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Daily MCQs: 28-05-2024

1. Consider the following statements about Unlawful Activities (Prevention) Amendment Act, 2019

- 1) It empowers both the central and state government to designate an individual a "terrorist" if they are found committing an act of terror.
- 2) It requires any investigating officer to take prior permission of the Director General of Police of a state for conducting raids.

Which of the statements given above is/are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

2. Which of the following statements is correct about Sensex?

- A) It is an index of 50 leading companies listed on the National Stock Exchange.
- B) It reflects the performance of 30 large and well-established companies on the Bombay Stock Exchange.
- C) It is calculated based on the average price of all the companies listed on the BSE.
- D) None of the above

3. Consider the following statements about the Karman Line:

- 1) It is the internationally recognized boundary between Earth's atmosphere and outer space.
- 2) It is located approximately 100 kilometers above mean sea level.

Which of the statements given above is/are correct?

- A) 1 only
- B) 2 only
- C) Both 1 and 2
- D) Neither 1 nor 2

4. With reference to the Insolvency and Bankruptcy Code (IBC), consider the following statements.

1. Insolvency is a situation where individuals or companies are unable to repay their outstanding debt.
2. The minimum amount of default after which the creditor or debtor could apply for insolvency is ₹1 lakh.
3. The Debt Recovery Tribunal adjudicates insolvency resolutions for individuals and partnership firms.

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- Amendments to IBC mandate a deadline for the completion of the resolution process within 330 days.

How many of the statements given above is/are correct?

- Only one
- Only two
- Only three
- All four

5. Consider the following statements.

- Foreign Direct Investment (FDI) is a source of capital in the primary market.
- Foreign Portfolio Investment (FPI) is considered to be more stable than FDI.
- A major differentiating factor between FDI and FPI is that FPI has the element of control in which investors actively manage and influence a foreign firm's operations.

Which of the statements given above is/are correct?

- 1 only
- 1 and 2 only
- 1 and 3 only
- 2 and 3 only

Solutions:

1. Answer: D

Explanation

- The Unlawful Activities (Prevention) Amendment Act, 2019 was passed by the Parliament in 2019. It amends the **Unlawful Activities (Prevention) Act, 1967**.
- Statement 1 is incorrect:** The amendment act **empowers the central government** to designate an **individual a "terrorist"** if they are found committing, preparing for, promoting, or involved in an act of terror. Earlier, the Central Government was having powers only to designate **organizations as terrorist organizations**.
- The UAPA law of 1967 requires an investigating officer to take **prior permission of the Director General of Police of a state** for conducting raids, and seizing properties that are suspected to be linked to terrorist activities.
- The **amendment act of 2019 however, removes this requirement** if the **investigation is conducted by an officer of the National Investigation Agency (NIA)**. The investigating officer, under the 2019 act, **only requires sanction from the Director General of NIA. Hence statement 2 is incorrect.**
 - Central agencies such as the **Central Bureau of Investigation (CBI) are required to obtain prior permission** from the state government since law and order is a state subject under the Constitution.
- The UAPA law of 1967 specifies that only officers of the rank of Deputy Superintendent or Assistant Commissioner of Police of the NIA shall have the **power to investigate offenses** under the UAPA law. The amendment act seeks to allow **NIA officers of Inspector rank to carry out investigations**.

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Why in News?

- A tribunal under the Unlawful Activities (Prevention) Act (UAPA) has upheld the Centre's decision to declare seven valley based Meitei extremist organizations as "unlawful associations" for the next five years.

What is a UAPA tribunal?

- The UAPA provides for a **tribunal** under a **High Court judge** to be constituted by the government for its bans to have **long-term legal sanctity**.
- Orders to declare an organization as "**unlawful**" are issued by the Centre under the **UAPA**. A **government order would not come into effect until the tribunal has confirmed it**.
 - However, in exceptional circumstances, the notification can come into effect immediately once the reasons for it are recorded in writing. The tribunal can endorse or reject it.
- The tribunal consists of **only one person**, who has to be a **High Court judge**.
- The Centre is to provide to the tribunal such **staff** as necessary for the discharge of its functions. All expenses incurred for a tribunal are **borne out of the Consolidated Fund of India**.
- The tribunal has **power to regulate its own procedure**, including the place at which it holds its sittings.
- To make inquiries, the tribunal has the **same powers as vested in a civil court** under the **Code of Civil Procedure, 1908**.
 - These can be exercised in summoning a witness and examining him on oath; production of any document or other material object producible as evidence; the reception of evidence on affidavits; the requisitioning of any public record from any court or office; and the issuing of any commission for the examination of witnesses.
- All proceedings before the Tribunal are **deemed to be judicial proceedings**.

2. Answer: B

Explanation

- Launched in **1986**, the **Sensex** is the **country's oldest and most tracked index**. It is designed to **measure the performance of the 30 largest, most liquid, and financially sound companies** across key sectors of the Indian economy that are listed at BSE Ltd. Among the companies that are part of the Sensex are Reliance Industries, ICICI Bank, and ITC Ltd.
- These companies are selected to represent the broader Indian equity marketplace. As such, even though the Sensex is composed of only 30 stocks, investors make decisions to buy or sell based on the movement of the Sensex.
- The **total market capitalisation**, or the total value of all listed shares, of BSE-listed firms is **Rs 419.99 lakh crore** (May 24).

And how is Nifty different from Sensex?

- The difference lies in the **number of stocks** that each index tracks. While the Sensex constitutes **30 companies** trading on the BSE, the **Nifty 50 is a broad-based index consisting of 50 blue chip large and liquid stocks** traded on the **National Stock Exchange of India (NSE)**.

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- The Nifty 50 was started in **1995**. It includes companies such as Adani Enterprises, Bajaj Finance, and Coal India.
- The market capitalisation of NSE firms is **Rs 416.04 lakh crore** (May 24).

How are companies selected in Sensex?

- To be considered for selection, a stock must satisfy **certain requirements**. The Sensex is **reconstituted biannually**, in **June and December** of every year.
- It must have a **listing history of at least six months at BSE**, and it should have **traded on every trading day** at the BSE during this six-month reference period.
- To be eligible, the stock should have a **derivative contract**, that is, an agreement between two parties to buy or sell any form of security at a certain price in the future.
 - *A derivative is a financial instrument whose value is based on the value of an underlying asset like equities and currency.*
- The company must be **among the top 75 companies** based on their average three-month float or total market cap.
- It should have a minimum free-float market cap of 0.50% after market cap and liquidity criteria are met.
- In terms of liquidity, the cumulative weight of the three-month average daily value traded (ADVT) is calculated for companies that meet the eligibility requirements. Any prospective constituents with a total weight of ADVT greater than 98% are excluded from the index.

Why in News?

- Adani Ports and Special Economic Zone Ltd (APSEZ) is set to be included in the Sensex at the Bombay Stock Exchange, replacing Wipro.

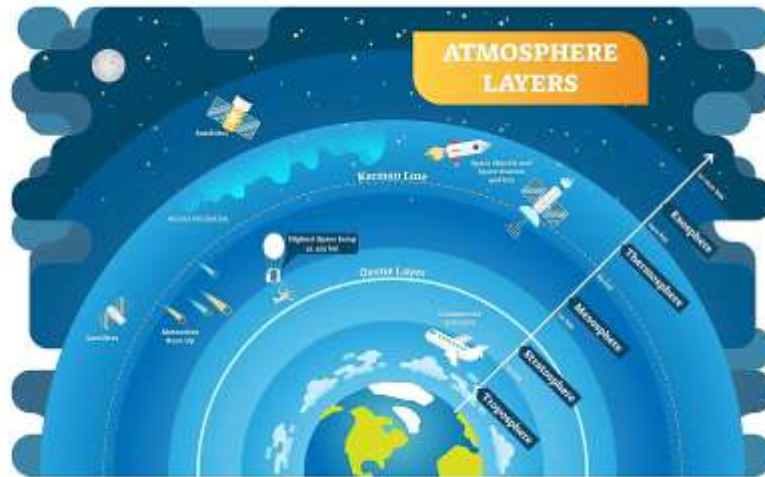
3. Answer: C

Explanation

- The Karman line is a **boundary 62 miles (100 kilometers) above mean sea level that borders Earth's atmosphere and the beginning of space**.
- It is widely accepted as the **boundary line separating the Earth's atmosphere from outer space**.
- The line is named after Hungarian American engineer and physicist **Theodore von Karman**.

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4. Answer: C

Explanation:

- **Statement 1 is correct: Insolvency** is a situation where individuals or companies are unable to repay their outstanding debt.
- The Insolvency and Bankruptcy Code (IBC) provides a time-bound process for resolving the insolvency of corporate debtors called the **corporate insolvency resolution process (CIRP)**.
- **Statement 2 is incorrect:** Earlier, the **minimum amount of default** after which the creditor or debtor could apply for insolvency was ₹1 lakh, but considering the stress on companies amid the covid pandemic, the government increased the minimum amount to **₹1 crore**.
- Under CIRP, a **committee of creditors** is constituted to decide on the insolvency resolution. The committee may consider a **resolution plan** which typically provides for the payoff of debt by merger, acquisition, or restructuring of the company.
- If a resolution plan is not approved by the committee of creditors within the specified time, the company is **liquidated** (the assets of the borrower will be sold to repay creditors).
- During CIRP, the affairs of the company are managed by the **Resolution Professional (RP)**, who is appointed to conduct CIRP.
- **Statement 3 is correct:** The **National Company Law Tribunal (NCLT)** adjudicates insolvency resolutions for companies and Limited Liability Partnerships. The **Debt Recovery Tribunal (DRT)** adjudicates insolvency resolution for individuals and partnership firms.
- The **Insolvency and Bankruptcy Board of India (IBBI)** regulates the functioning of IPs, IPAs and IUs.
- **Statement 4 is correct:** The code was amended in 2019 which mandated a deadline for the completion of the resolution process **within 330 days, including all litigation and judicial processes**.

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Insolvency and Bankruptcy Code (Amendment) Act, 2021

- In 2021, the Parliament passed the Insolvency and Bankruptcy Code (Amendment) Act, 2021 to expedite and provide an efficient **alternate insolvency resolution process for corporate persons classified as micro, small and medium enterprises (MSMEs)** under IBC.

Highlights of the Act

Pre-packaged insolvency resolution

- The Act introduces an **alternate insolvency resolution process for MSMEs**, called the **pre-packaged insolvency resolution process (PIRP)**.
- Unlike CIRP, **PIRP may be initiated only by debtors**. The debtor should have a **base resolution plan** in place.
- During PIRP, the **management of the company will remain with the debtor**.

Minimum default amount

- Application for initiating PIRP may be filed in the event of a **default of at least one lakh rupees**.

Debtors eligible for PIRP

- PIRP may be initiated in the event of a default by a corporate debtor classified as an MSME under the **MSME Development Act, 2006**.
 - Currently, under the 2006 Act, **an enterprise with an annual turnover of up to Rs 250 crore, and investment in plant and machinery or equipment up to Rs 50 crore**, is classified as an MSME.

5. Answer: A

Explanation:

FDI

- **Foreign Direct Investment (FDI)** is the **investment made by a person or a company in one country into businesses located in another country**.
- Generally, FDI takes place when an investor establishes foreign business operations or acquires foreign business assets.
- FDI is an investment made in the **form of equity capital, reinvested earnings or other direct capital** by setting up an enterprise.
- FDI enables setting up of businesses; more businesses mean more jobs and capacity addition.
- **Statement 1 is correct:** In other words, FDI is a source of capital in the primary market and this capital gets converted into goods and services.
- **Statement 3 is incorrect:** The key to foreign direct investment is the **element of control**. Control represents the intent to actively manage and influence a foreign firm's operations. This is the major differentiating factor between FDI and a passive foreign portfolio investment.

FPI

- Foreign Portfolio Investment (FPI) means **investing in the financial assets** of a foreign country, such as stocks or bonds available on an exchange.
- FPI is often referred to as **"hot money"** because of its tendency to flee at the first signs of trouble in an economy.

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Why is FDI preferred?

- **Statement 2 is incorrect: FDI is considered a more stable form** of foreign capital infusion as it brings in a certain expenditure that can't be pulled out overnight.
- It creates jobs and can potentially aid economic growth.
- FPI, on the other hand, can come and go easily. Sudden withdrawal can create liquidity problems in the securities market and hit the foreign exchange rate of the country.

