government is not liable for anything in the future for the tax collected in the current year. **Economics, Chapter 6 Fiscal Policy, Page 123** 11. (c) Government receipts which either (i) create liabilities (e.g., borrowing) or (ii) reduce assets (e.g., disinvestment) are called capital receipts. Disinvestment by government means selling a part or whole of its shares of public sector undertakings (e.g., HMT, LIC, and FCI). Funds raised from disinvestment reduce government assets. Statement 3 is incorrect. Interest received on loans given does not create a liability for the government.

Prelims 2025 Questions	PrepMate IAS Notes - Hits
Q6. Suppose the revenue expenditure is Rs. 80,000 crores and the revenue receipts of the government are Rs. 60,000 crores. The government budget also shows borrowings of Rs. 10,000 crores and interest payments of Rs. 6,000 crores. which of the following statement are correct? I. Revenue deficit is Rs. 20,000 crores. II. Fiscal deficit is Rs. 10,000 crores. III. Primary deficit is Rs. 4,000 crores. Select the correct answer using the code given below. a. I and II only b. II and III only c. I and III only d. I, II and III **Correct Option: (d)**	**Statement 1 is correct** **Economics, Page 106** **Revenue Deficit** Revenue deficit is the difference between revenue expenditure and revenue receipts. Revenue expenditure – Revenue receipts = Revenue deficit Revenue deficit indicates that the government's revenue expenditure exceeds the government's revenue receipts. On the other hand, revenue surplus indicates that the government's revenue receipts exceed the government's revenue expenditure. **Statement 2 is correct** **Fiscal Deficit** Fiscal deficit refers to the excess of total expenditure over total receipts (excluding borrowings) during a given financial year. Fiscal deficit = Total expenditure – Total receipts, excluding borrowings Fiscal deficit includes not just revenue expenditure and receipts but also capital expenditure and receipts, except borrowings. The extent of fiscal deficit is an indication of how far the government is spending beyond its means. In other words, fiscal deficit indicates the level of borrowings of the government.

Fiscal Deficit; The Government budget shows borrowing of Rs 10,000 crore

Statement 3 is correct

from fiscal deficit. Interest payment is the payment that a government makes on its borrowings.

Primary deficit = Fiscal deficit – Interest payments

Interest payments are excluded from the calculation of primary deficit because interest payments are made on account of borrowings made in the past. Thus, primary deficit specifies the net impact of present transactions (and excludes the impact of transactions undertaken in the past).

Primary Deficit: Fiscal Deficit – Interest Payment (10,000 crore -6,000 crore =4,000 crore)

Prelims 2025 Questions	PrepMate IAS Notes - Hits
Q7. A country's fiscal deficit stands at Rs. 50,000 crores. It is receiving Rs. 10,000 crores through non-debt creating capital receipts. The country's interest liabilities are Rs. 1,500 crores. What is the gross primary deficit? a. 48,500 crores b. 51,500 crores c. 58,500 crores d. None of the above **Correct Option: (a)**	**Economics, Page 107** from fiscal deficit. Interest payment is the payment that a government makes on its borrowings. Primary deficit = Fiscal deficit – Interest payments Interest payments are excluded from the calculation of primary deficit because interest payments are made on account of borrowings made in the past. Thus, primary deficit specifies the net impact of present transactions (and excludes the impact of transactions undertaken in the past).

Prelims 2025 Questions	PrepMate IAS Notes - Hits
Q8. Consider the following statements in respect of the International Bank for reconstruction and development (IBRD): I. It provides loans and guarantees to middle income countries. II. It works single-handedly to help developing countries to reduce poverty. III. It was established to help Europe rebuild after the World war II. Which of the statements given above are correct? a. I and II only b. II and III only c. I and III only d. I, II and III **Correct Option: (c)**	Statement II is incorrect. IBRD is not single handedly involved in reducing poverty. Economics Page 476 **Criticism of IMF** 1. IMF puts severe restrictions on expenditure by its borrowers. Reduction in expenditure by the government leads to slowdown in the economy. 2. The United States and Western Europe have strong dominance in IMF. Thus, IMF promotes values supported by these nations such as free trade and capitalism. 3. It is alleged that IMF is under the domination of developed nations though developing nations require more assistance from the IMF. 4. IMF charges market determined interest rate (and not subsidised rate) from borrowing nations. 5. There is a continuous demand by developing economies to bring reform in IMF quota so that IMF quota reflects the contemporary status of global economy. IMF was formed in 1945. However, global economy has undergone significant transition after that. The share of developing companies in the global economy has increased. Though IMF quota has been revived from time to time, still the quotas do not reflect the present global economy. To overcome some criticism, IMF initiated Poverty Reduction and Growth Facility Program in 1999 to provide financial assistance to poor countries for long term at low interest rates. **International Development Association (IDA)** IDA was established in 1960 to complement the functioning of IBRD. IDA provides loans at concessional rates for long term to poor nations. Loan at concessional rates is called soft credit. These loans are given for undertaking social welfare projects. IDA also advises on implementation of social welfare projects. IDA has 173 nations as its members.

Prelims 2025 Questions	PrepMate IAS Notes - Hits

Q9. Consider the following statements in respect of RTGS and NEFT:

I. In RTGS, the settlement time is instantaneous while in case of NEFT, it takes some time to settle payments.

II. In RTGS, the customer is charged for inward transactions while that is not the case for NEFT.

III. Operating hours for RTGS are restricted on certain days while this is not true for NEFT.

Which of the statements given above is/are correct?

a. I only
b. I and II
c. I and III
d. III only

Correct Option: (a)

Economics, Page 396

Statement I is correct and III is incorrect.

Comparison among NEFT, RTGS, and IMPS at a glance

Features	NEFT	RTGS	IMPS
Introduced by	RBI	RBI	NPCI
Settlement type	Half-hourly batches	One-on-one settlement	One-on-one settlement
Service timings	24×7, 365 days	24×7, 365 days	24×7, 365 days
Minimum transfer limit	Rs. 1	Rs. 2 lakh	Rs.1
Maximum transfer limit	No limit	No limit	Rs. 5 lakh
Funds transfer speed	2 hours	Immediately	Immediately
Mode	Online/offline	Online/offline	Online only

Real Time Gross Settlement (RTGS)

RTGS was introduced by the RBI in 2004. RTGS system, as the name indicates, involves settlement of transactions in "real time" and on a "gross" basis. RTGS is called a "Real Time" system as the transactions are processed at the exact time as and when they are received. RTGS is also called a "Gross Settlement" system because the transactions are processed on a one-on-one basis and are not bundled with other transactions as in the case of NEFT.

The minimum transfer limit for RTGS is Rs. 2 lakh whereas there is no maximum transfer limit. Therefore, for transfer of large funds of Rs. 2 Lakh and above, RTGS is the preferred system. Like Immediate Payment Service (IMPS) and NEFT, it is also available round the clock.

Statement 2 is incorrect: With effect from July 01, 2019, RBI has waived the processing charges levied by it for RTGS transactions. Banks may pass on the benefit to its customers.
NEFT does not levy charges for inward transactions, i.e., when funds are credited to the beneficiary's account. This makes it cost-effective for receiving money while RTGS is chargeable for most customers.