

PAPER I - INDIAN ECONOMY & INDIAN FINANCIAL SYSTEM

Module A: INDIAN ECONOMIC ARCHITECTURE

Chapter 7: Economic Reforms

MCQs Practice Pack

Question 1: The 1991 economic reforms in India are often summarized by the acronym 'LPG'. What does the 'L' in LPG stand for?

- A. Labour
- B. Land
- C. Liberalisation
- D. Licensing

Question 2: What was the primary trigger for the comprehensive economic reforms introduced in India in 1991?

- A. A period of high agricultural surplus.
 - B. A severe economic crisis, including a sharp drop in foreign exchange reserves.
 - C. A political decision to completely privatize all public sector units.
 - D. A global trend of adopting socialist policies.
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Question 3: The first Narasimham Committee (1991) was instrumental in reforming the banking sector. What was one of its key recommendations that fundamentally changed how banks manage risk?

- A. The nationalization of more private banks.
 - B. Increasing the number of government-controlled interest rates.
 - C. The introduction of prudential norms for income recognition, asset classification, and provisioning for bad loans.
 - D. Restricting the entry of new private banks into the sector.
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Question 4: As part of the foreign exchange market reforms, the highly restrictive Foreign Exchange Regulation Act (FERA) was replaced by which new, more liberal legislation?

- A. Foreign Exchange Transaction Act (FETA)
 - B. Foreign Exchange Management Act (FEMA)
 - C. Foreign Investment Promotion Act (FIPA)
 - D. Overseas Transaction Regulation Act (OTRA)
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Question 5: Which regulatory body was established with statutory powers in 1992 to oversee and regulate the Indian capital markets, including stock exchanges and mutual funds?

- A. Reserve Bank of India (RBI)
- B. Insurance Regulatory and Development Authority (IRDA)



C. NITI Aayog

D. Securities and Exchange Board of India (SEBI)

Question 6: Complete the following sentence: As part of its supervisory reforms for the banking sector, the RBI implemented the _____ rating system to evaluate a bank's Capital adequacy, Asset quality, Management, Earnings, and Liquidity.

A. CIBIL

B. CAMELS

C. CRISIL

D. SWIFT

Question 7: Complete the following sentence: The limited economic reforms undertaken in India during the 1980s, which involved partial deregulation, were influenced by a set of pro-market policy ideas known as the _____.

A. Bombay Plan

B. Washington Consensus

C. Bretton Woods System

D. NITI Aayog Doctrine



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Question 8: Which of the following statements about the LPG reforms in India is TRUE?

- A. Liberalisation involved increasing government control and the number of industrial licenses.
 - B. Privatisation aimed to expand the role and number of public sector enterprises.
 - C. Globalisation refers to the integration of the Indian economy with the global economy.
 - D. The reforms were a proactive choice made from a position of strong economic stability.
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Question 9: Which of the following statements about the institutional and legal reforms in the financial sector is TRUE?

- A. The SARFAESI Act was passed to make it more difficult for banks to take possession of collateral.
 - B. Debt Recovery Tribunals (DRTs) were established to slow down the loan recovery process for corporate borrowers.
 - C. The Credit Information Bureau (CIBIL) was set up to facilitate the systematic exchange of credit information on borrowers.
 - D. The Insolvency and Bankruptcy Code (IBC) was repealed to give more freedom to businesses.
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For Question 10, use the following table to find the correct match.



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Column A (Body/Act)	Column B (Area of Regulation/Function)
1. SEBI	a. Governs the insurance industry.
2. IRDA	b. Facilitates faster recovery of bad loans.
3. FEMA	c. Regulates the capital markets.
4. DRT	d. Manages foreign exchange transactions.

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

- A. 1-b
- B. 2-a
- C. 3-c
- D. 4-d

Answer Key & Explanations

Q. No	Correct Answer	Explanation
1	C	The three pillars of the 1991 reforms were LPG, which stands for Liberalisation (reducing regulations), Privatisation (increasing the role of the private sector), and Globalisation.
2	B	The 1991 reforms were not a proactive choice but a response to a severe economic crisis , marked by dangerously low foreign exchange reserves that left India on the verge of bankruptcy.



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Q. No	Correct Answer	Explanation
3	C	The Narasimham Committee-I recommended the introduction of prudential norms , which are international best practices for classifying loans (assets), recognizing income, and making provisions for potential losses (NPAs).
4	B	The older FERA was a restrictive law focused on conserving foreign exchange. It was replaced by the Foreign Exchange Management Act (FEMA), 1999 , which is a more liberal law focused on managing foreign exchange.
5	D	The Securities and Exchange Board of India (SEBI) was given statutory powers in 1992, making it the primary regulator for India's securities and capital markets to protect investors and ensure fair practices.
6	B	The CAMELS framework is a supervisory rating system used by regulators to assess the overall health of a bank based on six key parameters: Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk.
7	B	The Washington Consensus is a term for a set of free-market economic policies, including deregulation and privatization, that were advocated by institutions like the IMF and World Bank and influenced reforms in many countries in the 1980s.
8	C	Statement C is true. Globalisation was a core part of the reforms, aimed at integrating India's economy with the rest of the world. The other statements describe the opposite of what the reforms intended.
9	C	Statement C is true. CIBIL was established as a key reform to create a formal mechanism for banks to share information about the credit history of borrowers, thereby improving lending decisions and reducing risk.



Q. No	Correct Answer	Explanation
10	B	The Insurance Regulatory and Development Authority (IRDA) (2-a) is correctly matched with its function of governing the insurance industry. (SEBI=c, FEMA=d, DRT=b).



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