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Most Probable MCQs on Finance



PFRDA 2025

Most probable MCQs

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Part 3: MCQs on Finance (Questions 141-220)

141. What is the primary function of commercial banks?

- A) Issuing currency
- B) Accepting deposits and granting loans
- C) Regulating stock markets
- D) Managing pension funds directly

Correct Answer: B

Explanation: Commercial banks mobilize savings through deposits and provide credit, forming the backbone of financial intermediation, which supports pension investments indirectly.

142. Which banking product allows overdraft facility?

- A) Fixed Deposit
- B) Current Account
- C) Savings Account
- D) Recurring Deposit

Correct Answer: B

Explanation: Current accounts cater to businesses with frequent transactions and overdrafts, unlike savings accounts which focus on interest earnings.

143. The Reserve Bank of India (RBI) was established in

- A) 1935
- B) 1947
- C) 1950
- D) 1969

Correct Answer: A

Explanation: RBI, under RBI Act 1934, started operations in 1935 as central bank, crucial for

monetary policy affecting pension fund yields.

144. What is RBI's role in monetary policy?

- A) Fiscal budgeting
- B) Controlling money supply and interest rates
- C) Tax collection
- D) Export promotion

Correct Answer: B

Explanation: Through tools like repo rate, RBI manages inflation and liquidity, impacting investment returns in pension schemes.

145. Financial markets are classified into

- A) Money market and capital market
- B) Only equity market
- C) Commodity market only
- D) Insurance market

Correct Answer: A

Explanation: Money market for short-term funds, capital for long-term, both vital for pension fund portfolio diversification.

146. What is a Treasury Bill?

- A) Long-term bond
- B) Short-term government security
- C) Equity share
- D) Derivative

Correct Answer: B

Explanation: T-Bills are zero-coupon instruments issued by RBI for government borrowing, used in low-risk pension investments.

147. Bond valuation primarily uses

- A) Discounted cash flow method
- B) Book value
- C) Market capitalization
- D) Nominal value

Correct Answer: A

Explanation: Present value of future coupons and principal, discounted at yield to maturity,

key for assessing pension bond holdings.

148. What is Yield to Maturity (YTM)?

- A) Current yield only
- B) Total return if held to maturity
- C) Coupon rate
- D) Face value return

Correct Answer: B

Explanation: YTM considers coupons, price, and time, influencing pension fund performance metrics.

149. Financial inclusion aims to

- A) Provide banking to unbanked populations
- B) Increase taxes
- C) Reduce exports
- D) Limit credit

Correct Answer: A

Explanation: Initiatives like PMJDY promote access, extending to pension products like APY for informal sectors.

150. What is KYC in banking?

- A) Know Your Customer
- B) Keep Your Cash
- C) Key Yield Control
- D) Knowledge Yield Curve

Correct Answer: A

Explanation: Mandatory for onboarding, prevents money laundering, essential in pension subscriber verification.

151. Risk management in financial institutions involves

- A) Identifying, assessing, and mitigating risks
- B) Ignoring market fluctuations
- C) Only credit risk
- D) Maximizing leverage

Correct Answer: A

Explanation: Covers credit, market, operational risks, critical for safeguarding pension

assets.

152. What is Credit Risk?

- A) Borrower default
- B) Interest rate change
- C) Currency fluctuation
- D) Operational failure

Correct Answer: A

Explanation: Managed through credit ratings, provisioning, affecting loan portfolios in banks funding pension infra.

153. Derivatives are financial instruments deriving value from

- A) Underlying assets
- B) Fixed deposits
- C) Equity only
- D) Cash

Correct Answer: A

Explanation: Include futures, options for hedging, used by pension funds to manage portfolio risks.

154. A Call Option gives the right to

- A) Buy at strike price
- B) Sell at strike price
- C) Ignore
- D) Borrow

Correct Answer: A

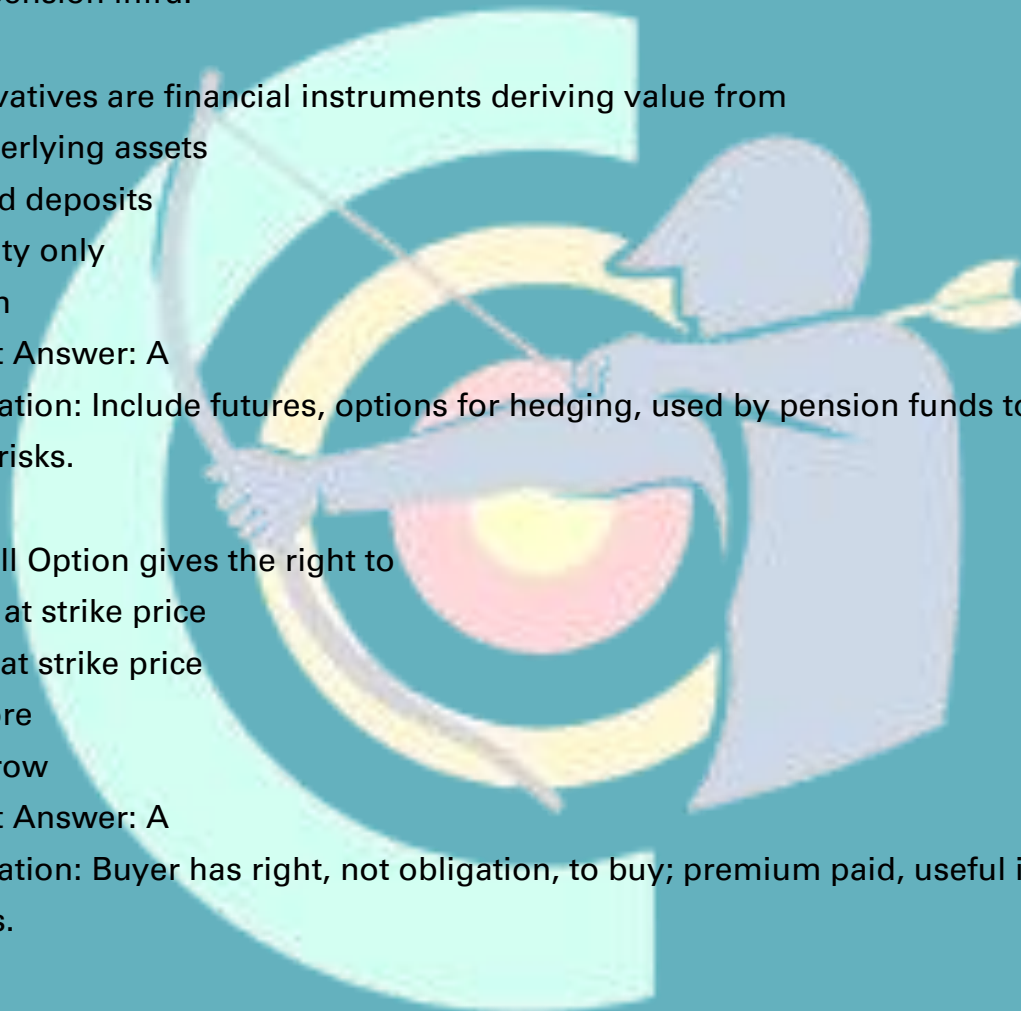
Explanation: Buyer has right, not obligation, to buy; premium paid, useful in bullish pension strategies.

155. International banking involves

- A) Cross-border transactions and foreign exchange
- B) Domestic only
- C) No regulations
- D) Local currency only

Correct Answer: A

Explanation: Includes SWIFT, forex markets, enabling global diversification in pension



investments.

156. What is FOREX market?

- A) Foreign Exchange for currency trading
- B) Stock exchange
- C) Bond market
- D) Commodity

Correct Answer: A

Explanation: Largest market, spot/forward trades, impacts international pension fund exposures.

157. Basel I norms focused on

- A) Credit risk capital requirements
- B) Operational risk
- C) Market risk
- D) All risks

Correct Answer: A

Explanation: Introduced 8% CAR, foundation for banking stability affecting pension lenders.

158. Basel II introduced

- A) Three pillars: capital, supervision, disclosure
- B) Only capital
- C) No changes
- D) Reduced requirements

Correct Answer: A

Explanation: Enhanced risk sensitivity, pillar 2 for supervisory review, relevant for PFRDA-regulated entities.

159. Basel III emphasizes

- A) Higher capital buffers and liquidity ratios
- B) Lower capital
- C) Ignoring crises
- D) Only credit

Correct Answer: A

Explanation: LCR, NSFR introduced post-2008, strengthening banks holding pension funds.

160. Asset Reconstruction Companies (ARCs) deal with

- A) NPAs acquisition and resolution
- B) New loans
- C) Equity issuance
- D) Deposits

Correct Answer: A

Explanation: Under SARFAESI Act, ARCs like ARCIL buy bad loans, aiding bank balance sheets for pension lending.

161. What is a Non-Performing Asset (NPA)?

- A) Loan with interest/principal overdue >90 days
- B) Performing loan
- C) Deposit
- D) Equity

Correct Answer: A

Explanation: Classified as substandard, doubtful, loss; impacts bank profitability and pension security.

162. Capital Market includes

- A) Equity and debt securities for long-term funds
- B) Short-term only
- C) Currency
- D) Commodities

Correct Answer: A

Explanation: SEBI-regulated, where pension funds invest in stocks/bonds for growth.

163. What is IPO?

- A) Initial Public Offering
- B) Interest Payment Order
- C) International Payment Option
- D) Investment Portfolio Optimization

Correct Answer: A

Explanation: Company raises capital by listing shares, avenue for pension fund equity exposure.

164. Bond duration measures

- A) Sensitivity to interest rate changes
- B) Maturity only
- C) Coupon rate
- D) Face value

Correct Answer: A

Explanation: Macaulay duration as weighted average time, key for interest rate risk in pension bonds.

165. Pradhan Mantri Jan Dhan Yojana (PMJDY) promotes

- A) Financial inclusion via zero-balance accounts
- B) High-interest loans
- C) Export finance
- D) Corporate banking

Correct Answer: A

Explanation: Overdraft, insurance linked, extends to pension access for low-income groups.

166. What is AML?

- A) Anti-Money Laundering
- B) Asset Management Loan
- C) Average Market Level
- D) Annual Maintenance Limit

Correct Answer: A

Explanation: Regulations to prevent illicit funds, mandatory in pension and banking KYC.

167. Operational Risk in banks arises from

- A) Failed processes, people, systems
- B) Credit defaults
- C) Market volatility
- D) Interest changes

Correct Answer: A

Explanation: Basel II pillar, managed via controls, crucial for pension transaction security.

168. Market Risk includes

- A) Price fluctuations in assets
- B) Borrower default
- C) Operational failures

D) Legal issues

Correct Answer: A

Explanation: VaR models used, affecting pension portfolio valuations.

169. Futures contracts are

A) Standardized, exchange-traded agreements to buy/sell at future date

B) Over-the-counter only

C) Optional

D) No settlement

Correct Answer: A

Explanation: Obligatory, used for hedging commodity/forex risks in pensions.

170. Put Option gives right to

A) Sell at strike price

B) Buy

C) Hold

D) Lend

Correct Answer: A

Explanation: Protects against price falls, insurance for pension equity holdings.

171. SWIFT in international banking is

A) Society for Worldwide Interbank Financial Telecommunication

B) Simple Wire Transfer

C) Secure Wealth Investment Fund Transfer

D) Standard World Interest Finance Tool

Correct Answer: A

Explanation: Secure messaging for cross-border payments, used in global pension remittances.

172. Balance of Payments (BoP) records

A) Country's transactions with rest of world

B) Internal trade

C) Bank balances

D) Pension contributions

Correct Answer: A

Explanation: Current/capital accounts, influences forex reserves for pension investments.

173. Capital Adequacy Ratio (CAR) under Basel is

- A) Capital / Risk-Weighted Assets
- B) Deposits / Loans
- C) Profits / Assets
- D) Equity / Debt

Correct Answer: A

Explanation: Minimum 10.5% in India, ensures bank solvency for pension deposits.

174. Pillar 3 of Basel II is

- A) Market discipline through disclosures
- B) Capital requirements
- C) Supervisory review
- D) Risk assessment

Correct Answer: A

Explanation: Enhances transparency, aiding pension investors' decisions.

175. Leverage Ratio in Basel III is

- A) Tier 1 Capital / Total Exposure
- B) Debt / Equity
- C) Assets / Liabilities
- D) Profits / Capital

Correct Answer: A

Explanation: Minimum 3%, curbs excessive leverage in banks.

176. SARFAESI Act 2002 enables

- A) Banks to recover NPAs without court
- B) New loans
- C) Deposit insurance
- D) Pension setup

Correct Answer: A

Explanation: Securitization and reconstruction, supports ARC operations for clean banking.

177. Money Market instruments include

- A) Commercial Paper, CDs, T-Bills
- B) Shares

C) Debentures

D) Options

Correct Answer: A

Explanation: Short-term, low-risk, used for liquidity in pension funds.

178. SEBI regulates

A) Capital markets and mutual funds

B) Banks

C) Insurance

D) Pensions directly

Correct Answer: A

Explanation: Ensures fair practices, indirect impact on pension equity investments.

179. Convexity in bonds measures

A) Curvature of price-yield relationship

B) Linear sensitivity

C) Coupon only

D) Maturity

Correct Answer: A

Explanation: Adjusts duration for large yield changes, advanced risk tool for pensions.

180. Stand-Up India scheme promotes

A) Entrepreneurship among women/SC/ST

B) Foreign investment

C) Pension only

D) Export

Correct Answer: A

Explanation: Loans for greenfield projects, links to financial inclusion.

181. UPI in banking is

A) Unified Payments Interface

B) Universal Pension Investment

C) United Profit Index

D) User Payment Insurance

Correct Answer: A

Explanation: NPCI-managed, facilitates instant transfers, useful for pension contributions.

182. Liquidity Risk is

- A) Inability to meet short-term obligations
- B) Credit default
- C) Market crash
- D) Operational error

Correct Answer: A

Explanation: Managed via LCR under Basel, protects pension withdrawals.

183. Interest Rate Risk arises from

- A) Changes in rates affecting asset values
- B) Currency changes
- C) Defaults
- D) Frauds

Correct Answer: A

Explanation: Gap analysis used, critical for fixed-income pension assets.

184. Swaps in derivatives are

- A) Exchanges of cash flows, e.g., interest rate swaps
- B) Options
- C) Futures
- D) Spots

Correct Answer: A

Explanation: Hedge against rate fluctuations in pension liabilities.

185. Black-Scholes model is for

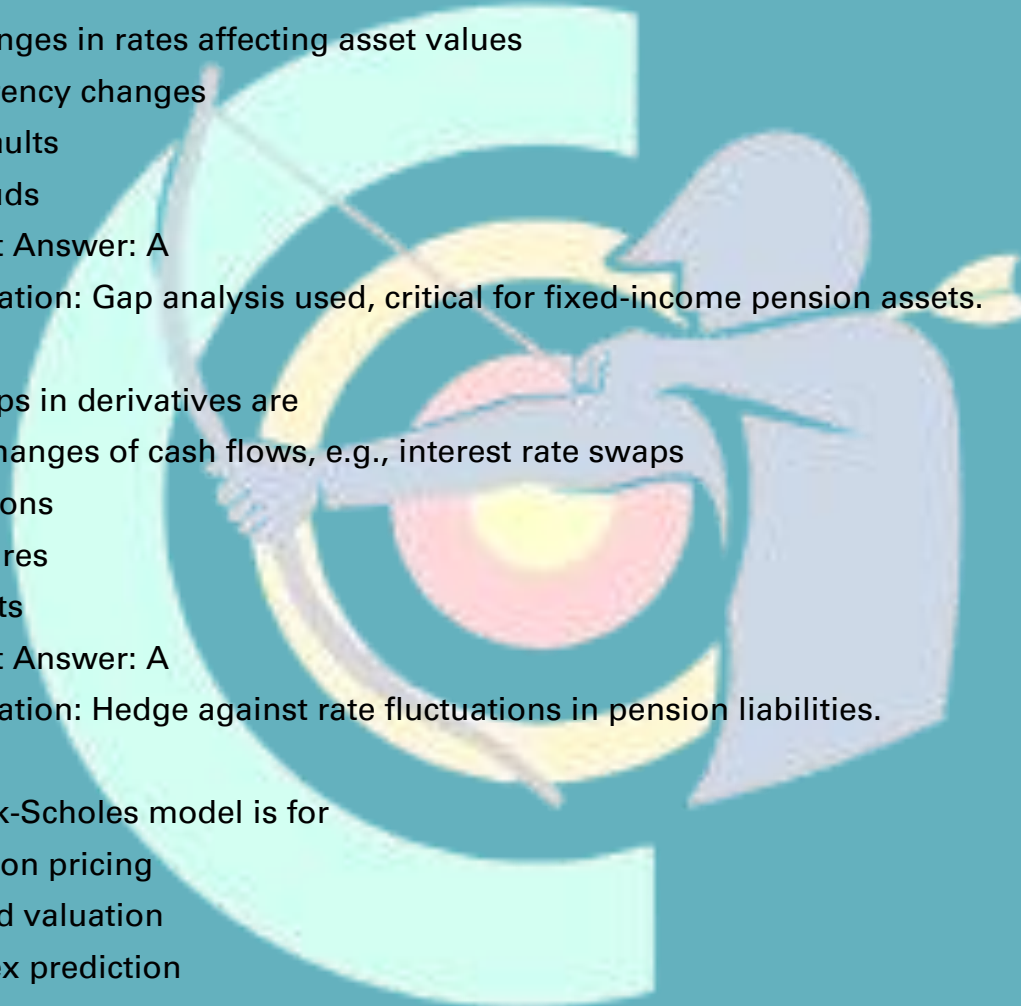
- A) Option pricing
- B) Bond valuation
- C) Forex prediction
- D) Risk weighting

Correct Answer: A

Explanation: Uses variables like volatility, time, for fair value in pension derivatives.

186. IMF stands for

- A) International Monetary Fund
- B) Indian Monetary Finance



- C) Internal Market Fund
- D) Investment Management Firm

Correct Answer: A

Explanation: Provides financial stability, influences global policies affecting Indian pensions.

187. FDI in India is regulated by

- A) DPIIT and RBI
- B) SEBI only
- C) IRDAI
- D) PFRDA

Correct Answer: A

Explanation: Automatic/approval routes, boosts capital for pension infra investments.

188. Countercyclical Buffer in Basel III is

- A) Additional capital during booms
- B) Fixed
- C) Reduced in crises
- D) None

Correct Answer: A

Explanation: 0-2.5% of RWA, builds resilience for downturns.

189. Insolvency and Bankruptcy Code (IBC) 2016 handles

- A) Corporate resolution processes
- B) Individual only
- C) No timelines
- D) Banks excluded

Correct Answer: A

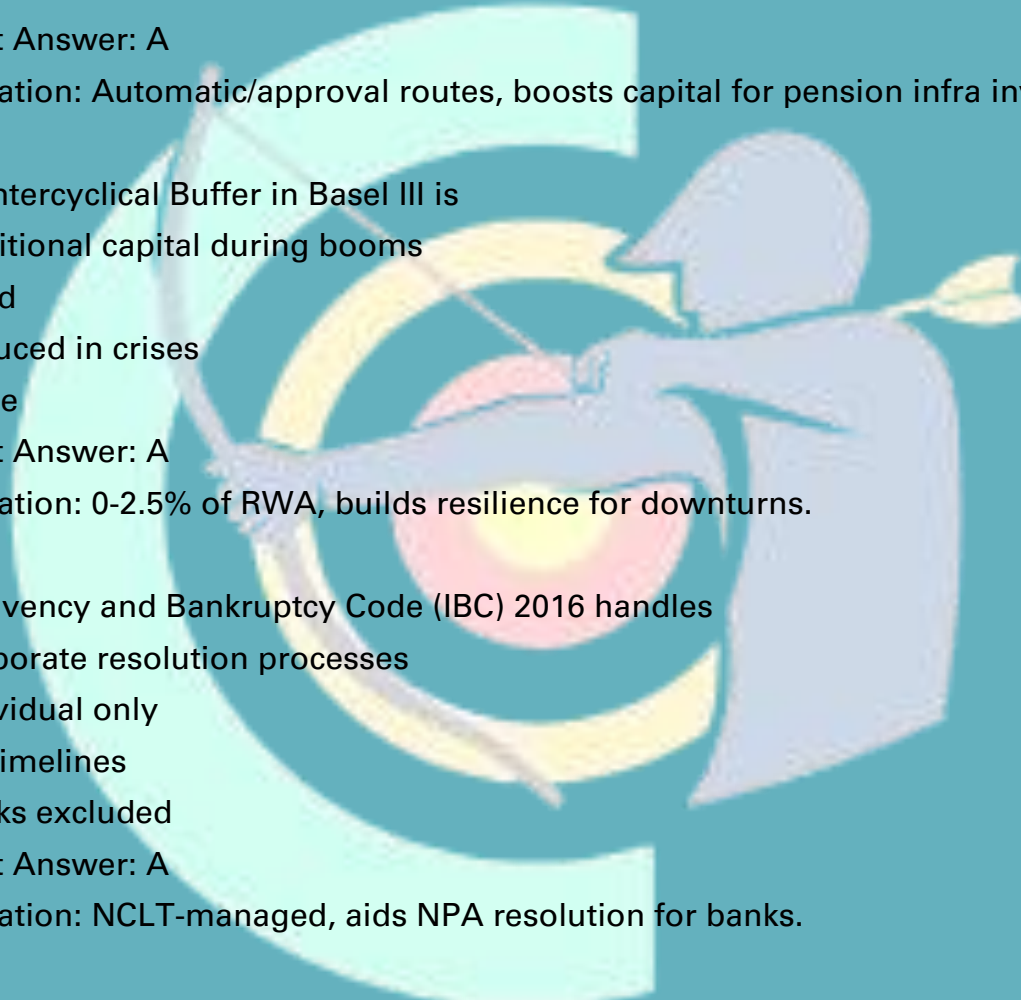
Explanation: NCLT-managed, aids NPA resolution for banks.

190. Commercial Banks in India are governed by

- A) Banking Regulation Act 1949
- B) Companies Act
- C) SEBI Act
- D) PFRDA Act

Correct Answer: A

Explanation: RBI supervision, ensures stability for pension ecosystem.



191. Repo Rate is

- A) Rate at which RBI lends to banks
- B) Borrowing rate
- C) Deposit rate
- D) Inflation rate

Correct Answer: A

Explanation: Key policy tool, affects borrowing costs for pension funds.

192. Primary Market is for

- A) New issue of securities
- B) Trading existing
- C) Derivatives
- D) Forex

Correct Answer: A

Explanation: Raises fresh capital, like bonds for government pension schemes.

193. Zero-Coupon Bonds pay

- A) No interest, discounted issuance
- B) Regular coupons
- C) Variable interest
- D) Equity dividends

Correct Answer: A

Explanation: Yield from discount to face value, used in long-term pension planning.

194. MUDRA scheme provides

- A) Micro loans to non-corporate small businesses
- B) Large corporate finance
- C) Pension only
- D) Export credit

Correct Answer: A

Explanation: Shishu, Kishore, Tarun categories, promotes inclusion.

195. RTGS is for

- A) Real-Time Gross Settlement of large values
- B) Small transfers



C) Batch processing

D) International only

Correct Answer: A

Explanation: Minimum Rs. 2 lakh, ensures secure pension bulk transfers.

196. Systemic Risk is

A) Failure of one institution affecting others

B) Individual risk

C) No impact

D) Operational only

Correct Answer: A

Explanation: Too-big-to-fail concept, Basel addresses via SIFI regulations.

197. Currency Risk in forex is

A) Adverse exchange rate movements

B) Interest rates

C) Defaults

D) Operations

Correct Answer: A

Explanation: Hedged via forwards, important for international pension exposures.

198. Binomial Model for options uses

A) Discrete time steps for pricing

B) Continuous

C) No volatility

D) Fixed price

Correct Answer: A

Explanation: Tree-based, alternative to Black-Scholes for American options.

199. WTO deals with

A) Global trade rules

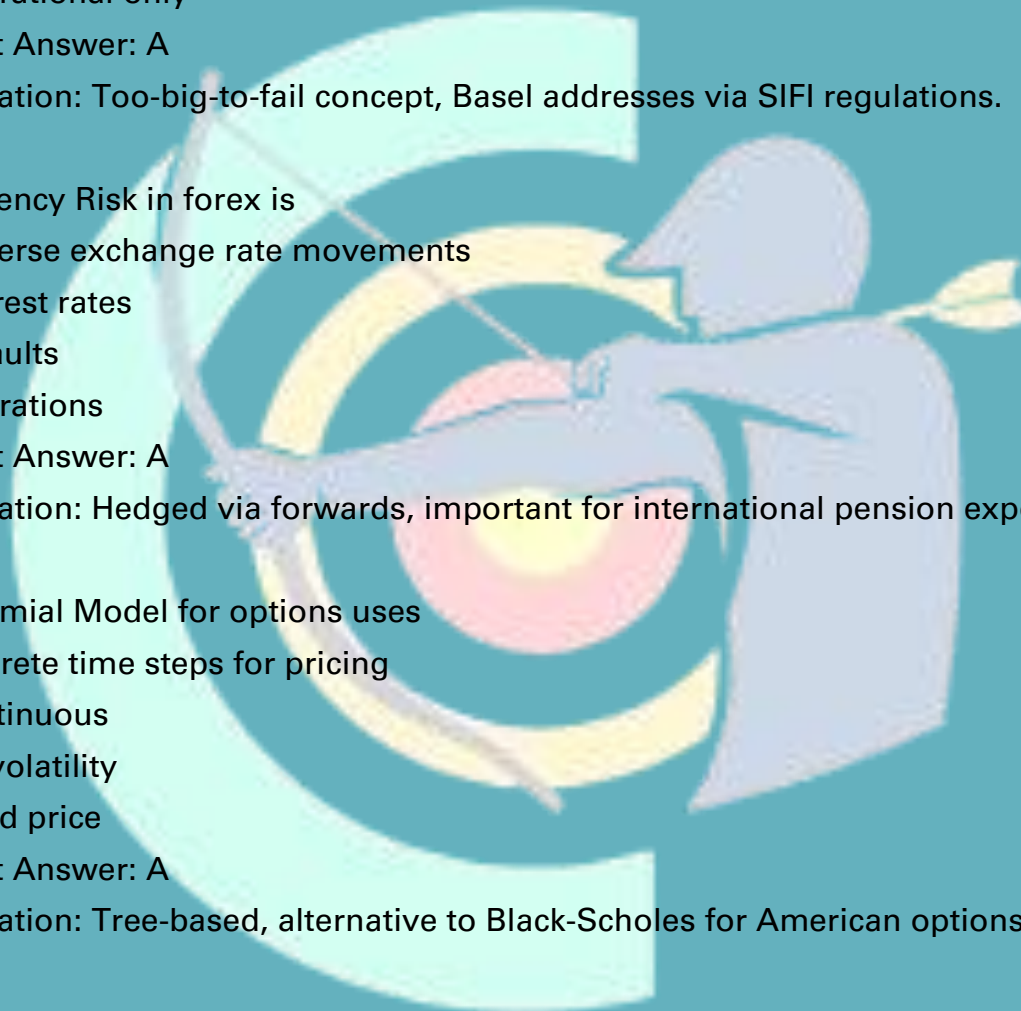
B) Monetary policy

C) Pensions

D) Local finance

Correct Answer: A

Explanation: Impacts financial services trade, indirectly affecting Indian banking.



200. Prompt Corrective Action (PCA) by RBI is for

- A) Weak banks to restrict activities
- B) Strong banks
- C) No action
- D) Pensions

Correct Answer: A

Explanation: Triggers based on CRAR, NPA, ROA, protects depositors including pensioners.

201. Secondary Market allows

- A) Trading of existing securities
- B) New issues
- C) No liquidity
- D) Only bonds

Correct Answer: A

Explanation: Provides liquidity, enabling pension funds to adjust portfolios.

202. Inflation-Indexed Bonds protect against

- A) Rising prices by adjusting principal
- B) Deflation
- C) Fixed yields
- D) Equity risks

Correct Answer: A

Explanation: Linked to CPI, suitable for inflation-proofing pensions.

203. Priority Sector Lending (PSL) targets

- A) 40% of ANBC for vulnerable sectors
- B) Corporate only
- C) No targets
- D) Foreign

Correct Answer: A

Explanation: Includes agriculture, MSME, supports inclusive growth linked to pensions.

204. NEFT is

- A) National Electronic Funds Transfer, batch settlement
- B) Real-time

C) International

D) Gross

Correct Answer: A

Explanation: No minimum, hourly batches, for retail pension payments.

205. Value at Risk (VaR) measures

A) Potential loss over time at confidence level

B) Guaranteed profit

C) No risk

D) Average return

Correct Answer: A

Explanation: e.g., 95% VaR, used in risk management for pensions.

206. Forward Contracts are

A) OTC agreements for future delivery

B) Exchange-traded

C) Optional

D) Spot

Correct Answer: A

Explanation: Customized, counterparty risk, for forex hedging in pensions.

207. American Option can be exercised

A) Anytime before expiry

B) Only at expiry

C) After expiry

D) Never

Correct Answer: A

Explanation: Unlike European, adds flexibility in pension strategies.

208. ADB is

A) Asian Development Bank

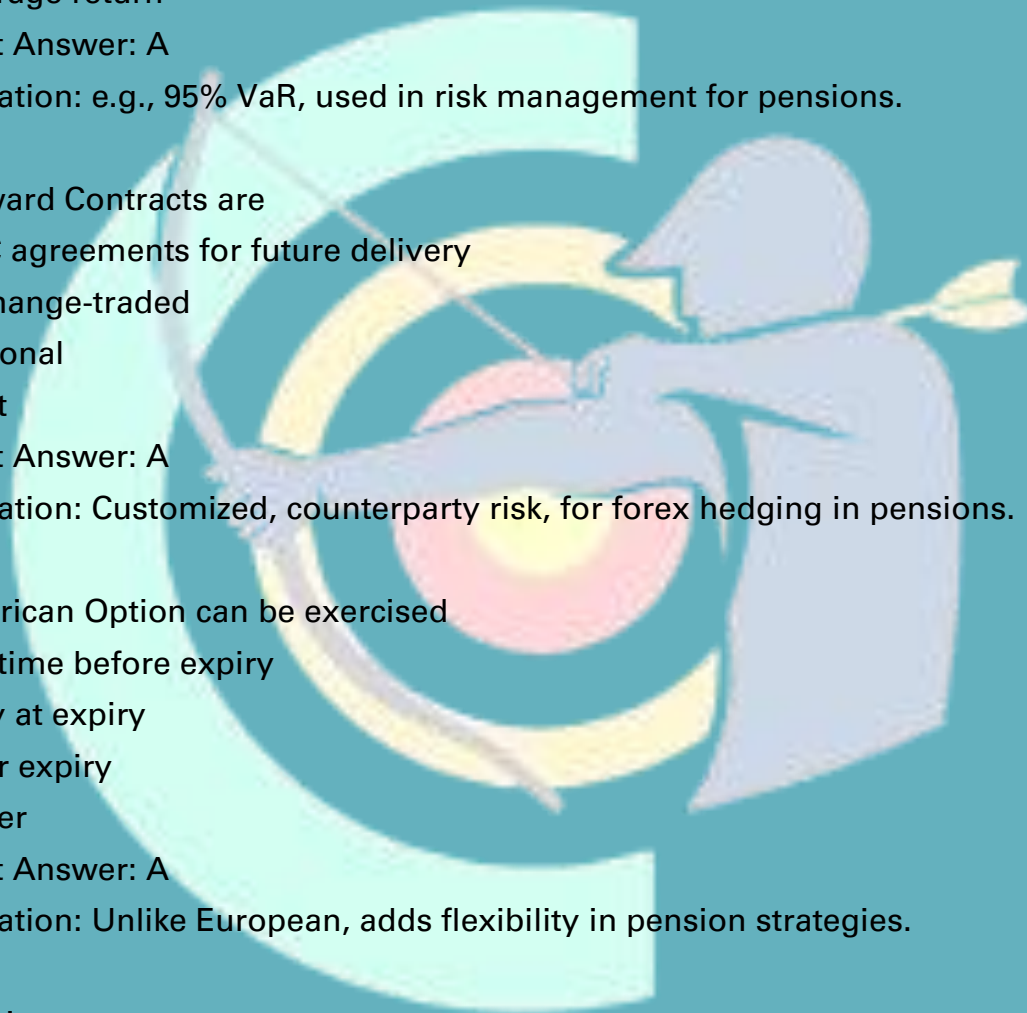
B) American Deposit Bank

C) African Development Board

D) Asset Deposit Base

Correct Answer: A

Explanation: Funds infrastructure, indirectly supporting pension investments.



209. External Commercial Borrowings (ECB) are

- A) Foreign currency loans by Indian entities
- B) Domestic
- C) Equity
- D) Grants

Correct Answer: A

Explanation: RBI-regulated, for capex, impacts corporate funding for pensions.

210. TLAC in Basel for G-SIBs is

- A) Total Loss-Absorbing Capacity
- B) Total Loan Asset Control
- C) No requirement
- D) Tier 1 only

Correct Answer: A

Explanation: Ensures orderly resolution without taxpayer bailout.

211. DICGC insures

- A) Bank deposits up to Rs. 5 lakh
- B) Unlimited
- C) Pensions directly
- D) Stocks

Correct Answer: A

Explanation: Protects small depositors, including pension savings.

212. Demat Account is for

- A) Electronic holding of securities
- B) Physical certificates
- C) Cash
- D) Loans

Correct Answer: A

Explanation: NSDL/CDSL, facilitates pension fund trades.

213. Modified Duration is

- A) $\text{Duration} / (1 + \text{YTM})$
- B) Absolute duration

C) Convexity

D) Yield

Correct Answer: A

Explanation: Measures price sensitivity percentage, for bond risk in pensions.

214. Lead Bank Scheme assigns

A) Districts to banks for development

B) No assignment

C) International

D) Corporate

Correct Answer: A

Explanation: Coordinates financial inclusion, including pension outreach.

215. IMPS is

A) Immediate Payment Service, 24x7

B) Batch

C) Minimum Rs. 1 lakh

D) Offline

Correct Answer: A

Explanation: Mobile-based, for instant pension disbursements.

216. Concentration Risk is

A) Overexposure to single counterparty/sector

B) Diversified

C) No risk

D) Market only

Correct Answer: A

Explanation: Mitigated via limits, important for pension portfolio balance.

217. Basis Risk in hedging is

A) Imperfect correlation between hedge and asset

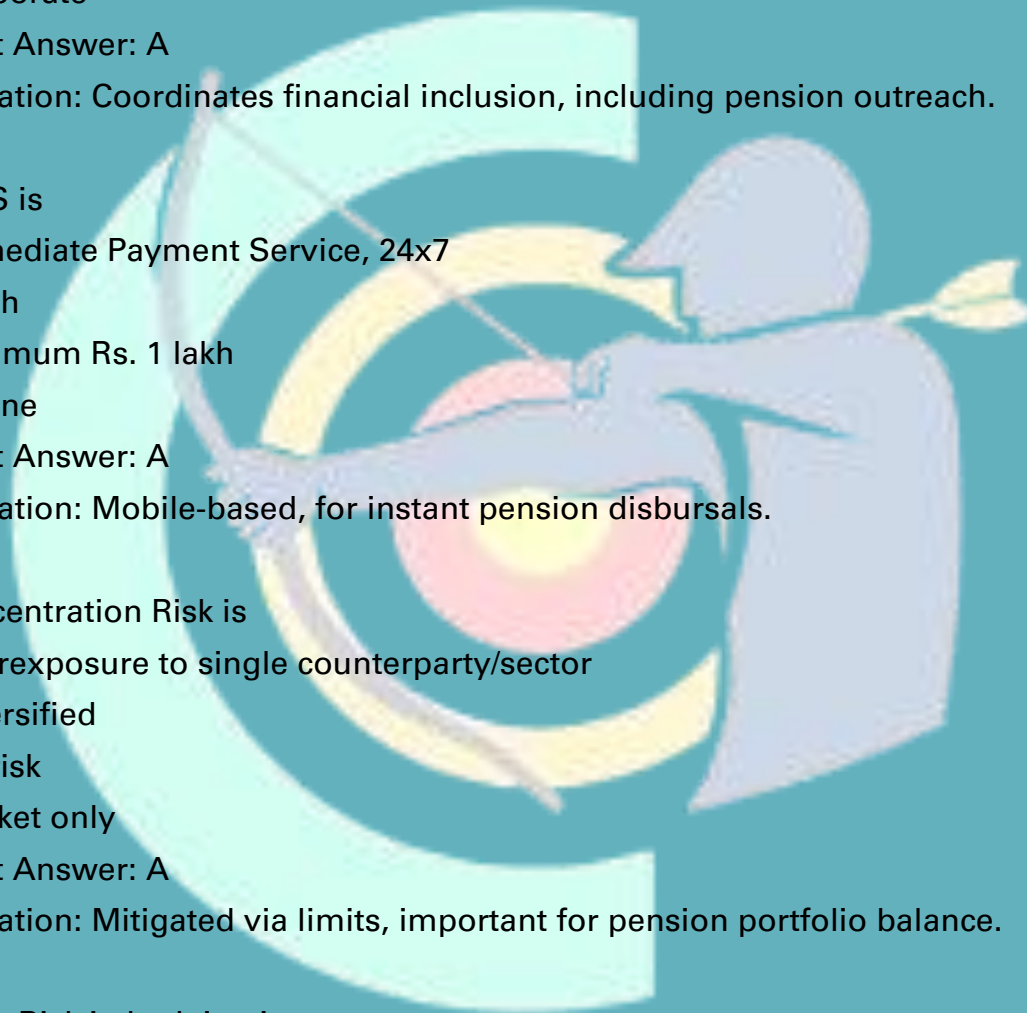
B) Perfect match

C) No hedge

D) Credit

Correct Answer: A

Explanation: e.g., futures vs. spot, affects pension hedging efficiency.



218. Intrinsic Value of Option is

- A) $\text{Max}(0, \text{Spot} - \text{Strike})$ for call
- B) Time value
- C) Premium
- D) Volatility

Correct Answer: A

Explanation: Difference from time value, determines if in-the-money.

219. BRICS Bank is

- A) New Development Bank
- B) World Bank
- C) IMF
- D) RBI

Correct Answer: A

Explanation: Funds sustainable projects, potential for Indian pension infra.

220. Stressed Assets Framework by RBI includes

- A) SMA classification and resolution plans
- B) No framework
- C) Ignore NPAs
- D) Only write-offs

Correct Answer: A

Explanation: Early identification, restructuring, to minimize losses in banking system.

