PAPER I - INDIAN ECONOMY & INDIAN FINANCIAL SYSTEM

Module A: INDIAN ECONOMIC ARCHITECTURE

Chapter 8: Foreign Trade Policy, Foreign Investments and Economic Development

MCQs Practice Pack

Question 1: Which statement best describes the difference between Economic Growth and Economic Development?

A. Economic Growth is a broader concept that includes improvements in quality of life, while Economic Development only measures the increase in national income.

B. Economic Growth focuses on the quantitative increase in a country's output (like GDP), while Economic Development is a broader, qualitative concept that includes poverty reduction and improved living standards.

C. The two terms are identical and can be used interchangeably.

D. Economic Growth is measured by the Human Development Index (HDI), while Economic Development is measured by GDP.

Question 2: What is the fundamental difference between Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII/FPI)?

A. FDI is a short-term investment in financial assets, while FII is a long-term investment in physical assets.

B. FDI is considered stable, long-term investment in production, while FII is short-term, volatile investment in financial markets ("hot money").

C. FDI can only be done by individuals, while FII is done by companies.

D. There is no significant difference between the two types of investment.

Question 3: What is a key new feature of the Foreign Trade Policy (FTP) 2023 that makes it different from previous five-year policies?

A. It has a fixed end date of 2028 to provide long-term stability.

B. It is a dynamic and open-ended policy with no fixed end date, allowing for updates as needed.

C. It focuses exclusively on restricting imports and promoting self-sufficiency.

D. It replaces all incentive schemes with direct cash subsidies for exporters.

Question 4: A foreign automobile company builds a brand new manufacturing plant and showroom in India to produce and sell cars for the local market. What type of Foreign Direct Investment (FDI) is this an example of?

A. Brownfield FDI

B. Joint Venture FDI

C. Portfolio FDI

D. Greenfield FDI

Question 5: When foreign investment is permitted in a particular sector without requiring any prior approval from the Government of India or the RBI, what is this entry path called?

A. The Government Route

B. The Automatic Route

C. The Prohibited Route

D. The FII Route

Question 6: Complete the following sentence: A key initiative of the Foreign Trade Policy 2023 is to boost grassroots-level exports by identifying and promoting unique products from every district in the country, a concept known as __________.

A. Make in India

B. Districts as Export Hubs (DEH)

C. Services from India Scheme (SEIS)

D. Smart Cities Mission

Question 7: Complete the following sentence: Short-term foreign investment in a country's financial assets like stocks and bonds is often referred to as "__________" because it is volatile and can be withdrawn quickly during economic uncertainty.

A. Stable Capital

B. Patient Money

C. Hot Money

D. Greenfield Investment

Question 8: Which of the following statements about the Foreign Trade Policy (FTP) 2015-2020 is TRUE?

A. Its primary goal was to reduce India's total exports to protect domestic industries.

B. It introduced the Services Exports from India Scheme (SEIS) to promote the export of notified services.

C. It successfully achieved its ambitious export target of USD 900 billion by 2020.

D. It increased the amount of physical paperwork required for trade facilitation to improve security.

Question 9: Which of the following statements regarding Foreign Direct Investment (FDI) policy in India is TRUE?

A. FDI is permitted in all sectors without any restrictions, including lottery and gambling.

B. The government prohibits FDI in the manufacturing of tobacco products.

C. The FDI limit in Public Sector Banking is 100% through the automatic route.

D. Multi Brand Retail Trading is a sector where 100% FDI is allowed automatically.

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

Column A (Term/Indicator)	**Column B (Represents/Measures)**
1. GDP	a. A reward scheme for merchandise exports under FTP 2015-20.
2. Human Development Index (HDI)	b. A long-term investment made by a foreign entity to control ownership.
3. MEIS	c. A quantitative measure of a country's total output (Economic Growth).
4. FDI	d. A qualitative measure of well-being and living standards (Economic Development).

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

A. 1-d

B. 2-d

C. 3-b

D. 4-a

Answer Key & Explanations

Q. No	Correct Answer	Explanation
1	B	**Economic Growth** is a narrow, quantitative measure of the increase in a country's output (GDP). **Economic Development** is a broader, qualitative concept that includes improvements in living standards, health, and education.
2	B	**FDI** is a long-term investment aimed at creating or acquiring lasting business interests. **FII/FPI** is a short-term investment in financial assets (stocks/bonds) and is known for its volatility ("hot money").
3	B	A major shift in the **FTP 2023** is that it is **dynamic and has no end date**. This allows the government to be more agile and update the policy in response to the changing global trade landscape.
4	D	A **Greenfield FDI** occurs when a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up, just as described in the scenario.
5	B	The **Automatic Route** is the entry path for FDI where foreign investors do not need prior approval from the government or RBI to invest in a sector, which simplifies the process significantly.
6	B	The **Districts as Export Hubs (DEH)** initiative is a new focus of FTP 2023, aiming to decentralize export promotion and leverage the unique potential of each district in India.
7	C	FII/FPI is often called **"Hot Money"** because it can flow into and out of a country's financial markets very quickly, making it a volatile and less stable source of foreign capital compared to FDI.

Q. No	Correct Answer	Explanation
8	B	Statement B is true. The FTP 2015-20 introduced two major reward schemes: the Merchandise Exports from India Scheme (MEIS) for goods, and the **Services Exports from India Scheme (SEIS)** for services.
9	B	Statement B is true. While India has liberalized its FDI policy across many sectors, FDI remains strictly **prohibited** in certain areas, including the manufacturing of cigars, cigarettes, and other **tobacco products**.
10	B	The **Human Development Index (HDI) (2-d)** is a composite statistic of life expectancy, education, and income, making it a key indicator of **Economic Development**, not just growth. (GDP=c, MEIS=a, FDI=b).