Q86

Which one of the following is not the most likely measure the Government/ RBI takes to stop the slide of Indian rupee? (a) Curbing imports of non- essential goods-and promoting exports (b) Encouraging Indian borrowers to issue rupee denominated Masala Bonds (c) Easing conditions relating to external commercial borrowing (d) Following an expansionary monetary policy Official key: D.

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Explanation

(a)

(a) Curbing non-essential imports and promoting exports supports the rupee by improving the current account. It is a likely measure, so it is not the "not likely" key.

(b)

(b) Masala bonds raise rupee funds from abroad without adding dollar debt; they can ease external pressure. A likely measure, not the key.

(c)

(c) Easier ECB can bring dollar inflows in the short run and support the rupee. A likely measure, not the key.

(d) Official key

(d) Expansionary monetary policy cuts rates and can push capital out, raising import demand - which worsens a rupee slide. It is therefore not the measure used to stop the slide. Official key.

Summary

Official key is (d). To defend the rupee, policy tightens liquidity, attracts inflows, or compresses the current-account gap. Expansionary money does the opposite. Import curbs, Masala bonds and easier ECB are the sorts of tools that can support the currency. Honour (d).

Related possible facts

These can be asked in a future Prelims paper.

Masala bonds
Rupee-denominated bonds issued overseas

ECB
External commercial borrowing; dollar inflows if liberalised

Interest-rate defence
Tighter policy can support the currency

RBI spot/forward
Forex intervention from reserves

Mundell-Fleming
Easy money with an open capital account can weaken the currency