

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

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Q1. After 1947, development and non-development expenditures have increased, the increase in the former being more. Nondevelopment expenditure involves

- interest payments
- subsidies
- defence
- irrigation

- a) 1 and 2
b) 1, 2 and 3
c) 1 only
d) 2, 3 and 4
-

Q2. With reference to steps taken to achieve financial inclusion in India, consider the following statements:

- Scheduled commercial banks initiatives to masses.
- Formation of RRB
- Adoption of village by bank branches

Which of the statements given above is/are **correct**?

- a) 1 and 3
b) 2 and 3
c) 1 and 2
d) 1, 2 and 3
-

Q3. Buoyancy of a tax is defined as

- a) percentage increase in tax revenue/ increase in tax coverage
b) increase in tax revenue/ percentage increase in tax coverage

- c) percentage increase in tax revenue/percentage increase in tax base
- d) increase in tax revenue/increase in tax base
-

Q4. Fiscal deficit means:

- a) Total receipts minus expenditure
- b) Revenue receipts minus defense expenditure
- c) Total receipts minus interest payments on external debt
- d) Revenue receipts minus ex-penditure

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Q5. Which of the following means rates of tax increase for increasing values or volumes on which the tax is levied

- Progressive tax
 - Proportional tax
 - Regressive tax
 - Indirect tax
- a) 1 only
- b) 3 only
- c) 2 only
- d) 1, 2 and 4
-

Q6. Forced Savings refer to

- a) Provident fund contribution of private sector employees
- b) Taxes on individual income and wealth
- c) Reduction of consumption consequent to a rise in prices
- d) Compulsory deposits imposed on income tax payers
-

Q7. Consider the following statements:

- Sales tax comes under exclusive jurisdiction of state government.
- Custom duties come under state govt jurisdiction.

Which of the statements given above is/are **correct**?

- a) 1 and 2 both
 - b) 2 only
 - c) 1 only
 - d) None
-

Q8. 'Golden Handshake Scheme' is associated with

- a) voluntary retirement
 - b) private investment in public enterprises
 - c) inviting foreign companies
 - d) establishing joint enterprises
-

Q9. Which of the following is a type of the Public expenditure in India?

- Plan
 - Non-plan
- a) 1 only
 - b) 1 and 2
 - c) 2 only
 - d) Neither 1 nor 2
-

Q10. States' debt does **not** include:

- a) loans from State Bank of India
 - b) treasury bills issued to inter-national financial institutions
 - c) loans from the Central government
 - d) provident fund
-

Q11. Who among the following appoints a Finance Commission under Article 280 of the Constitution?

- Prime Minister
- Finance Minister
- President
- Public

- a) 1 only
b) 3 only
c) 2 only
d) 3 and 4

Q12. Tarapore Committee submitted its report on “Full Convertibility on Rupee” in-

- a) Current account
b) Special Drawing Rights (SDRs)
c) Capital account
d) Both in current as well as in capital account

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Q13. A tax is characterised by horizontal equity if its liability is

- a) the same for every tax payer
b) similar for tax payers in similar circumstances
c) proportional to the income of tax payers
d) proportional to the expenditure of tax payers

Q14. Convertibility of rupee implies

- a) being able to convert rupee notes into gold

- b) developing an international market for currencies in India
- c) allowing the value of rupee to be fixed by market forces
- d) freely permitting the conversion of rupee to other currencies and vice versa

Q15. Consider the following statements with regard to Statutory Liquidity Ratio (SLR)

- To meet SLR, Commercial banks can use cash only.
- SLR is maintained by the banks with themselves.
- SLR restricts the banks leverage in pumping more money into the economy.

Which of the statements given above is/are **correct**?

- a) 1, 2 and 3
- b) 2 and 3
- c) 1 and 3
- d) only 2

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Answers to the above questions :

Q1. Answer: (b)

Q2. Answer: (d)

Financial inclusion in India includes initiative of scheduled commercial banks, formation of RRB and adoption of village by bank branches.

Q3. Answer: (d)

Buoyancy means the growth/increase in tax collections. This is in line with the GDP growth within the economy, the industry profile and the tax structure administered by the government. Tax buoyancy measures the total response of tax revenues to changes in national income.

Total response takes into account both increases in income and discretionary changes (i.e., tax rates and bases) made by tax authorities in the system. The responsiveness of tax revenues to discretionary changes in the tax rate and in the tax base in relation to the GDP is termed the buoyancy of the tax system.

Therefore, tax buoyancy is a measure of both the soundness of the tax bases and the effectiveness of tax changes in terms of revenue collection. Tax elasticity, on the other hand, measures the pure response of tax revenues to changes in the national income.

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Q4. Answer: (d)

Q5. Answer: (a)

Income tax is a progressive tax as it has exemptions for very small incomes, low rates for the first slab of taxable income, and higher rates for the largest incomes

Q6. Answer: (c)

Forced saving is an economic situation in which consumers spend less than their disposable income, not because they want to save but because the goods they seek are not available or because goods are too expensive.

In a free economy, this situation would normally result in an increase in prices and the inflow of more goods.

Q7. Answer: (c)

Sales tax come under exclusive jurisdiction of state government and custom duties comes under Central govt jurisdiction.

Q8. Answer: (a)

The voluntary retirement scheme (VRS) is the most humane technique to provide an overall reduction in the existing strength of the employees. It is a technique used by companies for trimming the workforce employed in the industrial unit.

It is also known as the 'Golden Handshake' as it is the golden route to retrenchment.

Q9. Answer: (b)

Q10. Answer: (b)

Q11. Answer: (b)

Under Article 280 of the Constitution, the President appoints a Finance Commission every five years

Q12. Answer: (c)

Q13. Answer: (c)

The principle of equity includes both horizontal and vertical. Equity is determined by first assessing an individual's ability to pay. The idea of the ability to pay principle considers whether or not it is fair to tax someone higher just because that person has the ability and resources to pay.

If it is decided that they should be required to pay more, the question of how much more arises.

These questions can be analyzed through horizontal and vertical equity which are subsets of the ability-to-pay principle. Horizontal equity suggests it is fair for people of equal ability to pay the same amount in taxes.

Vertical equity is the idea that people who have a higher ability to pay more than those who have a lower ability to pay, as long as the increase in tax level is considered to be reasonable.

Q14. Answer: (d)

Convertibility of rupee implies freely permitting the conversion of rupee to other currencies and vice versa.

Currency Convertibility is the ease with which a country's currency can be converted into gold or another currency.

Q15. Answer: (b)

SLR used by bankers indicates the minimum percentage of deposits that the banks have to maintain in the form of gold, cash or other approved securities.

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