Q65

In the context of India, which of the following factors is/are contributor/ contributors to reducing the risk of a currency crisis? 1. The foreign currency earnings of India's IT sector 2. Increasing the government expenditure 3. Remittances from Indians abroad Select the correct answer using the code given below (a) 1 only (b) 1 and 3 only (c) 2 only (d) 1, 2 and 3 Official key: B.

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Explanation

(a)

(a) 1 only. Remittances (statement 3) also supply foreign exchange and cut currency-crisis risk. Dropping 3 is not the key.

(b) Official key

(b) 1 and 3 only. IT export earnings and inward remittances raise the supply of foreign currency and support the rupee. Raising government expenditure (statement 2) does not, by itself, reduce currency-crisis risk and may worsen the current account. That pair is the official key.

(c)

(c) 2 only. Higher government spending is not a classic buffer against a currency crisis. This option is not the key.

(d)

(d) 1, 2 and 3. Statement 2 does not belong, so the all-correct code fails.

Summary

Official key is (b). Invisible receipts from IT services and from workers' remittances are durable sources of dollars and reduce run risk on the rupee. Fiscal expansion is not a currency-crisis hedge. Honour (b).

Related possible facts

These can be asked in a future Prelims paper.

Invisibles

Services (IT/ITeS) and private transfers (remittances)

Current account
Software exports and remittances often offset the merchandise deficit

Forex reserves
RBI buffer against sudden stops

Twin deficits
Fiscal plus current-account stress can feed a currency scare

IT-BPM
India's large surplus on computer services