FISCAL POLICY, PUBLIC FINANCE AND MONETARY POLICY BASED INDIAN ECONOMY MCQ PRACTICE QUESTIONS AND ANSWERS PDF WITH EXPLANATION

For All Competitive SSC, Bank, IBPS, UPSC, Railway, IT & Other Govt. Exams

Created By Careericons Team

Q1. Which of the following statements is/are **correct** as per Article 114(3) of the Constitution?

- No money can be taken out of consolidated fund without the approval of the Rajya Sabha
- No money can be taken out of consolidated fund without the approval of the Lok Sabha
- Money can be taken out of consolidated fund without any approval

Select the **correct** answer using the code given below:
a) 1 only

b) 3 only

c) 2 only

d) 1, 2 and 3

Q2. Consider the following:

- Market borrowing
- Treasury bills
- Special securities issued to RBI

Which of these is/are components(s) of internal debt?
a) 1 only

b) 2 only

c) 1 and 2

d) 1, 2 and 3

Q3. In an economy, the sectors are classified into public and private on the basis of

a) use of raw materials

b) nature of economic activities

c) employment conditions

d) ownership of enterprises

Q4. Value-added means value of

a) goods and services less cost of intermediate goods and services

b) output at market prices

c) output at factor cost

d) goods and services less depreciation

Q5. Which of the following has been introduced as a very important component of Direct Tax code with the objective of preventing such deals and transactions?

- General Avoidance Rules
- General Anti Affect Rules
- General Anti Avoidance Rules
- General Arm Affect Rules

a) 1 only

b) 3 only

c) 2 only

d) 1, 2 and 4

Q6. When a large number of investors in a country transfer investments elsewhere because of disturbed economic conditions, it is called

a) Flight of Capital

b) Escape of Capital

c) Transfer of Capital

d) Outflow of Capital

Q7. In India, the tax proceeds of which one of the following as a percentage of gross tax revenue has significantly declined in the last five years?

a) Service tax

b) Corporation tax

c) Personal income tax

d) Excise duty

Q8. The 'Interest Rate Policy' is a component of

a) Direct Control

b) Monetary Policy

c) Fiscal Policy

d) Trade Policy

Q9. Which of the following is the main aim of Indian Monetary Policy?

- Control inflationary pressure
- Boost economic development

a) 1 only

b) 1 and 2

c) 2 only

d) Neither 1 nor 2

Q10. When the Reserve Bank of India reduces the Statutory Liquidity Ratio by 50 basis points, which of the following is likely to happen?

a) India's GDP growth rate increases drastically

b) It may drastically reduce the liquidity to the banking system

c) Foreign Institutional Investors may bring more capital into our country

d) Scheduled Commercial Banks may cut their lending rates

Q11. As per the Economic Survey 2007-2008, which one of the following is the largest source of revenue of the Government of India?

a) Excise Duty

b) Customs Duties

c) Personal income Tax

d) Corporation Tax

Q12. Which of the following refers to the RBI buying and selling eligible securities to regulate money supply?

- Repo and Reverse Repo
- Open Market Operations
- Response and Reverse Repo
- Relative Market Operations

a) 1 and 2

b) 3 only

c) 2 only

d) 1, 2 and 4

Q13. The Goods & Services Tax (GST) will **not** subsume which among the following central and state taxes?

- Excise duty
- Sales tax
- Income tax
- Value added tax (VAT)
- Luxury tax

Choose the **correct** option:
a) 2, 3, 4 and 5

b) 1, 2, 4 and 5

c) 3 only

d) 1, 2, 3 and 4

Q14. Industrial exit policy means

a) allowing business units to close down

b) forcing business units to move out of congested localities

c) forcing foreign companies to leave India

d) allowing manufacturers to shift their line of products

Q15. The existence of a Parallel Economy or Black Money

a) ensures increasing productive investment

b) makes the monetary policies less effective

c) makes the economy more competitive

d) ensures a better distribution of income and wealth

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Answers to the above questions :

Q1. Answer: (c)

Lok Sabha approval is mandatory in order to take out money from the Consolidated fund

Q2. Answer: (d)

Treasury Bills are money market instruments to finance the short term financial requirements of the Government of India. These are discounted securities and are issued at a discount to face value.

Q3. Answer: (d)

The classical breakdown of all economic sectors is: primary, secondary and tertiary. However, on the basis of ownership, the sectors are: business sector, private sector (privately run businesses), public sector (state sector) and voluntary sector.

Q4. Answer: (a)

Value added is an economic term to express the difference between the value of goods and the cost of materials or supplies that are used in producing them.

It is a measure of economic activity which eliminates the duplication inherent in the sales value figure which results from the use of products of some establishments as materials or services by others.

So it is of goods and services less cost of intermediate goods and services.

Q5. Answer: (b)

General Anti Avoidance Rules (GAAR) has been introduced as a very important component of the Direct Tax code with the objective of preventing such deals and transactions that are carried out to evade and avoid paying taxes.

In other words, GAAR seeks to prevent such transactions that are carried out by way of aggressive tax planning so as to avoid paying taxes

Q6. Answer: (a)

Flight of capital refers to the movement of money from one investment to another in search of greater stability or increased returns.

Sometimes, it specifically refers to the movement of money from investments in one country to another in order to avoid country-specific risk (such as high inflation or political turmoil) or in search of higher returns.

Capital flight is seen most commonly in massive foreign capital outflows from a specific country, often at times of currency instability.

Q7. Answer: (d)

The excise duty’s share in the total tax revenue, which was 41.3 per cent in 1992-93, declined to 25.1 per cent in 2006-07.

The customs duty’s share in the total tax revenue, which was 31.9 per cent in 1992- 93, fell to 17.5 per cent in 2006-07, as a result of massive structuring on excise and customs.

Q8. Answer: (b)

Monetary policy is the process by which the monetary authority of a country controls the supply of money, often targeting a rate of interest for the purpose of promoting economic growth and stability.

The official goals usually include relatively stable prices and low unemployment. The contraction of the monetary supply can be achieved indirectly by increasing the nominal interest rates.

Monetary authorities in different nations have differing levels of control of economy-wide interest rates.

Q9. Answer: (b)

Planned economic development adopted by India required an active monetary policy. The two stated aims of this policy were to boost economic development and control inflationary pressure

Q10. Answer: (d)

When the Reserve Bank of India reduces the Statutory Liquidity Ratio by 50 basis points; the Scheduled Commercial Banks may cut their lending rates.

Q11. Answer: (d)

As per economic survey 2007-2008 corporation tax is the largest source of revenue of the Government of India.

Q12. Answer: (c)

Open Market Operations refers to the RBI buying and selling eligible securities to regulate the money supply. Traditionally RBI was not resorting to this method.

However, after the large inflow of foreign funds since 1991, RBI has had to step in to sterilize the flow to avoid excess liquidity

Q13. Answer: (c)

Goods and services tax (GST) will subsume many central and state taxes, such as excise duty, service tax, valueadded tax, sales tax and luxury tax. Income tax is a direct tax, so it is not under GST.

Q14. Answer: (a)

The term ‘exit’ is the obverse of the term ‘entry’ into the industry. It refers to the right or ability of an industrial unit to withdraw from or leave an industry or in other words to close down.

The proposal to introduce an exit policy was first mooted in 1991 when it was felt that without labour market flexibility, efficient industrialization would be difficult to achieve.

The need for such a policy arises as a result of modernization, technology up-gradation, restructuring as well as the closure of industrial units. Such a policy will allow employers to shift workers from one unit to another and also retrench excess labour.

Q15. Answer: (b)

In India, Black money refers to funds earned on the black market, on which income and other taxes have not been paid. Black money leads to black liquidity which is immune to any monetary fiscal policy.

It can move around in the economy creating excess demand in several vulnerable sectors of the economy. Of particular relevance in this context is a policy dominated by sector-wise credit rationing in order to maintain inter-sectoral balances.

The cost of credit is one part of such a policy. So, in nutshell, the existence of a parallel economy erodes the effectiveness of monetary policies.