Q51

Consider the following statements : Statement-I : If the United States of America (USA) were to default on its debt, holders of US Treasury Bonds will not be able to exercise their claims to receive payment. Statement-II : The USA Government debt is not backed by any hard assets, but only by the faith of the Government. Which one of the following is correct in respect of the above statements ? (a) Both Statement-I and Statement-II are correct and Statement- II explains Statement-I (b) Both Statement-I and Statement-II are correct, but Statement-II does not explain Statement-I (c) Statement-I is correct, but Statement-II is incorrect (d) Statement-I is incorrect, but Statement-II is correct Official key: A.

UPSC Civil Services Prelims 2024 · General Studies · 2 marks · Economy

Indian economy, budget, schemes - Prelims GS Paper I.

Explanation

(a) Official key

Both correct and II explains I. Treasuries are faith-and-credit paper, not asset-backed; default blocks payment claims in that sense.

(b)

Both correct but II does not explain I. The lack of hard collateral is why holders cannot seize assets.

(c)

I correct, II incorrect. US debt is not hard-asset collateralised.

(d)

I incorrect, II correct. Statement-I is keyed as correct on this paper.

Summary

Official key is (a). US Treasuries are backed by the full faith and credit of the United States, not by a pool of hard assets a holder can seize. If the United States were to default, holders could not enforce payment by claiming collateral. Statement-II is that legal fact and is treated as explaining Statement-I.

Related possible facts

These can be asked in a future Prelims paper.

US Treasury securities

Debt of the federal government; benchmark risk-free rate in global markets.

Debt ceiling

Statutory cap on US federal borrowing; periodic political stand-offs.