

**RBI GRADE 'B' OFFICER EXAM
(Phase-II) : Descriptive Type****Held in April 2012****PAPER-I ENGLISH****Time : 3 Hrs. □ Marks : 100****Instructions :**

1. 3 hours, 100 marks
2. All questions are compulsory.
3. Figures to the right indicate full marks to each question.
4. Each question should be answered on a new page.
5. All parts of a question should be answered together without other answers intervening.
6. Marks will be deducted if an answer far exceeds or falls short of the Set limit or is irrelevant or if the handwriting is illegible.
7. Answers must be written only in English.

1. Write an argumentative essay on **any one of the following topics:**

- (a) Can technology bring about economic growth with social justice?
- (b) Has the RBI succeeded in curbing inflation?
- (c) Can we have a corruption-free society?
- (d) Has the economic balance of the country tilted eastwards?
- (e) Is social 'net' working in India as a course?

ANSWER

- (a) **Can technology bring about economic growth with social justice?**

Science and technology embody the paradigms—knowledge, skills and techniques—by which we understand and relate with, control or exploit the world. We do so directly or indirectly—both ourselves and the world. In many instances, the course of human history is shaped by the history of science and technology. Economic development and social justice are not synonymous objectives. While economic development concerns itself with raising the indicators and statistics of the material wealth of the country, social justice stresses the equitable distribution of the benefits and opportunities of society. But while these may not necessarily be the same, they are, nevertheless, intimately related: stable economic progress is reinforced by a society in which social justice prevails; social justice is enhanced by a healthy economy. In other words, while a healthy economy aims to provide a bigger pie, social justice ensures equitable slices. Ideally then, as we strive for economic development, we should also actively pursue the ideals of social justice.

Science and technology have become key components of modern economic development. No modern state can sustain or maintain prosperity without science and technology. However, the science and technology that promote economic development do not necessarily also favor

social justice. The challenge for us is how to use scientific and technological progress to promote economic development without neglecting the role of science and technology in economic development is very complex and their nature must be properly understood if they are to contribute to economic development. We tend to compartmentalize science and technology by considering them apart from the prevailing social, cultural and political milieu, as if they were completely independent of these. This view, of course, grossly distorts their role vis-à-vis society and culture because in reality all four interact strongly one with another.

Because technologies invariably alter the prevailing conditions, any technology that we wish to introduce, be it local or foreign, must be scrutinized carefully both with regard to its technical, as well as its social, cultural and broad economic aspects. Such desirable technologies have been called by the amorphous term: "appropriate technology". Adopting a laissez-faire or careless attitude towards technology can be counter-productive. However, the present parameters of appropriate technology are not enough; the technologies that we use must maintain links with the sciences. We need both the relevance of appropriate technology, as well as the creative potential of science. We must be able to blend both characteristics in order to evolve the science and technology that can be of benefit to us. They should adapt themselves to the economic and social conditions of the country. We should try to use the best of what is available and attainable for our own ends. Decisions as to whether this means taking a "high-tech" or "appropriate technology" approach will follow naturally from an understanding of our conditions and presuppose that we adequately understand science and technology. Moreover, this is not a static situation: as conditions change, what is appropriate also changes. Two major stumbling blocks stand in the way of meaningful change and by their interlocking relationships directly and indirectly stunt the growth of science and technology in the country, and consequently their abil-

ity to contribute to development. These two issues are land reform and the control of the World Bank and International Monetary Fund over our economic development plans. Land reform seeks to correct our lopsided distribution of wealth in favor of the productive agricultural population which comprises about 70 per cent of our country. It hopes to raise the incomes and the economic power of the majority of our people. But equally important, because our people will have greater control over the productive process, the importance of the technologies of production (and its related sciences) will be given more attention by a greater number of our people. Science and technology will prove to be more relevant and will tend to shift to meeting the demands of the small farmer. Without rural development, there can be no real social and economic development. Without real social and economic development, there can be no meaningful science and technology.

Our present subservience to the unequal economic order being defended by the World Bank and the International Monetary Fund makes it virtually impossible for us to evolve a truly appropriate technology on a national scale. The high-input Green Revolution approach, which necessitates the use of certain fertilizers and pesticides along with the planting of certain hybrid seeds, is a transplanted technology that has, on the balance, had detrimental effects upon the agricultural sector and the environment. Our multinational-dominated industry is linked to the world market to which it is perennially hostage. This situation forces us to adopt foreign technologies in order to compete in a foreign market, which takes precedence over our domestic needs. These technological imports are often inappropriate or irrelevant to our own needs and as a result make insignificant contributions to our science and technology.

Given our fundamentally unsound social and economic situation, science and technology cannot flourish. Their role within the prevailing conditions is severely circumscribed. For so long as the majority of our people are poor and our industry remains weak and without links to the rest of the country, local science and technology can provide only piecemeal solutions.

- 2. Make a precis of the following passage reducing it to about (230 words) and give it a suitable title. Write the precis on the special sheet provided for this purpose. 24 Marks**

Microfinance is now understood as a financial activity. But, it actually emerged from development considerations. The need for access to capital was specifically articulated by women during the UN Conference on Women and Development in Mexico City in 1976. The focus then was on the micro-person, the person with a micro-status in society.

The term microfinance came much later and its association moved from savings to microcredit to financial services. However, the primary objective of microfinance has always been developmental in nature. All along, it was aimed at removing poverty and hunger. But these two questions cannot be addressed adequately without factoring in the issue of health.

Financial services are not just about money or giving loans to the poor. They are really about building assets to provide security and livelihood to poor people. This would be impossible to achieve without taking into account the health status of poor individuals and their families.

All too frequently, the poor default on paying back their loans cause of ill health and inability to earn during that period. This has taught us an important lesson: The poor work at the cost of their own body.

A poor woman's health and, therefore, her body is the first and foremost asset of her work and her life. For microfinance to achieve its objective of providing financial services to the poor it has to lay stress on health security as a crucial element of social security. They are indeed, two sides of the same coin.

When I started organizing informal sector labour in the late 1960s and early 1970s, I asked the poor what they wanted most invariably, it was work they sought and not charity. Yes, they longed for a better life but not the one without dignity. At the same time, it was clear that their earnings could easily be wiped out without support services most importantly, health and childcare.

Capacity building in numeracy and literacy also required social security. This is necessary for sustained development and higher levels of efficiency. This is where microfinance can play an important role and, for this reason, we need more microfinance co-operatives today.

But addressing this and providing health security is currently difficult since insurance schemes are generally not suited to the poor. We must therefore, develop innovative insurance products that meet the requirements of the poor while satisfying insurance principles. That is why an integrated approach that links microfinance with healthcare is so essential for development.

A product that has worked well is the deposit-linked life and non-life insurance. As the demand for insurance grows, the need for an independent, autonomous body offering health insurance to its members grows as well. This is an important social security measure because, among other things, it can help finance medical expenditure.

The banks can play an important role in this area by providing financial services that cater to the healthcare needs of the poor borrowers. These include flexible savings and loans and particularly emergency loans on demand. Housing loans too can mitigate the hardship of the poor. Improved living conditions lead to better and healthier lifestyle, in this connection one needs to strengthen the participation of women in banking especially in microfinance.

In the final analysis, it is the women of the household who balance the family budget. They can, therefore, play a vital role in nourishing not just kinship ties but health and well-being of the family as well. Thus, when she borrows from a Microfinance Institution (MFI) she sees it not just as access to money but as access to an input that will strengthen her family. To ensure that women continue to play a pivotal role in MIFIs, we have to ensure that they are protected through social security and health security.

A Government that fails in its duty to provide basic healthcare services at the local level adds to the indebtedness of the poor workers. That is why, the microfinance sector should collectively take up this policy issue with the Government. We must remember that income security and health security are two sides of the same coin, especially for the poor who are at the heart of MFIs.

ANSWER

Title : Microfinance and Healthcare

Though microfinance is looked more as a financial activity today, such developmental considerations as removal of poverty and hunger have always at its core. The very purpose of microfinance, however, remains unfulfilled if health issues are not taken care of as they are closely related to the provision of security and livelihood to the poor. Mere financial services in form of giving loans are meaningless if they fail to recognise the interconnection between health security and social security, so important to the poor and women. Absence of health and childcare services often fail the very purpose for which loans are generally given to the needful. In this context, Microfinance cooperatives are the need of the hour to ensure sustained development and higher levels of efficiency. To make microfinance more effective, it needs to be integrated with healthcare and there is need for finding innovative insurance products. Deposit-linked life and non-life insurance is an instance to the point. The banks can also lend a helping hand to this cause in form of flexible savings and loans. Women, being so integral to microfinance, should also be protected through social and health security measures. Last, but not the least, the microfinance sector should draw the attention of the government towards the need to provide healthcare services at the local level. It is then only that the goals of microfinance can be realized. (232 words)

3. From the above passage, Answer following Questions in your own words (Any three, 12 Marks)

- Trace the in of the term microfinance. What has been its aim all along?
- Why do the poor default on repayment? What lesson has the author learnt from this experience?
- Why does the author say that to truly benefit the needy microfinance sector should focus on the issue of health?
- What role can insurance companies and banks play in providing social security to poor borrowers?
- Why does the author say that women can play a vital role in ensuring the success of MFIs?

Explain contextual meaning of any four (4 Marks)

- development considerations
- crucial element
- informal sector
- support services
- sustained development
- integrated approach

ANSWER

Based on Passage

- The origin of microfinance is rooted in developmental considerations. Though microfinance is understood more in financial terms today, its primary objective has always been developmental in nature with focus on removal of poverty and hunger.
- The poor default on payments because of bad health and sheer inability to earn during that period. From this observation; the author learnt that the poor work at the cost of their own body.
- According to the author, the objectives of microfinance are guided by developmental concerns. However, mere provision of loans does not serve the purpose as health issues remain neglected. Health care is closely related to the building of assets and sustained development and increase in efficiency levels. So if microfinance has to become effective, healthcare issues need to be combined with the goals of microfinance.
- The author believes that banks can help the cause of social security to poor borrowers by making savings and loans flexible and including emergency and housing loans under the hood of services provided by them. Similarly, insurance companies can contribute in this regard by developing innovative products which can meet the needs of the poor, while meeting the insurance principles. Deposit-linked life and non-life insurance policies are an instance to the point.
- The author finds that women, being integral to a household, can play vital role in the health well being of a family. So any credit facility to her has the potential of ultimately strengthening the family. So the author advocates social security and health security to women in order for them to play a great role in the success of Micro Finance Institutions.

CONTEXTUAL MEANING

- In the context of the passage, 'development considerations' imply that microfinance originated not from financial motives, but to pursue developmental goals such as removal of poverty and hunger.
- In the passage, the author uses 'crucial element' to show how health security is an indispensable element of social security and how the objectives of microfinance and social security converge.
- The informal sector here means that part of working class that is not monitored by any form of government and is not organized. The inference here is of labourers who work simply for cash without any provision of protection or security.
- With reference to the passage, 'support services' means health and childcare services. It has been used by the author to show how the labour classes were devoid of any support systems during the 1960s and 1970s.

'Sustained development' here means development which can continue over long periods of time and which is with higher levels of efficiency. The 'integrated approach' to emphasize the relationship between microfinance and macrofinance in ensuring development process.

4. Letter/Report writing (20 Marks) : Write any one of the following (250 words)

1. Indian households have savings of above 30%—the highest in the world. A Committee has been constituted to suggest various financial products where these savings can be invested with a view to protecting the principal from inflation and also to give positive and real returns. Draft the Committee Report.
2. Commuting to office during peak hours has become an ordeal particularly in large cities. This is affecting the efficiency of the employees. As the HR Manager draft a proposal to be sent to RBI for introducing flexible working hours in the office. Highlight the salient features of flexi-time and how it would enhance efficiency at workplace.
3. RBI has issued a Notification directing commercial banks against lending more than 80% of the value of the property for loans above Rs. 20 lakhs. The President of the Association of Real Estate Developers of India has written to RBI stating that this move does not bode well for development as it may lead to drop in home sales. On behalf of RBI write a suitable reply to be sent to the President of the Association. Impress upon the state developers that the notification is aimed at curbing speculation in the market and not at affecting home sales.

ANSWER

1. I am pleased of the Expert Committee on Inflation indexed bonds.
Sd/-
Mitra,
Chairman,
Committee on Inflation indexed bonds
at Dr. Jalan.

Submission of the Report of the Expert Committee on Inflation indexed bonds

I am pleased to present to you the Report of the Expert Committee on Inflation indexed bonds. There are two copies of the Report attached to Indian savings. At over 30 per cent, India has one of the highest savings/GDP ratios in the world. The committee has looked into the aspect of how household savings can be invested with a view to protecting the principal from inflation and also to give positive and real returns. In this respect, the committee has suggested Inflation Indexed bonds to curb inflation on one hand and harness household savings in this regard,

Budgetary provisions

The Budget has proposed introduction of bonds or National Savings Certificates whose returns will be linked to inflation. In these instruments, the principal rises with inflation, though it is still not clear whether these bonds will be linked to the consumer price index (CPI) or the more closely-watched wholesale price index (WPI). The interest, called coupon, is calculated on the adjusted (to inflation) principal. The coupon rate may or may not rise with the price index. Inflation-indexed bonds give returns that are more than the rate of inflation, ensuring that price rise does not erode the value of investors' savings.

Why Invest

These bonds can be used to diversify and stabilize the portfolio. This is because their principal rises with inflation. But when inflation falls, the principal does not go below the issue amount. These bonds are redeemed at the inflation-adjusted principal or the amount for which they were issued. "These bonds will give more choice to savers, particularly those who are risk-averse and looking to get assured positive real returns. Like gold, these are a hedge against inflation and store of value. Investors who desire predictable real cash flow can include indexed bonds in their portfolio.

Space in the Portfolio

How much a person should invest in these bonds depends upon his expectations about inflation. Ideally, the entire fixed income component of a risk-averse investor's portfolio can be deployed in these bonds if they are offering an attractive yield over inflation. These bonds are ideal for all investors. They have been structured for all individuals and institutions, as their basic purpose is to protect investors from inflation by giving fixed and regular coupon payments.

Why Now?

Over the past few years, high inflation resulted in negative real returns on financial investments such as bank fixed deposits. The real rate of return on an investment is what you get from it (nominal return) minus the inflation rate. For instance, if the post-tax return on a bank fixed deposit is 7 per cent and inflation is at 9 per cent, the real return is a negative 2 per cent. Negative real returns erode savings. This led retail investors to flock to riskier assets such as gold and real estate which have a reputation for delivering returns higher than inflation.

Killing two birds with one stone

The increasing demand for gold, most of which is imported, worsens the country's current account deficit situation and strains the government's finances. The move to introduce inflation indexed bonds is meant to kill two birds with one stone — to offer retail investors a much-needed hedge against inflation, in the process hoping to wean them away from gold. □□□

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Instructions:

1. 3 hours, 100 marks
2. Answer any five questions.
3. All questions carry equal marks.
4. Answers may be written either in English or in Hindi at the candidate's option. However, all the questions to be answered only in the language in which the answer-books were set purely in English and will be evaluated.
5. Part of the same question must be answered together with the answers to other questions in a series.
6. Answer to each question must be started on a fresh page.
7. Marks will be deducted if handwriting is not easily legible.
8. Answers will be judged on the basis of perspective, analysis and presentation.

Questions (Attempt any Five)

Q. 1. Examine the banking sector reform measures undertaken in India since 1991. Briefly describe the recent changes in RBI's monetary policy.

Ans. The main objective of banking sector reforms since 1991 was to promote a diversified, efficient and self-reliant financial system with the ultimate goal of improving the overall efficiency of resources through operational flexibility, improved financial stability and financial strengthening. As the Indian banking system had become predominantly government-owned by the early 1990s, banking sector reforms essentially took a reformist approach. First, the level of competition was broadened by increasing the banking system while strengthening and introducing international best practices in prudential regulation and supervision followed in India and elsewhere. Second, active steps were taken to improve the operational arrangements including the legal framework and technological system. The supervision system was revamped in view of the crucial role of supervision in the creation of an efficient banking system (RBI, 2004).

Measures to improve the health of the banking system have included (i) introduction of public sector banks' set up through a privatisation where needed; (ii) strengthening of the supervision process with combination of on-site and off-site supervision along with external auditing; (iii) introduction of risk based supervision; (iv) introduction of the system of standard and discretionary intervention for problem banks through a prompt corrective action (PCA) mechanism; (v) institutionalisation of a coordination facilitating greater coordination for regulation and supervision of financial conglomerates; (vi) strengthening regulatory RBI in process, and full increased emphasis on corporate governance.

Consistent with the policy approach to reform the banking system to the best international standards with emphasis on gradual harmonisation, Indian banks that have pension outside and all foreign liabilities are required to be in line with the international approach for credit risk and the basic indicator approach for operational risk under Basel II. In April 2008, All other scheduled commercial banks migrated to these approaches under Basel II in April 2008. Since 1991 RBI's monetary management has undergone some major changes.

Up to late 1990s, RBI used the 'Monsoon' approach to monetary policy. This approach became liberalised in 1997. Multiple Indicator Approach is a policy of economic action to achieve inflation and economic growth.

- With rapid progress in financial liberalisation, the emphasis of credit control approach shifted out. Quantitative methods are being used.
- In post reform period the CRR and SLR have progressively lowered. There has been close as a part of financial sector reform as a result, three-fourth funds have been released for banks. The growth of economy.
- Better leading indicators have been since 1990s. The Reserve Bank of India are now used by commercial banks as a basis of money supply.
- In 1994, RBI introduced prudential supervision. These bills were introduced to increase the level of supervision. RBI would monitor the level of non-performing assets.
- Liquidity Adjustment Facility (LAF) was introduced by RBI during 1997. The banks under LAF are allowed to borrow from RBI to liquidity.
- By linking the banking system with P. BBI RBI has introduced the active role of moral power. Along with NARMA, RBI is working on other institutional measures.
- With globalisation large and small banks are allowed. To provide stability in financial system, RBI has introduced the active role of moral power. Along with NARMA, RBI is working on other institutional measures.
- Traditionally, there were four key channels of monetary transmission: interest rate, credit, asset price and exchange rate. In the recent years, the role of asset price has been added. But any one set price, general policy and the four traditional channels.

An assessment of the banking sector shows that banks have experienced strong balance sheet growth in the post-reform period in an environment of operational Credibility, Improvement in the financial health of banks, reflected in significant improvement in capital adequacy and improved asset quality, is distinctly visible. Compliances and procedural changes have also been studied by proactive technology of computing and flexible business process management. These significant gains have been achieved even while meeting goals of social banking viz., maintaining the wide reach of the banking system and directing credit towards important but often neglected sectors of sector.

Q.2. Two questions

(E) What is sustainable development? What should be done to achieve it?

(E) What is environment management? Explain social and economic aspects of environment management.

Q.3. Two questions

(E) Do you agree with a view that public sector enterprises have played a strategic role in attaining economic growth?

(E) Explain the importance of service sector and its contribution to employment in India.

Ans. Q2 to 1954, Public Enterprises have been described public sector enterprises (PSEs) as "entities of public life". PSEs were conceived as instruments for effecting socio-economic transformations of the country. These were the means by which self-reliance, growth, social and industrial progress were to be attained. Education, science, technology, energy, innovation, greater employment and achievement were the main objectives. The Indian Public Sector has always played a dominant role in the growth of the country's economic development. They account for over 23% of the country's GDP, around 40% of total employment in the organized sector and over 50% of direct and indirect tax collections. A number of PSEs have some critical functions in achieving the socio-economic objectives of the Government and ensuring equity in price of key products and commodities.

Prior to Indian Independence there were only a few Public Sector Enterprises in the country with its presence primarily confined to Railways, Post & Telegraph and the Ordnance Factories. However, visionary leaders of independent India laid a roadmap for the development of Public Sector Enterprises for self-reliance economic growth. The Public Sector provided the much-needed thrust and has been instrumental in setting up a strong and diversified industrial base in the country. Over the years, PSEs have also contributed to a wide range of activities including manufacturing, engineering, steel, heavy machinery, shipbuilding, fertilizers, drugs, textiles, pharmaceuticals, power, chemicals, minerals and refining of crude oil, sectors such as information, banking, tourism and transportation and a range of ancillary services.

With the economy stabilizing on the path of Liberalization, Privatization and Globalization in the early 1990s, the role of the Indian Public Sector has increasingly undergone a rapid change. Integration of the domestic economy with global markets has thrown up a number of opportunities and challenges. Some of the public sector enterprises with strategic vision are actively exploring new avenues and have launched their activities to go beyond mergers, acquisitions, amalgamations, takeovers and to

creating new joint ventures, Acquisitions. JVs and green field projects in the services sector have already taken place and are under active consideration in Power, Coal and Mining Sectors.

Off late, Government of India Central PSU's has also gathered steam to meet the government's massive social spending and bridge the treasury's growing fiscal deficit. Today, both the Public and Private Sectors have become an integral part of the economy, with both the sectors complementing each other in strengthening the nation's industrial base. However, the recent economic conditions has triggered a debate about the way business and operations are managed by the PSUs, especially against the backdrop of a globally recession have many growth opportunities have marginally survived owing to state-subsidized inputs. In this context, it is worth noting that the PSUs have emerged relatively unscathed to register reasonable growth rates.

The service sector is the driving force for India to realize double-digit growth potential, both overall and at state level, while providing more and better jobs to help achieve more inclusive and balanced growth. The importance of the services sector can be gauged by looking at its contribution in different aspects of the economy. The share of services in India's GDP at basic prices over the period increased rapidly: From 36.5 per cent in 200-01 to 50.2 per cent in 2009-10 and 50.2 in 2010-11. Economic Survey, 2011-2012. If inflation is also factored, then the share increases to 55.4 per cent in 2010-11. The contribution of the services to India's GDP at basic prices in the 1990s is 4.8 per cent during the period 2004-05 to 2009-10 was to a large extent due to the contribution of the growth rate (GAGR) in the services sector. From 7.3 per cent in the 1990s to 10.3 per cent in 2000-01 to 2009-10. The services sector growth was significantly faster than the 6.8 per cent for the combined primary and industry sectors annual output growth rate over the same period.

India's revised GDP growth has been continuously above the target growth, pulled up by the latter since 2007-08. It has also been more stable than during the crisis year. Also, the services growth was around the 10 per cent mark in 2011-12 has maintained since 2005-06. This is in stark contrast to the overall GDP growth which fell to 6.8 per cent in 2008-09 from 8.3 per cent in 2007-08. Thus the growth of the services sector has greatly contributed to the performance of the economy. A comparison of the service performance of the top 10 countries in the three-year period from 2000 to 2011 shows that the increase in share of services in GDP is the highest for India at 11 percentage points followed by Spain.

Although the primary sector (agriculture) remains the dominant employer followed by the services sector the share of services has been increasing over the years while that of primary sector has been decreasing. Between 2003-04 to 2009-10, there was a sharp fall in the share of the primary sector in employment. This consequent rise in share of employment of the other two sectors was almost equally divided between the secondary and tertiary sectors. In 2007-08 compared to 2004-05, though the trend was similar, the fall in employment in primary sector was less (4.1 per cent) with a small compensatory rise in employment in the other two sectors, which was again almost equally divided between the other two sectors.

Q. 4. Two Questions

21 Monetary measures have failed to control inflation in India. Explain. Suggest suitable options for controlling inflation. 8.

22 Explain the measures and strategies adopted by India in the following subjects

Q.5. Two Questions

23 Provision of Social Security

24 Foreign Direct Investment

Ans. Q4 (i) As being a welfare State, the labour union has the responsibilities of extending various facilities of Social Security and Social Assistance to its members. The social security legislator in India derives their strength and spirit from the Directive Principles of the State Policy as contained in the Constitution of India.

Although the Constitution of India is yet to recognise Social Security as a fundamental right it does require that the State should strive to promote the welfare of the people by securing and promoting, as effectively as it may, a social order in which justice social, economic and political shall inform all the institutions of national life. Section Article-41 of the Constitution requires that the State shall within the limits of its economic capacity make effective provision for securing the right to work, to education and to public assistance in case of unemployment, old age, sickness and disability. Article 42 empowers the State to make provision for securing just and humane conditions of work and for maternity relief. Article 47 requires that the State should raise the level of nutrition and the standard of living of its people and improve its public health as among its primary duties. The provisions set on the State in the above Articles create a social security.

In India, out of an estimated population of about 387 million, around 28 million workers are enjoying the benefit of social security protection. 60% of the workers in the organised sector, several reformative attempts have been made in the past to address the multifarious problems faced by the workers in the unorganised sector through legislative as well as programme oriented measures. The principal social security laws in India are the following:

- The Employees' State Insurance Act, 1948 (ESI Act) which covers employees and establishments with 10 or more employees and provides for comprehensive medical care to the employees and their families as well as cash benefits during sickness and maternity, and monthly payments in case of death or disability.
- The Employees' Provident Funds & Miscellaneous Provisions Act, 1952 (EPF & MP Act) which applies to 20 or more included factories and establishments employing 30 or more employees and ensures investment to provident fund, superannuation, gratuity, family pension in case of death during service, and also provides for similar benefits for the workers in the coal mines and tea plantations.
- The Workmen's Compensation Act, 1948 (WC Act), which requires payment of compensation to the workman or his family in cases of employment related injuries resulting in death or disability.
- The Maternity Benefit Act, 1961 (MBA) which provides for 12 weeks wage during maternity as well as paid leave to create a safe related to pregnancies.
- The Payment of Gratuity Act, 1972 (P.G. Act) which provides 12 days wages for each year of service to employees who have worked for five years or more in establishments having a minimum of 10 workers.

Similarly, separate Provident Fund legislation exists for workers employed in Coal Mines, Mines and in The Plantation workers in Assam. Last, but not the least, India has signed Social Security Agreements (SSA) with Belgium, France, Germany, Social Insurance for posted workers with Switzerland, Luxembourg, the Netherlands, Hungary, Denmark, the Czech Republic, Republic of Korea, Norway, Christian, Finland, Canada, Japan, Sweden, Austria and Portugal. Such Agreements protect the interests of Indian professionals abroad.

(ii) Foreign Direct Investment (FDI) is a direct investment into production facilities in a country by a company in another country, either by buying a company in the target country or by expanding operations of an existing business in the target country. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds.

FDI investment in India is governed by the FDI Policy announced by the Government of India and the provisions of the Foreign Exchange Management Act (FEMA) 1999. Reserve Bank issued a notification in this regard in 2000 which contains the Regulation in this regard. This notification has been amended from time to time.

Foreign investment is freely permitted in almost all services. Under Foreign Direct Investment scheme investments can be made by non-residents in the shares/equity shares of an Indian company, under two routes, Automatic Route and Government Route. Under the Automatic Route, the foreign investor or the Indian company does not require any approval from the Reserve Bank or Government of India for the investment. Under the Government Route, prior approval of Government of India, Ministry of Finance, and Foreign Investment Promotion Board (FIPB) is required.

In order to attract FDI, direct investment (FDI) from the world's major investors, it is not a pleasant a feasible avenue for investment. The Indian government has announced a number of policies and has implemented several policies to promote FDI. Foreign direct investment is allowed in India through the automatic route and financial route, joint venture collaborations, through professional alliances, investment treaties, EU-RO sectors. Apart from this it has opened 100% FDI for setting up of 100% EOUs (Export Oriented Zones) and 100% FDI in technology agreement.

As a result of the various policy initiatives taken, India has become a rapidly changing from a restrictive regime to a liberal one. FDI is encouraged to attract all the economic activities under the economic risk. huge amounts of foreign direct investment is coming into India through multinationals, Indian, international companies, and various other foreign investors. The growth of FDI in India benefited the economic growth of the country major advantages of FDI in India have been in terms of increased capital flow, improved technology, management expertise and access to international markets.

FIPB Approval in India is also done by the Foreign Investment Promotion Board (FIPB), which processes cases of non-automatic approval. The first values by Foreign Investment Promotion Board for approving the proposals for Foreign Direct Investment in India is between four to six weeks. The approval of FIPB is valid as a result of which it accepts most of the proposals and rejects very few. FIPB approvals in India have grown significantly in recent years. Significant FDI approvals have taken place in telecom, real estate, banking and insurance sectors. Several other sectors have also benefited from FDI approvals in India. FIPB approvals have played a major role in the economic growth of India in recent years.

Q. 6. Two questions

- i. Explain the factors responsible for rapid growth of exports over the past decade.
 - ii. What changes have taken place in the product composition of exports in recent years.
- Q. 7. Two Questions**
- i. Religion continues to be an important source of identity for most people in South Asia. Discuss.
 - ii. Examine the need of secularism in our country with special reference to constitution of India.

Ans. ii. In the West, Asia is primarily seen as an arena of economic change. After all, for decades the continent has been one of the fastest growing economies in the world. However, alongside the image of prospering Asia with its growth markets there is another perception of Asian development. For many countries in the region are still mired by the outbreak of violent domestic conflicts. In particular, since the 9/11 terrorist attacks, world media and western opinion has been followed with concern by the political decisions taken and events in the West. Especially South Asia, home to about a fifth of the world's 1.1 billion people, has gained a reputation of being a world of chaos and conflict.

South Asia has been the theatre of a number of wars since the Partition of India in 1947. The 1965 Indo-Pakistani war, the 1971 Indo-Pakistani war and the 1999 Kargil conflict in Kashmir have all been fought in South Asia. The 1999 Kargil conflict in Kashmir has been particularly significant as it has led to a change in the way the world perceives South Asia. The 1999 Kargil conflict in Kashmir has been particularly significant as it has led to a change in the way the world perceives South Asia. The 1999 Kargil conflict in Kashmir has been particularly significant as it has led to a change in the way the world perceives South Asia.

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having a population of approximately 200 million has as many as 20 states as against ours having much larger population of 1.1 billion with only 29 states and hence we should not have reservations on further subdivision of states having large population.

When the first major reorganisation of the boundaries of states took place in the mid-1950s, the major criteria was the language and this certainly had some merit or logic. However, the criteria that larger states are too difficult to be governed and hence smaller states would result in better government soon to be too far-reaching and thus unworkable. What we really need is the improvement in the quality of governance and check on the ever increasing rampant corruption at all levels of public life which our present parliamentary system has miserably failed to provide. The impact of good governance on the growth and progress of State is very obvious from the example of Bihar which has achieved an increase in GDP of nearly 18-11% per annum in the last 6 years, an upward trend stagnation in growth of the State during the earlier regime. Even Gujarat is a shining example of impact of good governance on the progress and prosperity of State.

The prototypical or the champion of federalism is the USA. In this smaller states often fight for their own interests. It has several big states including states like California and Rhode Island having a population of 20 million each. There are much larger states like California and New York in the USA having a population of 20 million, 24 million and 20 million respectively. However, the tradition of executive head as adopted in our presidential system of Democracy by the elected president is the best model available in the world. It is the best model and the executive from both the bodies of the State is elected to a single office and the government in the USA and there has been no change in the any of these bigger states in the USA. We have also smaller states.

It should be also considered that the services to split in our country is not controlled by local politicians who have many a times vested interest in the division of the state. Some of our smaller states have a history of political defection and opportunistic making. It is not as easy as 14 states made during a 10 year period between 1990-2000. Meghalaya had as many as 12 governments during a 12 year period between 1997-2007. The history of the island state Madhya Kashi had earlier state to the tune of its 9500 cross speaks for itself. We should concentrate on the issue of reorganizing our parliamentary system with a better alternative which will provide better governance and minimise corruption.

(B) Globalisation with the revolution of information technology has been dramatically changing business, work, management of organisations, and governance. There is much more than the industrial revolution, it is the agricultural revolution. While globalisation is the world dividing the world into powerful and powerless nations with regards to information technology, trade, and economy, the winner and the loser inevitably happens in the global marketplace. Meanwhile, public administration has been

significant role in helping some countries to get the most benefits than others.

Global forces are penetrating at all levels of government, on the one hand, and a national or local policy to a particular country has often global effects cross national boundaries. On the other, Global processes, in fact, have played a significant role in helping public administrators in the Western Europe and North America countries streamline their personnel, budget, and organisations by privatising, outsourcing, contracting out, disintegrating, downsizing, or restructuring government functions and services. Governmental functions and services are widely being outsourced at all levels of government. Governmental outsourcing in government agencies with the aim of streamlining though government functions, it has not been successful very substantially. Further, states and governments have contracted out most of their social welfare programs, and the spread of financial reform has replaced traditional hierarchical authority and control through incentives and other legal agencies. American influence drawn through pragmatic relations.

Market forces and market model generally have been increasingly made public relations as well as the public service administration, public administration is increasingly orientating on efficiency, performance, quality performance, accountability, customer, and flexibility by adopting techniques already used in private. The relevant assumptions of an ideal type of economy are no longer valid, and the management of modern public organisations. National and local governments are expected to be more efficient, effective, cost-effective and accountable through the standard behavioral model.

Therefore, public agencies are expected to operate with less employment and job security and distributive of income, employment, social equity, justice, fairness, performance, and quality are questioned. For example, the public employment systems with productivity, account, quality, and quantity through the competition of market. It is not a contribution to the organisation. Merit and performance, employees, qualifications, and employment, employees, however, are ambiguous. Under the merit-based pay system, employee rights, job security, social equity would be diminished. Additionally, constraints, union relationships, legal issues, and organisations, or organisational culture keep organisations from contributing the pay-off performance.

Q. 3. Two questions

1. Cover factor is more dominant and emphasized in Indian politics. Discuss the statement with suitable illustration.
2. Explain the impact of reservation policy on scheduled areas and scheduled tribes.

- Q. 10. Write notes on any two -
- 1) Impact of globalisation on culture, media and technology.
 - 2) Role of small and medium enterprises in India.

- Q. 4) The role of government in the development of

- (a) GDP in the changing world

PAPER-II FINANCE AND MANAGEMENT

Time : 3 Hrs. Marks : 100

Instructions

1. 3 hours, 100 marks.
2. Attempt any three questions from Section I and any two questions from Section II.
3. All questions carry equal marks.
4. Answers must be brief and to the point.
5. Answers may be written either in English or in Hindi or in the candidate's option. However, all the questions should be answered only in the language as chosen. Answer books written partly in English and partly in Hindi will not be evaluated.

SECTION I (Write Any Three Questions)

Q. 1. What is meant by merchant banking? Discuss in detail the various functions performed by merchant banks.

Ans. Merchant Banking is a combination of financial and commodity activities. It provides complete financial and commodity services to its clients. For example, evaluation, acquisition, financing, etc. of a company. Consultants' services to provide advice, guidance and service for a firm, it helps a businessman to start a business, it helps to take a firm's finance, it helps to expand and professionalize the business, it helps to re-structuring of a business, it helps to arrange sick firm's units, it also helps companies to register buy and sell shares in the stock exchange. In short, merchant banking provides a wide range of services for start-up and running a business. It acts as Financial Engineer for a business.

Merchant Banking helps its clients to raise finance through issue of shares, debentures, bank loans, etc. It helps its clients to raise finance from the domestic and international market. This finance is used for starting a new business or project, or for modernization or expansion of the business. Merchant bankers act as brokers in the stock exchange. They buy and sell shares on behalf of their clients. They conduct research on equity shares. They also advise their clients about which shares to buy, when to buy new stock to buy and when to sell. Large houses, Mutual Funds, Venture capital companies and foreign banks also merchant banking services.

Merchant bankers help their clients in the state by for e.g. advising about location of a project, preparing a project report, conducting feasibility studies, aiding clients by financing the project, finding out sources of financing, advising about investments and incentives from the government. They give advice for expansion and modernization of the business units. They also explore finance on interest and equity securities, commodities and services, diversification of business, foreign collaboration, and joint-ventures, technology acquisition, etc. Merchant bank advice and manage the public issue of companies. They advise on the timing of the public issue, the size and price of the issue, act as manager of the issue, and helping in appointing underwriters and bankers to the issue and listing of shares on the stock exchange, etc.

A businessman has to get government permission for starting of the project. Similarly, a company requires permission for expansion or modernization activities. For this, many formalities have to be completed. Merchant banks do all this work for their clients. Merchant banks advise small companies about business opportunities, government policies, incentives and concessions available. It also helps them to take advantage of these opportunities, concessions, etc. They also offer many services to public sector units and public utilities. They are providing long term capital, marketing of securities, joint collaborations and arranging long term finance from the lending institutions. They also help to arrange financing for industrial units. It negotiates with different agencies like banks, term lending institutions, and BIFIR (Bureau for Industrial and Financial Reconstruction). It also organizes and executes the full range of projects.

Q. 2. Briefly explain the salient features of the Foreign Exchange Management Act.

Q. 3. What is currency on the present; a debt (and pay the amount of repayment on future generations.) Explain.

Ans. A tax is a financial charge or other levy imposed upon a taxpayer (an individual or legal entity) by a state or the functional equivalent of a state such that failure to pay it is punishable by law. Taxes consist of direct or indirect taxes and may be paid in money or as in labour or services. According to Mackay's Law Dictionary, a tax is "An imposition levied upon individuals or property owners to acquire for the government [...] a payment enacted by legislative authority." It is not a voluntary payment or donation, but an imposed contribution, exacted pursuant to legislative authority" and is "any contribution imposed by government [...] whether under the name of tax, tribute, toll, gift, impost, duty, custom, excise, subsidy, gift, supply, or other name."

In economic terms, taxation transfers wealth from households or businesses to the government of a nation. The side-effects of taxation and business done have had to tax it's an important subject in macroeconomics. Taxation is almost never a simple transfer of wealth. Business theories of taxation approach the question of how to maximize resources welfare through taxation. With the evolution of world and the development of taxation system, a

tax is closely viewed as a payment which has to be made in the present in lieu of certain services or facilities. Whether it is paid by the employer or the employee, individual or his mother, government or the people, it is a payment which has to be paid in the present. Today, non-payment of taxes is met with stringent punishments.

On the contrary, a debt is an obligation owed by one party like a debtor to a second party, the creditor, usually this refers to assets granted by the creditor to the debtor, but the term can also be used colloquially to cover moral obligations and other transactions not based on economic values. A debt is created when a creditor agrees to lend a sum of money to a debtor. Debt is usually granted with expected repayment, in matured maturity, in most cases, this included repayment of the original sum, plus interest.

Before a debt can be made, both the debtor and the creditor must agree on the manner in which the debt will be repaid, known as the standard of deferred payment. Payment can be made in increments over a period of time or all at once at the end of the loan agreement. While the debt is to be paid by an individual or family, treated as a personal payment of debts can be passed from one generation to another. So it is fair to say that when a loan is made in the present, a debt puts the burden of repayment on future generations.

Q. 4. Explain in detail the different kinds of credit control in India.

Q. 5. (a) What is securitization? What purpose does it serve?

(b) Discuss the benefits and limitations of securitization.

Ans. Securitization is the financial practice of pooling various types of contractual rights such as residential mortgages, commercial mortgages, auto loans or credit card debt obligations and selling said consolidated debt as bonds, pass-through securities, or collateralized mortgage obligation (CMO), to various investors. The principal and interest on the debt, including the security, is paid back in the various instalments regularly. Securities backed by mortgage receivables are called mortgage backed securities (MBS), while those backed by other types of receivables are called asset backed securities (ABS).

The advantages offered by securitization is listed by (b) as:

- Through securitization, a company rated BB but with AAA worthy cash flow would be able to borrow at possibly AAA rates. This is the reason one can go to securities a cash flow and can have favorable impacts on lowering costs.
- Depending on the structure chosen, securitization can offer preferential handling by allowing funding exposure in terms of both duration and pricing basis.
- Some firms, due to legal, regulatory, or other reasons, have a limit or range that the coverage is allowed to be, by securitizing some other assets, which qualifies as a sale for accounting purposes, these firms will be able to remove assets from their balance sheets while maintaining the "earning power" of the assets.

- Securitization makes it possible to transfer risks from one entity that does not want to bear it, to one that does. Similarly, by securitizing a block of business thereby locking in a degree of profit, the company has effectively lined up its balance to go out and write more profitable business.

- Securitization makes it possible to record an intangible loan as without any real address in the firm.

However, there are certain limitations from securitization suffer. It has following disadvantages in (b):

- If the AAA risks, for example, are being securitized then would have a materially worse quality of credit risk.
- Securitizations are expensive due to management and system costs, legal fees, underwriting fees, rating fees and ongoing administration. An allowance for subprime costs is usually material in securitizations, especially if it is an atypical securitization.
- Securitizations often require large scale structuring, and these may not be cost-efficient for small and medium transactions.
- Since securitization is a structured transaction, it may include pre structures as well as credit enhancements that are subject to asset impairment, such as prepayment, as well as credit loss, especially for structures where there are these retained steps.

Critics have suggested that the complexity inherent in securitization can limit investors' ability to monitor risk, and that competing securitization markets with multiple issuers may be less readily prone to sharp declines in underwriting standards. Hence, competitive mortgage securitizations have not to have played an important role in the U.S. housing mortgage crisis.

SECTION II (Write Any Two Questions)

Q. 1. The broad organization is an essential principle of efficient management. Explain.

Q. 2. What are the major differences between autocratic, democratic and laissez faire styles of leadership?

Ans. Leadership style is the behavior pattern of leader while influencing the actions of the followers. It is generally a natural outcome of training, culture and background of the leader. There is no "the best style" to lead. It is situation specific and, therefore, dynamic in nature. The leaders are assessed on the basis of concern for people and concern for task. According to Ohio State Model, there are four basic leadership styles: supportive, participative (democratic), authoritative or directive and directive leadership style. Each model is determined by two dimensions which are: consideration or relationship and initiating structure. Consideration means orientation towards people while initiating structure means orientation towards task. The participative leaders are the best and authoritative or least desirable.

Autocratic leadership, also known as authoritarian leadership, is a leadership style characterized by individual control over all decisions and little input from group members. Autocratic leaders typically make choices based on their own ideas and judgments and rarely accept advice from followers. Autocratic leadership involves absolute, authoritarian control over a group. Some of the primary characteristics of autocratic leadership include: little or no input from group members, leaders make the decisions, group leaders dictate all the work methods and processes, and group members are rarely trusted with decisions of important tasks.

Democratic leadership, also known as participative leadership, is a type of leadership style in which members of the group make a more participative role in the decision making process. Researchers have found that this leadership style is usually one of the most effective and lead to higher productivity, better contributions from group members, and increased group morale. Some of the primary characteristics of democratic leadership include: Group members are encouraged to share ideas and opinions, even though the leader makes the final group decisions, Members of the group feel more involved in the process, and creativity is encouraged and rewarded.

Autocratic or dictatorial style is based on a few instructions and low talking structure. Such a leader doesn't have concern for their employees and they are not focused on the tasks set by the company. It is not clear that these leaders don't even have the necessary leadership potential, but they are also important. Communications with good communication atmosphere, and employees are familiar with their tasks.

Q. 3. (a) Explain the relationship between authority and responsibility.

(b) What is delegation of authority? How can delegation be made effective?

Q. 4. Discuss the role of communication in an organization. What are the barriers to effective communication?

Ans. Effective communication plays an important role not only in an organization but is equally important to personal life. Effective communication plays a very important role in achieving organizational goals. The role of effective communication in an organization starts from the day an employee joins the firm. It is the prime responsibility of the human resource department to clearly inform the employee the rules and policies of the organization for him to perform effectively. Effective communication is required at all the levels in an organization. Every level should be on the same platform and the clarity of the message is mandatory for smooth flow of work. The team leader must make it a point to effectively communicate what he actually expects from his fellow employees. He details the important deadlines, what he needs very close to the employees to expect, productivity from their side. The team members should also be clear about their goals and can work accordingly. Instead of verbal communication e-mails are a better option for effective communication.

Recognizing barriers to effective communication is a first step in improving communication style. There are many reasons why interpersonal communication may fail. In many organizations, the message that is sent is received nearly the way the sender intended and even it is important that the communication lacks feedback mechanism that their message is clearly understood. The skills of Active Listening, Clarification and Reflection may help but the skilled communicator also needs to be aware of the barriers to effective communication.

There are many barriers to communication and these may occur at any stage as the communication process. Barriers may lead to the message becoming distorted and not received, making working less clear and far away by causing confusion and misunderstanding. Effective communication involves overcoming these barriers and conveying a clear and concise message. Some common barriers to effective communication include:

- The use of jargon, over-complexity or unfamiliar terms.
- Societal barriers and taboos.
- Lack of attention, interest, motivation or skills on the receiver.
- Differences in perception and interpretation.
- Physical disabilities such as hearing problems or speech difficulties.
- Physical barriers to communication such as distance.
- Language differences and the inability to understand local vernacular accents.
- Expectations and prejudices which may lead to false assumptions or stereotypes. People do what they expect to hear, not what they are actually told and jump to wrong conclusions.
- Cultural differences between different societies which vary greatly in different cultures, as well as the way in which religion is expressed. Different religious rites, type of political systems like in democracies and autocracies, different social settings.

A skilled communicator must be able to identify and help them to ways to reduce their impact by communicating clearly, understanding and by offering appropriate

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