

Quiz Date: 17th March 2020

Directions (1-7): Read the following passage and answer the following questions based on the given passage.

The Reserve Bank of India (RBI) recently carried out its mandatory bi-monthly announcement on the future course of monetary policy. These announcements ostensibly offer 'forward guidance' to economic participants, so that they may plan their future. Arguably, though, the public would have perhaps been more interested in knowing how the RBI intends to respond to the unusually large number of instances of fraud that have surfaced in the financial sector of late. The RBI's reputation as a regulator has been affected by these. What led the bank to this place needs understanding.

Central banks command an important position in the market economies of the West today. How in a democracy so much power could be ceded to an unelected body must itself come as a surprise. It reflects two things: the political power of financial interests in the U.S. economy and the global intellectual influence of the American economic model. This model revolves around the goal of maximum creation of wealth by private individuals unimpeded by societal objectives. Leave alone the distribution of income, not even the objective of ensuring stability of the economy is allowed to come in the way of private individuals pursuing wealth enhancement.

Public regulation, which sets limits to private activity, is rejected as an unnecessary interference in beneficial activity that maximises social gain, and is therefore to be avoided. When applied to finance, this model requires of the government only one action, namely, the control of inflation. Now, it is difficult to see why anticipated inflation, being an increase in all prices at the same rate, is harmful to production, the basis of an increase in wealth. After all, when prices rise together, no one individual is worse off if the inflation has been perfectly anticipated. It is unanticipated inflation that is the problem for producers, as it has the potential to derail their profit calculations. However, inflation, even when fully anticipated, can harm holders of financial assets yielding fixed incomes by eroding their wealth.

Borrowers on the other hand are better off with inflation as the real value of their outstanding loans is now less. While the problem of inflation can in principle be tackled through inflation-indexation, the practice is not widespread. This leaves owners of financial wealth averse to inflation.

As the volume of financial wealth in an economy increases so does the power of its owners over government. Now inflation control tends to take centre-stage in economic policy formulation. When inflation control is implemented via monetary policy it results in higher interest rates. Managers of financial wealth lobby for such a policy on behalf of their clients. This lobbying is the origin of the policy of inflation targeting. Inflation targeting by the central bank involves use of the interest rate to keep inflation under control. As it targets inflation it must let go of the employment objective. Though 'flexible inflation-targeting' is meant to take care of this

objection, inflation is retained as the target and the central bank is not accountable for unemployment.

Q1. What does the 'forward guidance' refer to in the introductory paragraph of the given passage?

- (a) The announcements provide a future direction to economic participants allowing them to plan their future.
- (b) It helps the RBI carrying out bi-monthly monetary policy effectively.
- (c) RBI fails to monitor the announcements that are necessary for providing a gist of monetary policy.
- (d) Both (b) and (c)
- (e) None of these

Q2. What are the factors that affect the reputation of RBI as a regulator?

- (a) It fails to address public grievances about large number of frauds having surfaced in the financial sector.
- (b) It is acquiring measures to deal with the frequent fraud cases.
- (c) It cannot find it right direction on how to respond to large number frauds occurring in financial sector.
- (d) Both (b) and (c)
- (e) None of these

Q3. What conclusion can be drawn if power is ceded to an unelected body?

- (a) Financial interests' political power in the economy of U.S.
- (b) American economic model influencing global intellectual.
- (c) Both (a) and (b)
- (d) Only (b)
- (e) None of these

Q4. What's the action of government that is required when Public regulation is applied to finance?

- (a) It should set limits to private activities.
- (b) It must reject unnecessary interference.
- (c) The government must focus on maximizing the social gains.
- (d) The government should take action in the direction of controlling inflation
- (e) None of these

Q5. How unanticipated inflation casts an impact on producers?

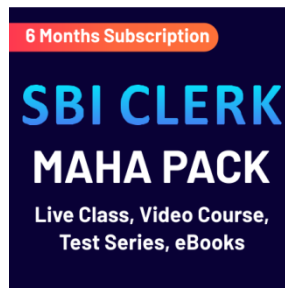
- (a) The unanticipated inflation possesses the potential of derailing the profit calculations of producers.
- (b) It increases prices of commodities at the same rate.
- (c) Failing to anticipate inflation results into rise in prices.
- (d) Both (b) and (c)
- (e) None of these

Q6. Why financial wealth owners are left averse to inflation?

- (a) Lack of practicing inflation-indexation in order to tackle inflation.
- (b) Actual value of outstanding loans becomes less.
- (c) The issue of inflation is hard to be tackled.
- (d) Both (b) and (c)
- (e) None of these

Q7. What is the result of implementation of inflation control through monetary policy?

- (a) It enhances economy wealth
- (b) The power of financial wealth owners rule over government.
- (c) It results into higher interests rates.
- (d) Both (a) and (b)
- (e) None of these



Directions (8-12): Read the following passage carefully and answer the questions given below it.

Paragraph 1: The Minister of External Affairs, Sushma Swaraj has made it clear that India only follows UN sanctions and does not recognize the unilateral sanctions by the United States. This might be seen as a shift from the camaraderie shared by both countries in recent times. The U.S. unilateral sanctions have not only complicated relations with India but also with the European Union and other parties to the Joint Comprehensive Plan of Action (JCPoA). However, the U.S. Secretary of State Mike Pompeo has made a statement that allies like India should be exempted from Countering American Adversaries through Sanctions Act (CAATSA); the Senators in U.S. Congress are noncommittal to the proposed waivers. The U.S. backing out from JCPoA has already put its relationship with EU under strain. The push for a waiver by the U.S. Secretary of State might be a face-saving grace as America's reliability as a global power and the unpredictable nature of the current U.S. administration is questioned.

Paragraph 2: India's interests in Iran are two-fold: the Chabahar Project and a significant chunk of India's oil imports come from Iran. The sanctions will render the use of dollars illegal by August 2018 because of CAATSA. Due to fears of the current financial embargo, it is becoming difficult for India to pay in Indian Rupees. The Reserve Bank of India and the Ministry of External Affairs need to chart out a new payment system while avoiding sanctions. While the Indian Government will take over Chabahar under the internal lease agreement, the ramifications of the sanctions on Chabahar could be banks backing out due to fear of U.S. sanctions. The Chabahar project is India's strategic roadmap to connect with Afghanistan and Central Asia—a project much older

compared to China's Belt and Road initiative. The Chabahar port will give India direct access to Afghanistan and help increase its role there, which is in U.S. interest. The U.S. pulling out of the JCPOA poses a major threat to India's role in Afghanistan and its warm relations with Iran.

Paragraph 3: India-Russia relations have been strained due to the U.S. increasingly becoming one of India's largest arms suppliers and threatening the Russian dominance on the Indian defense market. One way which the U.S. sanctions are affecting this relationship is the S-400 Triumph sales to India. S-400 is a potent Surface to Air missile system, which would equip the Indian Air Force to strengthen India's Air defense system. CAATSA threatens India's purchase of this missile system and has infuriated the Ministry of External Affairs and Ministry of Defense in India. India's reliance on Iran for oil and Russia for defense equipment could be choked due to the unilateral sanctions by the U.S. on various important entities, personalities, and institutions in these countries. The U.S. in recent times has been more than enthusiastic about its relationship with India by backing UNSC permanent membership and NSG membership although with not much success. The Indo-U.S. relations has always been a contentious issue with successive governments in India and the U.S. as the range of relationship has not been denied by any side since 1947. The relationship between the two countries has seen the good, the bad and the ugly.

Paragraph 4: The recent statement by the Minister of External Affairs, Sushma Swaraj who said India will not be recognizing the U.S. unilateral sanction has reinforced India's core principle of Non-Alignment. Prime Minister Modi's visit to Russia and Mrs. Swaraj meeting with her counterpart from Iran is not necessarily a shift but adhering to India's unequivocal stand on not relenting to these unilateral sanctions directly or indirectly. For the U.S., India seems like a viable option to counter the growing Chinese threat. Increasing unwarranted Chinese military developments in South China Sea and recent uptick in the People's Liberation Army Navy activity in the Indian Ocean is a cause of worry for both India and the U.S. While the U.S. Senate is not on board with the waivers asked by Secretary Pompeo, it is an indication that the U.S. administration is interested in having better relations with India. The Pentagon changing the U.S. Navy's biggest and oldest fleet command name to Indo-Pacific command from Pacific Command (PACOM) might be symbolic, but it is the least the United States could do to show seriousness about their commitments towards better relations with India in light of CAATSA.

Paragraph 5: The unpredictable nature of U.S. foreign policy since 2016 has to be taken into account as far as Indo-U.S. relations are concerned. The CAATSA dilemma in no way should mean that the relationship has to be built from the ground up. Instead, India taking up these issues with the U.S. should be viewed as evidence of India's increasing role in the international arena, which is not ready to give up its relations with other allies to accommodate U.S. interests. For the U.S.-India relationship to move forward it has to be mutually beneficial and cannot be based on just convenience.

Q8. What crucial role does Chabahar project hold for India?

- (a) The project is linked with China's Belt and Road Initiative in India too.
- (b) As most of its oil imports come from Iran.
- (c) The route can be a regional market access for India-Iran-Afghanistan.

- (d) Both (b) and (c)
- (e) Both (a) and (c)

Q9. How has India outspokenly taken its stand on sticking against unilateral sanctions imposed by U.S.?

- (a) Continuing bilateral partnership with China enhancing Sino-Indian ties.
- (b) By bolstering up its military operations in Afghanistan.
- (c) P.M. Modi's visit to Russia and Mrs. Swaraj meeting with her counterpart from Iran
- (d) By declaring that India only follows UN sanctions and does not recognize the unilateral sanctions by the United States.
- (e) Both (c) and (d)

Q10. Why is it becoming difficult for India to pay in Indian rupees for the oil imports that come from Iran?

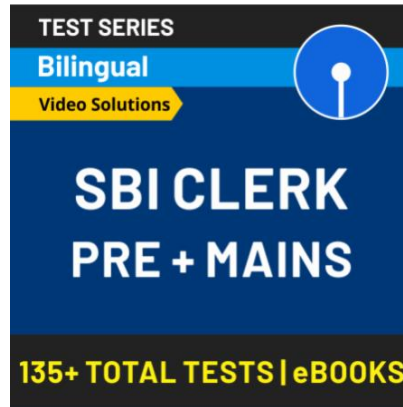
- (a) CAATSA will render the use of dollars illegal by August 2018.
- (b) Due to fears of current financial interdiction.
- (c) U.S. pulling out of the JCPOA threatens India's economic balance.
- (d) Both (a) and (b)
- (e) Both (a) and (c)

Q11. How have U.S. sanctions enraged Indian Ministry in terms of its reliability on Russia?

- (a) India's reliance on Russia for oil can be choked by unilateral sanctions imposed by U.S.
- (b) CAATSA threatens India's purchase of S-400 Triumph missile system.
- (c) Russia also backing out from JCPOA due to U.S. sanctions have inflamed Indian ministry.
- (d) The U.S sanctions affecting export-import in the bilateral trade having minimal potential.
- (e) All of these.

Q12. Which one of the following statement is definitely false according to the passage?

- (a) According to U.S. Secretary of State, Mike Pompeo, allies like India must be exempted from CAATSA.
- (b) The Indo-U.S. relations has always been a contentious issue with successive governments in India and the U.S.
- (c) The U.S. pulling out of the JCPoA poses a major threat to India's warm relations with China.
- (d) America's reliability as a global power and the unpredictable nature of the current U.S. administration is questioned.
- (e) None of these.



Solutions

S1. Ans. (a)

Sol. Referring to the introductory paragraph of the given passage, inference can be drawn from the lines, *'The Reserve Bank of India (RBI) recently carried out its mandatory bi-monthly announcement on the future course of monetary policy. These announcements ostensibly offer 'forward guidance' to economic participants, so that they may plan their future.'* Hence, option (a) is the right answer choice that *forward guidance is referred to the announcements carried out by RBI that provide a future course to economic participants enabling them to plan their future.*

S2. Ans. (a)

Sol. Referring to the introductory paragraph of the given passage, inference can be drawn from the lines, *'Arguably, though, the public would have perhaps been more interested in knowing how the RBI intends to respond to the unusually large number of instances of fraud that have surfaced in the financial sector of late. The RBI's reputation as a regulator has been affected by these.'* Hence, option (a) is the right answer choice justifying the factors responsible for affecting RBI's reputation as a regulator.

S3. Ans. (c)

Sol. Referring to the second paragraph of the given passage, inference can be drawn from the lines, *'Central banks command an important position in the market economies of the West today. How in a democracy so much power could be ceded to an unelected body must itself come as a surprise. It reflects two things: the political power of financial interests in the U.S. economy and the global intellectual influence of the American economic model.'* Hence, option (c) is the right answer choice as both option (a) and (b) are clearly mentioning the conclusion which is drawn when power is relinquished to an unelected body.

S4. Ans. (d)

Sol. Referring to the third paragraph of the given passage, inference can be drawn from the lines, *'Public regulation, which sets limits to private activity, is rejected as an unnecessary interference*

in beneficial activity that maximises social gain, and is therefore to be avoided. When applied to finance, this model requires of the government only one action, namely, the control of inflation.' Hence, option (d) is the most suitable answer choice that clearly indicates the required action from the government's end i.e control of inflation.

S5. Ans. (a)

Sol. Referring to the third paragraph of the given passage, inference can be drawn from the lines, *'Now, it is difficult to see why anticipated inflation, being an increase in all prices at the same rate, is harmful to production, the basis of an increase in wealth. After all, when prices rise together, no one individual is worse off if the inflation has been perfectly anticipated. It is unanticipated inflation that is the problem for producers, as it has the potential to derail their profit calculations'.* Hence, option (a) is the right answer choice as it describes the impact of unanticipated inflation on producers clearly as mentioned in the given passage.

S6. Ans. (a)

Sol. Referring to the fourth paragraph of the given passage, inference can be drawn from the lines, *'Borrowers on the other hand are better off with inflation as the real value of their outstanding loans is now less. While the problem of inflation can in principle be tackled through inflation-indexation, the practice is not widespread. This leaves owners of financial wealth averse to inflation.'* Hence, option (a) is the right answer choice. It describes that as the practice of inflation-indexation is not widespread, it results into unfavourable conditions of inflation for financial wealth owners.

S7. Ans. (c)

Sol. Referring to the fifth paragraph of the given passage, inference can be drawn from the lines, *'As the volume of financial wealth in an economy increases so does the power of its owners over government. Now inflation control tends to take centre-stage in economic policy formulation. When inflation control is implemented via monetary policy it results in higher interest rates.'* Hence, option (c) is the right answer choice, which suitably describes the result of implementing inflation control via monetary policy, as mentioned in the given passage.

S8. Ans. (d)

Sol. Option (d) is the appropriate choice. The answer can be deduced from paragraph 2 where it is mentioned, *"India's interests in Iran are two-fold: the Chabahar Project and a significant chunk of India's oil imports come from Iran."* Furthermore, it is also stated that the Chabahar project is India's strategic roadmap to connect with Afghanistan and Central Asia. Thus both the options (b) and (c) consummate the requirement of the question.

S9. Ans. (e)

Sol. The correct option here is option (e). Refer to paragraph 4 where option (c) is stated directly as, *"Prime Minister Modi's visit to Russia and Mrs. Swaraj meeting with her counterpart from Iran is not necessarily a shift but adhering to India's unequivocal stand on not relenting to these unilateral sanctions directly or indirectly."* Also, refer to paragraph 1, *"The Minister of External*

Affairs, Sushma Swaraj has made it clear that India only follows UN sanctions and does not recognize the unilateral sanctions by the United States."

S10. Ans. (d)

Sol. The most suitable option here is option (d). The answer can be referred from paragraph 2 where the author has explained about the paying off the significant chunks of oil imports that come from Iran. *"The sanctions will render the use of dollars illegal by August 2018 because of CAATSA. Due to fears of the current financial embargo, it is becoming difficult for India to pay in Indian Rupees."*

S11. Ans. (b)

Sol. The appropriate answer is option (b). We can deduce the answer from paragraph 3 where it is elaborated that India-Russia relationship is strained due to the U.S. sanctions over defense market of Russia. *"One way which the U.S. sanctions are affecting this relationship is the S-400 Triumph sales to India. CAATSA threatens India's purchase of this missile system and has infuriated the Ministry of External Affairs and Ministry of Defense in India."*

S12. Ans. (c)

Sol. Here option (c) is the correct choice. All of the given options are correct except option (c). This can be inferred from paragraph 2 where the text is quoted as, *"The U.S. pulling out of the JCPOA poses a major threat to India's role in Afghanistan and its warm relations with Iran."* There is no reference about India's relation with China in context of U.S. pulling out from JCPOA. Hence option (c) is the answer.

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