# Indian Economy

DAILY PRACTICE 29/11/2026 · UPSC CSE · Indian Economy

**Q1.**

**A government faces a situation in which revenue expenditure and subsidy commitments are rising, while tax revenue growth is slowing. To maintain its fiscal deficit target, it considers reducing capital expenditure. Which of the following is the most likely long-term economic consequence of this decision?**

**A.** Automatic reduction in the revenue deficit

**B.** Possible weakening of infrastructure creation and productive capacity

**C.** Immediate elimination of public debt

**D.** Guaranteed increase in private investment

**Correct answer:** Option B — Possible weakening of infrastructure creation and productive capacity

## Explanation

**Correct Answer: (b) — Possible weakening of infrastructure creation and productive capacity.**

1. **Capital expenditure:** Government spending on assets such as roads, railways, ports and infrastructure creates productive assets and can improve long-term economic capacity.

2. **Revenue expenditure:** Spending on salaries, pensions, subsidies and interest payments generally does not directly create physical assets.

3. **Growth implications:** Cutting capital expenditure may help contain short-term fiscal pressure, but prolonged reductions can weaken infrastructure development, crowding-in of private investment and potential economic growth.

4. **Other options:** A reduction in capital expenditure does not automatically eliminate the revenue deficit or public debt, nor does it guarantee higher private investment.

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**Q2.**

**A sharp rise in China's industrial activity and import demand is likely to influence international copper prices primarily because:**

**A.** China is the world's largest consumer of copper, making its industrial demand an important determinant of global prices.

**B.** China controls all global copper mining and refining operations.

**C.** Copper is used exclusively in China's construction industry.

**D.** International copper prices are administratively fixed by the Chinese government.

**Correct answer:** Option A — China is the world's largest consumer of copper, making its industrial demand an important determinant of global prices.

## Explanation

**Correct Answer: (a) — China's large share of global copper consumption makes its industrial activity a major influence on international copper demand and prices.**

1. **Industrial demand:** Copper is widely used in electrical equipment, construction, machinery, renewable energy and manufacturing.
2. **Chinese influence:** China is a major consumer and importer of copper. Changes in its industrial output and import demand can significantly affect global market sentiment.
3. **Market expectations:** Government support measures and improving industrial indicators can raise expectations of stronger future copper demand.

4. **Global price movements:** Copper prices are also influenced by mining supply, inventories, exchange rates, geopolitical developments and investor sentiment.

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**Q3.**

**Consider the following statements regarding the monetary policy framework of India:**

1. The Monetary Policy Committee (MPC) determines the policy repo rate to achieve the inflation target.
2. The RBI Governor has a casting vote in the MPC in case of a tie.
3. An increase in the repo rate generally makes borrowing more expensive and can moderate aggregate demand.

**Which of the statements given above are correct?**

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**A.** 1 and 2 only

**B.** 1 and 3 only

**C.** 2 and 3 only

**D.** 1, 2 and 3

**Correct answer:** Option D — 1, 2 and 3

## Explanation

**Correct Answer: (d) — All three statements are correct.**

1. **Statement 1 is correct:** The MPC determines the policy repo rate under India's flexible inflation-targeting framework. Its primary objective is to maintain price stability while keeping growth in mind.
2. **Statement 2 is correct:** Under the RBI Act, 1934, the Governor has a casting vote in addition to the ordinary vote in case of an equality of votes.
3. **Statement 3 is correct:** A higher repo rate can increase borrowing costs for banks and customers, discouraging credit demand and consumption and investment spending. This can help moderate inflationary pressures.

**Q4.**

**A lender grants a gold loan when the market value of the pledged gold is ₹1,00,000. Subsequently, the gold price declines significantly, reducing the collateral value while the outstanding loan remains unchanged. Which of the following risks is most directly associated with this situation?**

**A.** Increase in the lender's capital adequacy ratio

**B.** Reduction in the lender's exposure to credit risk

**C.** Increase in the loan-to-value ratio and potential collateral shortfall

**D.** Automatic conversion of the loan into a secured government bond

**Correct answer:** Option C — Increase in the loan-to-value ratio and potential collateral shortfall

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## Explanation

**Correct Answer: (c) — A decline in collateral value increases the loan-to-value ratio if the outstanding loan remains unchanged.**

1. **Loan-to-Value (LTV) ratio:** It measures the outstanding loan amount as a proportion of the value of the pledged collateral.
2. **Impact of falling gold prices:** When gold prices decline, the collateral's market value falls. Consequently, the LTV ratio rises even if the borrower has not taken an additional loan.
3. **Collateral shortfall:** If the borrower defaults, the lender may recover less than the outstanding amount through the sale of pledged gold.

4. **Asset quality:** Such exposure can increase credit risk and potentially contribute to non-performing assets (NPAs).

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**Q5.**

**An increase in student visa application charges by a country is most likely to affect which of the following dimensions of its international education sector?**

**A.** Academic autonomy of universities

**B.** Affordability and international competitiveness as an education destination

**C.** Recognition of foreign university degrees under UNESCO conventions

**D.** Automatic eligibility of international students for permanent residency

**Correct answer:** Option B — Affordability and international competitiveness as an education destination

## Explanation

**Correct Answer: (b) — Affordability and international competitiveness as an education destination.**

1. **Affordability:** Higher visa charges increase the overall cost of studying abroad for international students.
2. **Student mobility:** Increased financial requirements may influence students' choice of destination.
3. **International competitiveness:** Countries compete to attract international students through education quality, affordability, research opportunities and immigration policies.
4. **No automatic residency:** Obtaining a student visa does not automatically provide permanent residency or citizenship.

**Q6.**

**SEBI is considering a separate exchange for trading shares of unlisted companies before their IPOs. Which regulatory objective would such a platform primarily serve?**

**A.** Eliminating the requirement of stock exchanges for listed securities.

**B.** Bringing greater transparency, price discovery and investor protection to pre-IPO share transactions.

**C.** Allowing unlisted companies to raise public deposits without regulatory oversight.

**D.** Guaranteeing fixed returns to investors before a company's stock market listing.

**Correct answer:** Option B — Bringing greater transparency, price discovery and investor protection to pre-IPO share transactions.

## Explanation

**Correct Answer: (b) — Bringing greater transparency, price discovery and investor protection to pre-IPO share transactions.**

1. **Pre-IPO trading:** Shares of unlisted companies may be traded privately before they are offered to the public through an IPO.
2. **Grey market:** Such transactions often take place through informal channels, where price discovery and investor safeguards may be limited.
3. **Regulatory oversight:** A regulated trading platform could improve transaction reporting, transparency and investor protection, subject

to its final regulatory design.

4. **SEBI's role:** The Securities and Exchange Board of India regulates the securities market and works to protect investors and promote market development.

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**Q7.**

**With reference to the National Pension System (NPS) in India, consider the following statements:**

1. The Pension Fund Regulatory and Development Authority (PFRDA) regulates the NPS.
2. NPS is a defined contribution-based retirement savings system.
3. Under NPS, the final retirement benefit is guaranteed irrespective of investment performance.

**Which of the statements given above are correct?**

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**A.** 1 and 2 only

**B.** 2 and 3 only

**C.** 1 and 3 only

**D.** 1, 2 and 3

**Correct answer:** Option A — 1 and 2 only

## Explanation

**Correct Answer: (a) — Statements 1 and 2 are correct.**

1. **Statement 1 is correct:** PFRDA regulates the pension sector and administers the regulatory framework for NPS under the PFRDA Act, 2013.

2. **Statement 2 is correct:** NPS is a defined contribution system in which subscribers contribute towards their retirement corpus, which is invested through pension funds.
3. **Statement 3 is incorrect:** NPS returns are market-linked and depend on investment performance. It does not generally guarantee a fixed retirement corpus or assured returns.

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**Q8.**

**A bank customer has exhausted the applicable monthly free ATM transaction limit. Which of the following statements correctly describes the regulatory framework for subsequent ATM transactions under RBI directions?**

**A.** Banks may charge any amount they consider appropriate, provided customers are informed in advance.

**B.** Banks may levy a charge of up to ₹23 per transaction, plus applicable taxes, beyond the free transaction limit.

**C.** Every ATM transaction, including failed transactions caused by technical errors, counts towards the free transaction limit.

**D.** The free transaction limit is uniform across all bank ATMs, irrespective of location.

**Correct answer:** Option B — Banks may levy a charge of up to ₹23 per transaction, plus applicable taxes, beyond the free transaction limit.

## Explanation

**Correct Answer: (b) — Banks may levy a charge of up to ₹23 per transaction, plus applicable taxes, beyond the free transaction limit.**

1. RBI permits banks to levy charges of up to ₹23 per transaction, plus applicable taxes, beyond the prescribed free ATM transaction limits.

2. The existing free transaction limits include five transactions at the customer's own bank ATM and, at other bank ATMs, three in metropolitan centres or five in non-metropolitan centres.

3. Failed transactions arising from technical reasons, such as ATM malfunction or cash unavailability, are excluded from the applicable free transaction count, subject to RBI's prescribed conditions.

4. Banks must inform customers about the number of free transactions used and applicable charges thereafter.

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**Q9.**

**In the context of mergers and acquisitions (M&A), consider the following pairs:**

| | Due diligence area | Risk being assessed |
|---|---|---|
| 1. | Consent records | Lawfulness of personal data processing |
| 2. | Vendor contracts | Third-party cybersecurity exposure |
| 3. | Breach history | Potential regulatory and litigation liabilities |
| 4. | Data retention practices | Compliance with data minimisation principles |

**How many of the above pairs are correctly matched?**

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**A.** Only one

**B.** Only two

**C.** Only three

**D.** All four

**Correct answer:** Option D — All four

## Explanation

**Correct Answer: (d) — All four pairs are correctly matched.**

1. **Consent records:** Examining consent records helps determine whether personal data has been collected and processed on a lawful basis, wherever consent is the applicable basis.

2. **Vendor contracts:** Third-party service providers may introduce cybersecurity vulnerabilities and data protection risks. Their contractual

safeguards are therefore relevant to due diligence.

3. **Breach history:** Previous data breaches may expose the target company to regulatory scrutiny, litigation, compensation claims and reputational damage.

4. **Data retention practices:** Retaining personal data beyond the necessary period may create compliance risks. Data minimisation and appropriate retention policies help reduce such exposure.

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**Q10.**

**Which of the following would most directly improve the international competitiveness of Indian manufacturing industries?**

1. Reducing logistics and electricity costs.
2. Improving access to advanced technology and skilled labour.
3. Increasing regulatory compliance burdens on small manufacturers.
4. Strengthening domestic supply-chain infrastructure.

**Which of the statements given above are correct?**

**A.** 1 and 2 only

**B.** 1, 2 and 4 only

**C.** 2, 3 and 4 only

**D.** 1, 2, 3 and 4

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**Correct answer:** Option B — 1, 2 and 4 only

## Explanation

**Correct Answer: (b) — Statements 1, 2 and 4 are correct.**

1. **Statement 1 is correct:** Lower logistics and power costs reduce production expenses and improve price competitiveness.

2. **Statement 2 is correct:** Skilled labour and advanced technology enhance productivity, product quality and innovation.
3. **Statement 3 is incorrect:** Excessive compliance burdens increase transaction costs and disproportionately affect smaller enterprises.
4. **Statement 4 is correct:** Strong domestic supply chains reduce dependence on imported inputs, minimise disruptions and improve manufacturing resilience.

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