

EVA STALIN IAS ACADEMY – BEST IAS COACHING IN CHENNAI

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Q1. India is a member of which of the following constituents of the World Bank Group?

1. Multilateral Investment Guarantee Agency (MIGA)
2. International Centre for Settlement of Investment Disputes (ICSID)
3. International Development Association (IDA)
4. International Bank for Reconstruction and Development (IBRD)

How many of the above options is/are correct?

- (a) Only one
- (b) Only two
- (c) Only three
- (d) All four

Solution: c)

- India is a member of four of the five constituents of the World Bank Group viz., International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA). India is not a member of ICSID (International Centre for Settlement of Investment Disputes). India has been accessing funds from the World Bank (mainly through IBRD and IDA) for various development projects.

Q2. Consider the following statements regarding International Monetary and Financial Committee (IMFC).

1. The IMFC advises the IMF Board of Governors on the supervision and management of the international monetary and financial system.
2. Currently India is member of IMFC.
3. IMFC has formal decision-making powers and its recommendations are binding on the member countries.

How many of the above statements is/are correct?

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- (a) Only one
- (b) Only two
- (c) All three
- (d) None

Solution: b)

- Statement 3 is incorrect.
- The IMFC advises and reports to the IMF Board of Governors on the supervision and management of the international monetary and financial system, including on responses to unfolding events that may disrupt the system. Although the IMFC has no formal decision-making powers, in practice, it has become a key instrument for providing strategic direction to the work and policies of the Fund.
- The size and the composition of the IMFC mirrors that of the Executive Board. The IMFC has 24 members who are central bank governors, ministers, or others of comparable rank and who are usually drawn from the governors of the Fund's member countries.
- The IMFC operates by consensus, including on the selection of its chairman.
- Currently India is member of IMFC.
- A number of international institutions, including the World Bank, participate as observers in the IMFC's meetings.

Q3. Consider the following statements regarding Development Finance Institutions (DFIs):

1. Development Finance Institutions provide risk capital for economic development projects on non-commercial basis.
2. In India, the first DFI was operationalised before Independence, with the setting up of the Industrial Finance Corporation (IFCI).
3. During the pre-liberalised era, India had DFIs that were primarily engaged in development of industry in the country.

Which of the above statements is/are correct?

- a) 2 only

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b) 1, 3

c) 1, 2

d) 2, 3

Solution: b)

- Statement 2 is incorrect.
- A development finance institution (DFI) also known as a development bank is a financial institution that provides risk capital for economic development projects on non-commercial basis.
- During the pre-liberalised era, India had DFIs which were primarily engaged in development of industry in the country.
- In India, the first DFI was operationalised in 1948 with the setting up of the Industrial Finance Corporation (IFCI). Subsequently, the Industrial Credit and Investment Corporation of India (ICICI) was set up with the backing of the World Bank in 1955.
- The Industrial Development Bank of India (IDBI) came into existence in 1964 to promote long-term financing for infrastructure projects and industry.

Q4. Consider the following statements regarding Base Erosion and Profit Shifting (BEPS):

1. BEPS refers to the phenomenon where companies invest in a host country via shell companies situated in tax havens to reduce their tax liability.
2. India has ratified the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS.
3. The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS is an outcome of the World Bank BEPS Project.

How many of the above statements is/are correct?

a) Only one

b) Only two

c) All three

d) None

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Solution: a)

- Only statement 2 is correct.
- The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting is an outcome of the OECD / G20 Project to tackle Base Erosion and Profit Shifting (the “BEPS Project”) i.e., tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity, resulting in little or no tax being paid. The companies need not invest via shell companies to be accused of BEPS.
- India has ratified the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting.

Q5. The World Economic Outlook (WEO) report, sometimes seen in news is released by:

- a) UNESCO
- b) World Bank
- c) International Monetary Fund (IMF)
- d) Organisation for Economic Cooperation and Development (OECD)

Solution: c)

- Each year, the IMF releases two WEO reports, one each in April and October; it also provides “updates” to these two WEOs in January and July.