

Quiz Date: 10<sup>th</sup> May 2020

**Directions (1-8): Read the following passage and answer the following questions based on the given passage.**

There is no longer any room for doubt on the parlous state of the Indian economy. The automobile industry, seen as a bellwether of activity in the post-liberalisation years, is in crisis, as automakers, parts manufacturers and dealers have laid off about 350,000 workers since April this year, with more job cuts likely. While this could still reflect falling demand only from higher income groups, recently, Parle Products, once the world's largest selling biscuit brands, announced that it may have to lay off up to 10,000 workers (around a tenth of its workforce). The company blamed falling sales due to the Goods and Services Tax (GST) that led to higher prices of the cheapest small packets of biscuits at a time of extreme price sensitivity because of reduced livelihood, especially among rural consumers.

Sales in the fast-moving consumer goods (FMCG) sector as a whole grew at only 10% in the April-June quarter of this year, less than nominal GDP growth. The slowdown in sales is across food and non-food items, with the biggest reductions in salty snacks and biscuits, spices, soaps and packaged tea. These represent the more discretionary element of consumer spending even among the poor — the items more likely to be cut down when household budgets are under strain.

The hugely damaging impact of demonetisation in November 2016 was further accentuated by the poor implementation of the GST barely seven months later. These badly managed policy measures served as body blows to informal economic activity, causing major declines in employment and output. At first, they did not affect formal enterprises so much as they gained at the cost of informal ones. But the resulting loss in livelihoods and wage incomes eventually had an effect on demand for formal sector output, which has worsened over time because there have been no counterbalancing moves by the government. Total employment actually declined by more than 15 million workers between 2011-12 and 2017-18, even as unemployment rates reached their highest levels in nearly half a century.

This operated in addition to a medium-term trend of wage suppression, something that was even celebrated by the late former Finance Minister Arun Jaitley as a means of combating inflation. Rural wages have been stagnant or declining in the recent period. Meanwhile, the continuing crisis of cultivation has obviously affected the purchasing power of the farming community. Urban wage incomes are also apparently not keeping pace with inflation, even as informal activity and "start-ups" in urban areas have faltered.

The government could have countered this adverse impact of declining employment and consumption demand, which in turn reduced the profit expectations of producers in formal enterprises, by providing a fiscal stimulus. It did not do so. Instead, it kept assuming or hoping that using optical measures — manipulating "Ease of Doing Business" indicators and offering further incentives to foreign capital to attract more inflows, however volatile — would somehow attract investment into the economy that would counteract all the negative impulses.

Private investors simply kept demanding more fiscal and regulatory concessions even as they continued to sit on investment plans as they waited for overall demand improvement. More recent complaints of the private corporate sector have been about oppressive tax collection methods of a government desperate to meet its revenue targets. But these along with the

greater difficulties of accessing loans from both banks and non-banks are irritants that would have been tolerated in a buoyant economy. They have become serious issues now because of the wider stagnation.

In this context, the Finance Minister's recent announcements of measures to boost the flagging economy are not a case of "too little too late"; rather, they completely miss the point. They do nothing to address the issue of inadequate demand generation or the underlying tendencies of wage suppression and low employment growth. Instead, they once again reveal a supply-side approach to the problem, which is unlikely to yield much benefit.

Even these measures are mostly cosmetic or affect only a small segment of the economy, not enough to cause any real change in economic direction. The capital infusion of ₹70,000 crore into public sector banks had already been announced in the Budget; frontloading this inadequate amount is not going to rev up an economy if those whom banks are willing to lend to are hesitant to invest. Giving into demands of foreign portfolio investors with regard to taxation likewise does nothing to increase domestic demand; it simply provides some solace to the stock market. The middle classes repaying home loans may see a minor benefit if banks actually do pass on lower interest rates, but this too will not provide a major boost to the economy. The decision of the government to buy more cars to shore up the automobile industry is bizarre in the extreme, because it undermines the medium-term strategy of shifting to electric vehicles as soon as possible.

What could the Finance Minister have done instead? If the immediate problem is lack of demand, the immediate response should be to increase it — ideally in ways that provide the desired basis for future economic growth.

**Q1.** According to the above passage, what does the highlighted phrase 'bellwether of activity' infer?

- (a) One of the leading industries in post liberalisation years
- (b) Leading all the industries
- (c) Bellwether the activities
- (d) Leading Indian Economy
- (e) None of these

**Q2.** As given in the above passage, what does the phrase 'laid off' mean?

- (a) Laying off entire industry
- (b) Permanently terminating employment of employees due to business reasons
- (c) Calling off certain activities within an organization
- (d) Checking for any malfunctions in the company
- (e) None of these

**Q3.** As per the above passage, what is the cause of slowdown in sales?

- (a) Extreme GDP growth
- (b) Reduction in sales of food and non-food items
- (c) Household budgets are restricted
- (d) Both (b) and (c)
- (e) None of these

**Q4.** What are the causes of credit system mess, a factor in current slowdown?

- (a) Overhang of banks' bad debts
- (b) Erosion of non-banks after collapse of Infrastructure Leasing & Financial Services Limited.
- (c) Both (a) and (b)
- (d) Finance stress inherited from UPA government
- (e) None of these

**Q5.** What does the slowdown in consumption and suppressed rates of investment have led to?

- (a) Crisis of insufficient effective demand in the Indian economy
- (b) Extreme price sensitivity due to reduced livelihood.
- (c) Increased disproportion in jobless growth
- (d) Broader economic improvement
- (e) None of these

**Q6.** What were the effects of poor implementation of GST?

- (a) Blowing informal economic activities
- (b) Huge declination in employment and output
- (c) Loss in livelihoods
- (d) Reduction in wage incomes
- (e) All of the above

**Q7.** In the above paragraph, what does the phrase 'by providing fiscal stimulus' means?

- (a) By stimulating financial support
- (b) Declined employment and consumption
- (c) Disproportional growth
- (d) Inadequacy in demand
- (e) None of these

**Q8.** According to the above passage, what steps government took to deal with the decline in employment as well as consumption demand?

- (a) It manipulated indicators of 'ease of doing business'
- (b) It offered incentives to foreign capital for attracting more inflows
- (c) It assumed that attracting investment into the economy would be able to counteract negative impulses
- (d) All of the above
- (e) None of these

**BANKERS**

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Directions (9-13): 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.

**Paragraph 1:** Ancient money lending systems used to serve a limited area, but current banking systems has gone global. Now resource mobilization happens not only in an economy but also beyond political borders. Obviously, degree of integration differs from country to country, as attested by after-effects of Global Financial crisis of 2008. Different persons in an economy have different risk **appetite** or capacity to take risk. But at same time, most important concept of finance is direct relation of risk and return/profit. More is the risk, more is the profit. Banking system facilitates movement of money from risk-averse people to risk ready ones.

**Paragraph 2:** Surplus money you have can be (among many other things) invested in Stock markets or deposited in banks. Banks guarantee repayment of whole sum along with pre-agreed interest, so there is high degree of certainty and assurance to the depositor. In contrast, Stock exchanges provide no such assurances; person may not be able to recover even his invested money. So risk-averse person will prefer bank over, stock markets, private business or any other riskier investment. This is a hypothetical scenario.

**Paragraph 3:** On the other hand, many people who have some knowledge for what else to do of money are ready to invest, but they don't have money. These will borrow same money which was just deposited by risk-averse people. So bank ensures its lending to these (so-called) risk ready people by adequate risk assessment, mortgages or hypothecation.

**Paragraph 4:** In Risk assessment, bank studies financial capacity and **credibility** of potential borrower. For this, it goes into matters like his annual income, past credit history, etc. Term loans are disbursed by keeping some physical property of borrower mortgage. Under mortgage bank keeps documents of such property on understanding that those will be returned, on repayment of loan. Loan agreement includes a clause in which borrower authorize bank to sell property on inability of borrower to repay such money. In case loan is given against a financial asset such as shares or Debentures, it is called 'Hypothecation' (not mortgage).

**Paragraph 5:** In the initial phases of economic development, banks are main means of resource **mobilization** in an economy. On same lines, this is case currently with India. This is because majority people in such economies are too risk-averse. New firms in developing economies find it difficult to raise much money through capital markets and consequently, they naturally go to banks for loans. As Indian economy is expanding, capital markets are getting stronger year by year. This makes banking industry a most important backbone of Indian economy.

Q9. Why according to the author the direct relationship between risk and return is the most important concept of finance as mentioned in the Paragraph 1?

- (I) The mindset of people in corporate world is so conservative that all they care about is only profit and earning greater return on their investment.
- (II) To earn a greater profit on investment, risk plays a critical role in it and thus with more risk, there is an equal opportunity of getting better return.
- (III) In the financial market, risk decides the future prospects of growth of the market as wealth maximization is one of the most important features of any market.

- (a) Only (II) is correct
- (b) Only (III) is correct
- (c) Both (I) and (II) are correct
- (d) Both (II) and (III) are correct
- (e) All are correct

**BANKERS**

Q10. Which of the following statements cannot be related to Paragraph 2?

- (I) Banks provide a higher degree of certitude to the depositor in comparison to Stock market.
- (II) There is a greater number of risk-averse people in the market who generally prefer bank over stock markets, private business or any other riskier investment.
- (III) The preference of bank as a safer investment institute over others is some kind of hypothetical scenario.

- (a) Only (I)
- (b) Only (III)
- (c) Both (I) and (II)
- (d) Both (I) and (III)
- (e) All three can be related

Q11. What does author mean by “**many people who have some knowledge for what else to do of money are ready to invest, but they don’t have money**” as mentioned in the Paragraph 3?

- (a) There are many people who are risk lovers but they don’t get ample opportunity to invest in proper market.
- (b) There are people with good knowledge of money market but they don’t have considerable money to invest, they get the financial support from banks to carry out their needs.
- (c) Those who don’t have money should consider banks as their best option to invest.
- (d) There are very few rich people in the market who carry out the task of risk lovers by investing in the stock market or certain institutions that provide a good return.

(e)None of the above.

Q12. How according to the passage, “**Hypothecation**” is different from “**Mortgage**” in the banking system?

(I)In the case of Hypothecation, it is used for creating charge against the security of movable assets like car/vehicle loans, shares, debentures etc., while Mortgage is used for creating charge against immovable property like land, buildings, etc.

(II) In the case of hypothecation, the possession of the asset remains with the borrower, while in the case of a mortgage, the ownership is usually with the borrower but may not always be the case.

(III) The amount of loan given against mortgage is always higher than the amount of loan given just for hypothecation.

- (a)Only (I) is true
- (b)Both (I) and (III) are true
- (c)Both (I) and (II) are true
- (d)Both (II) and (III) are true
- (e)All are true

Q13. Which of the following sentences does not agree with the statement, “**This makes banking industry a most important backbone of Indian economy**”?

(a)Banks provide the much-needed help to the new firms in the market by raising the required loans to set them up in the existing economy.

(b)Banks play the central role in economic development of the country as they are the major means of resource mobilization in the economy.

(c)Banks provide the sense of security and assurance to many people as they help depositors in securing their surplus amount along with sufficient return in the form of interest generated on the amount.

(d)Banks are the major source of credit to the government.

(e)None of the above.

**Directions (14-15): Choose the word/group of words which is most SIMILAR in meaning to the word/group of words printed in bold as used in the passage.**

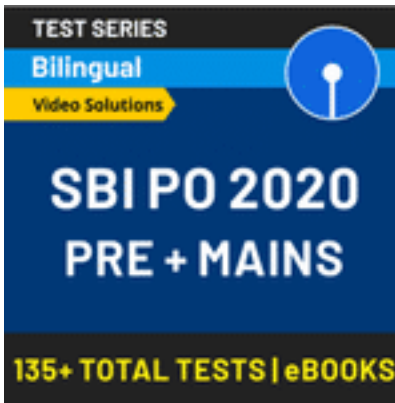
Q14. **Credibility**

- (a)Mastery
- (b)Finesse
- (c)Plausibility
- (d)Presumption
- (e)Acuity

Q15. **Mobilization**

- (a)Selection
- (b)Manoeuvre

- (c) Vitality
- (d) Spirit
- (e) Recoil



### Solutions

**S1. Ans. (a)**

**Sol.** 'Bellwether' means 'leading sheep of a flock'. Here, it is used for automobile industry which was, once a leading industry post liberalization years. Hence, option (a) is right answer choice.

**S2. Ans. (b)**

**Sol.** The phrasal verb 'lay/laid off' means 'to terminate employment of employees permanently or temporary suspension). Hence option (b) is right answer choice.

**S3. Ans. (d)**

**Sol.** Here, because GDP growth is nominal in the April-June quarter of this year, it casted an impact on food and non-food items. Therefore, when the budget of people falls under strain, it results into slowdown in sales.

**S4. Ans. (c)**

**Sol.** Here, one factor responsible for current slowdown which is credit system disorder. It reflects bad debts of banks and it has resulted into formation of non-banks after the Infrastructure Leasing & Financial Services Limited, most aggressive lender, collapsed. Hence, option (c) is the right answer choice.

**S5. Ans. (a)**

**Sol.** According to the information given in the paragraph, consumption slowdown and suppressed rates of investment has resulted into lack of active demand of consumers. Hence, option (a) is correct answer choice.

**S6. Ans. (e)**

**Sol.** As per the information given in the above passage, it is stating that poor execution of GST after demonetisation served a catalyst for informal economic activities and thus caused declination of employment and output. Further, it resulted in livelihoods loss and loss in wage incomes as well. Hence, option (e) is right answer choice.

**S7. Ans. (a)**

**Sol.** With the phrase, it means that government could have dealt with the impacts of declination in employment and consumption demand through catering a stimulated financial growth to the producers of formal enterprises. Hence, option (a) is right answer choice.

**S8. Ans. (d)**

**Sol.** With the given information in the above passage, option (e) is the right answer choice.

**S9. Ans. (a)**

**Sol.** Read the first paragraph carefully, "But at same time, most important concept of finance is direct relation of risk and return/profit. More is the risk, more is the profit." Hence only statement (II) is correct in the context of the paragraph.

**S10. Ans. (e)**

**Sol.** Read the second paragraph carefully, all the three given statements can be connected with the paragraph. Hence (e) is the correct option.

**S11. Ans. (b)**

**Sol.** Read the third paragraph, the author clearly mentions the above statement in reference to the lack of money to those investors who are willing to take risks to earn larger profits. Hence (b) is the correct choice.

**S12. Ans. (c)**

**Sol.** Read the fourth paragraph carefully, it can be inferred from there that statements (I) and (II) are true in differentiating these two important banking terms while statement (III) is not mentioned in the paragraph. Hence (c) is the correct option.

**S13. Ans. (e)**

**Sol.** All the given statements agree with the statement as it can be easily inferred from the passage. Hence none of the statements disagrees to the statement in the context of the passage.

**S14. Ans. (c)**

**Sol.** **Credibility** means the quality of being convincing or believable. **Plausibility** means the quality of seeming reasonable or probable. Hence both are similar in meanings.

**Finesse** means impressive delicacy and skill.

**Presumption** means the acceptance of something as true although it is not known for certain.

**Acuity** means sharpness or keenness of thought, vision, or hearing.

**S15. Ans. (b)**



Sol. **Mobilization** means the action of making something movable or capable of movement. **Manoeuvre** means a movement or series of moves requiring skill and care. Hence both are similar in meanings.

**Vitality** means the state of being strong and active; energy.

**Recoil** means rebound or spring back through force of impact or elasticity.

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