PAPER I - INDIAN ECONOMY & INDIAN FINANCIAL SYSTEM

Module A: INDIAN ECONOMIC ARCHITECTURE

Chapter 4: Role of Priority Sector and MSME in the Indian Economy

MCQs Practice Pack

Question 1: What is the primary purpose of designating certain sectors of the economy as "Priority Sectors" for lending by banks?

A. To provide credit exclusively to large corporations to boost industrial growth.

B. To ensure that important, employment-intensive sectors and weaker sections of society receive adequate and timely bank credit.

C. To fund government infrastructure projects exclusively.

D. To encourage banks to lend only to the most profitable sectors of the economy.

Question 2: The revised definition for Micro, Small, and Medium Enterprises (MSMEs), effective from July 1, 2020, is based on which composite criteria?

A. The number of employees and the geographical location of the enterprise.

B. The type of product manufactured and the annual profit.

C. The investment in plant & machinery or equipment and the annual turnover.

D. The age of the enterprise and the educational qualification of the owner.

Question 3: What is the main objective of the "Stand-Up India" scheme launched by the government?

A. To provide financial assistance to all small businesses in urban areas.

B. To encourage large corporations to invest in rural infrastructure.

C. To promote entrepreneurship specifically among Scheduled Castes, Scheduled Tribes, and women.

D. To provide skill development training for workers in the organized sector.

Question 4: The Production Linked Incentive (PLI) Scheme is designed to boost domestic manufacturing by providing what kind of benefit?

A. A one-time grant to all new manufacturing companies.

B. A subsidy on the electricity consumed by the company.

C. An exemption from all corporate taxes for the first five years.

D. A financial incentive based on the incremental sales of goods manufactured in India.

Question 5: In the context of Priority Sector Lending norms, ANBC is a key metric against which targets are set. What does the term "Adjusted Net Bank Credit" (ANBC) primarily represent?

A. The total profit of a bank after all adjustments.

B. The total deposits held by a bank.

C. A bank's total loans and advances, adjusted for certain specific items as per RBI norms.

D. The total value of a bank's off-balance-sheet exposures.

Question 6: Complete the following sentence: While domestic commercial banks have a total priority sector lending target of 40% of their ANBC, Regional Rural Banks (RRBs) are required to meet a significantly higher target of __________%.

A. 50

B. 60

C. 75

D. 80

Question 7: Complete the following sentence: The government has simplified the registration process for MSMEs through a fully online and paperless portal based on self-declaration, which is known as the __________ Registration Portal.

A. MSME Seva

B. Udyam

C. Bharat

D. Vikas

Question 8: Which of the following statements about the categories identified as Priority Sectors is TRUE?

A. Lending to large-scale corporate industries is a key priority sector.

B. The 'Social Infrastructure' category includes lending for projects like schools and drinking water facilities.

C. The import of luxury cars is classified under the 'Export Credit' category.
D. Only agricultural loans to small and marginal farmers are considered part of the priority sector.

Question 9: Which of the following statements about the benefits offered under the "Start-Up India" scheme is TRUE?

A. It provides a guaranteed government contract to all registered startups.

B. It offers a 100% reduction in the cost of filing a patent for a lifetime.

C. It provides an income tax exemption for a period of 3 years for eligible startups.

D. The scheme is exclusively available for technology-based startups in metro cities.

For Question 10, use the following table to find the correct match.

Column A (Scheme)	Column B (Primary Objective/Feature)
1. Make in India	a. Promote entrepreneurship among SC/ST and women.
2. Stand-Up India	b. Provide collateral-free automatic loans during the pandemic.
3. Atmanirbhar Bharat (ECLGS)	c. Transform India into a global manufacturing hub.
4. Start-Up India	d. Offer a tax holiday for new ventures.

Question 10: From the table above, which of the following is a correct match?

A. 1-b

B. 2-a

C. 3-d

D. 4-c

Answer Key & Explanations

Q. No	Correct Answer	Explanation
1	B	The **Priority Sector** framework was created to ensure that credit flows to sectors that are vital for inclusive growth and national development but might otherwise be neglected by banks.

Q. No	Correct Answer	Explanation
2	C	The new definition of MSMEs uses a dual criterion of **investment in plant & machinery/equipment AND annual turnover**, making it easier for firms to grow without losing their MSME status.
3	C	The **Stand-Up India** scheme is specifically targeted at fostering entrepreneurship among underserved sections of society: **Scheduled Castes (SC), Scheduled Tribes (ST), and women entrepreneurs**.
4	D	The PLI scheme works by giving a direct financial incentive to companies based on their **incremental (additional) sales** of products manufactured domestically, thereby encouraging higher production.
5	C	**ANBC** is the base figure used by RBI to calculate PSL targets. It is essentially the **total of a bank's loans (net bank credit)**, with certain adjustments made for investments and other items as per RBI rules.
6	C	To ensure a strong focus on rural development, **Regional Rural Banks (RRBs)** have a much higher PSL target of **75%** of their ANBC, compared to the 40% for commercial banks.
7	B	The **Udyam** Registration Portal is the new, simplified, online system for MSMEs to register themselves with the government, replacing the older, more complex processes.
8	B	Statement B is true. The other statements are false: Large industry is not a priority sector, import credit is not included,

Q. No	Correct Answer	Explanation
		and the agriculture priority sector includes a wide range of activities beyond just loans to small farmers.
9	C	A key benefit of the Start-Up India scheme is providing a **three-year income tax holiday** to eligible startups to help them manage their finances in the crucial early years. The other statements are incorrect.
10	B	The **Stand-Up India scheme (2-a)** is correctly matched with its objective of promoting entrepreneurship among SC/ST and women. (Make in India=c, ECLGS=b, Start-Up India=d).