

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

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Q1. Which of the following may lead to a pressure on the government for an upward revision in salaries of government employees?

- Internal Borrowings
- External aid and borrowings
- Counting Currency
- Printing currency

a) 1 only

b) 3 only

c) 1 and 2

d) 4 only

Q2. How the interest-level of a country is affected by FDI ?

a) there is increase or decrease

b) decreases

c) increases

d) remains unaffected

Q3. Which one at the following is responsible for the preparation and presentation of Union Budget to the Parliament?

a) Department of Revenue

b) Department of Expenditure

c) Department of Economic Affairs

d) Department of Financial Services

Q4. Plan expenditure in India is met by-

- a) Internal debt and other resources
- b) Assistance from OECD countries
- c) Assistance from Aid India Club
- d) Assistance from IMF

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Q5. Taxes on professions can be levied by :

- a) Union government only
- b) both by state and union government
- c) State government only
- d) by panchayats only

Q6. Interest on public debt is a part of :

- a) interest payments by households
- b) transfer payments by the Govt.
- c) transfer payments by the enterprises
- d) national income

Q7. What is referred to as 'Depository Services' ?

- a) An advisory service to investors
- b) A method for regulating stock exchanges
- c) A new scheme of fixed deposits
- d) An agency for safe-keeping of securities

Q8. Value-added tax is

- a) ad valorem tax on domestic final consumption collected at all stages between production and the point of final sale
 - b) special tax levied by states on products from other states
 - c) ad valorem tax on final consumption collected at manufacturing level
 - d) tax on final consumption collected at the consumption stage
-

Q9. Choose the **correct** one from the following.

- Revenue deficit = Revenue expenditure – Revenue receipts
- Revenue deficit = Revenue receipts – Revenue expenditure
- Revenue deficit = Revenue receipts – Total expenditure
- Revenue deficit = Revenue expenditure – Total receipts

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

Q10. Which of the following is the process of bridging the gap between the revenue and expenditure?

- Multiple financing
- Bridge financing
- Accurate financing
- Deficit financing

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

Q11. In the context of the stock market, IPO stands for

- a) International Payment Obligation

- b) Internal Policy Obligation
 - c) Immediate Payment Order
 - d) Initial Public Offer
-

Q12. Which one of the following statements appropriately describes the 'fiscal stimulus'?

- a) It is an extreme affirmative action by the government to pursue its policy of financial inclusion
- b) It is government's intensive action of financial institutions to ensure disbursement of loans to agriculture and allied sectors to promote greater food production and contain food inflation
- c) It is a massive investment by the government in manufacturing sector to ensure the supply of goods to meet the demand surge caused by rapid economic growth
- d) It is an intense affirmative action of the government to boost economic activity in the country

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Q13. The sale proceeds of Government Bonds come under the budget head of

- a) Capital Receipts
 - b) Current Expenditure
 - c) Revenue Receipts
 - d) Capital Outlay
-

Q14. In India, disguised unemployment is generally observed in

- a) All these sectors
- b) the Factory sector
- c) the Agricultural sector
- d) the Service sector

Q15. Evaluating all the options to find out most suitable solution to business problems is inter-disciplinary activities. It is called

- a) Commercial research
- b) Management research
- c) Professional research
- d) Operational research

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Answers to the above questions :

Q1. Answer: (d)

Printing currency is usually the last resort for the government in managing its deficit. It might help the government in times of need but it should be undertaken only in case of extreme necessity as it has many damaging effects on the economy.

It increases inflation proportionally. It may also lead to pressure on the government for an upward revision in salaries of government employees, which in turn will lead to an increase of government's expenditure, further necessitating printing of currency and more inflation

Q2. Answer: (b)

A higher international interest rate will decrease FDI since it means a higher cost of funds in the international market and vice versa. Interest rate is a measure of the cost of capital.

A higher interest rate implies more costly investment and, therefore, the higher the interest rate, the more it is likely to defer FDI and the relationship between FDI and the interest rate is expected to be negative.

Love and Lage-Hidalgo (2000) and Erdal and Tatoglu (2002), amongst others, find that an increase in the interest rate leads to a decrease in FDI. Interest rate and FDI can both be the cause and effect of others.

Q3. Answer: (c)

The DEA or the Department of Economic Affairs is also responsible for preparation and presentation to the Parliament of Central Budget and the Budgets for the State Governments under President's Rule and Union Territory Administration.

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Q4. Answer: (a)

Q5. Answer: (c)

In India, the professional tax is imposed at the state level. However, not all the states impose this tax. Business owners, working individuals, merchants and people carrying out various occupations comes under the purview of this tax. Professional tax is levied by particular Municipal Corporations.

Q6. Answer: (b)

In economics, a transfer payment (or government transfer or simply transfer) is a redistribution of income in the market system.

These payments are considered to be exhaustive because they do not directly absorb resources or create output. In other words, the transfer is made without any exchange of goods or services.

Examples of certain transfer payments include welfare (financial aid), interest on public debt, social security, and government making subsidies for certain businesses (firms).

Q7. Answer: (d)

It is a service offered by a securities depository under which the depository maintains book accounts recording the ownership of securities held on behalf of the depository's participants, for eligible securities.

Q8. Answer: (a)

Q9. Answer: (a)

Revenue deficit means the excess of current revenue expenditure over current revenue receipts. Revenue deficit indicates that the government cannot meet its current expenditure from its current revenue. Revenue deficit = Revenue expenditure – Revenue receipts

Q10. Answer: (d)

The process of bridging the gap between the revenue and expenditure is called deficit financing. In other words, Deficit financing refers to the ways in which the budgetary gap is financed

Q11. Answer: (d)

An initial public offering (IPO) or stock market launch is a type of public offering where shares of stock in a company are sold to the general public, on a securities exchange, for the first time.

Through this process, a private company transforms into a public company. Initial public offerings are used by companies to raise expansion capital, to possibly monetize the investments of early private investors, and to become publicly traded enterprises.

A company selling shares is never required to repay the capital to its public investors. After the IPO, when shares trade freely in the open market, money passes between public investors.

Q12. Answer: (d)

Q13. Answer: (a)

Capital receipts are the funds received into the businesses that are not part of the operating activities of the establishment. Capital receipts primarily include external assistance, market loans, small savings, principal investment in bonds, and Government provident funds.

A capital receipt is a receipt that is derived from the sale or purchase of capital assets like plant and machinery, furniture, investment (long term) etc., which shall not be occurring all the time.

Q14. Answer: (c)

As the word suggests, disguised unemployment refers to a situation when a person is apparently employed, but in effect unemployed. It is a phenomenon of concealed unemployment, not visible to the open eyes.

Here it is not possible to identify as to who are unemployed, as all “appear to be working.” Disguised unemployment is especially seen in the field of agriculture.

Most of the people are observed to be engaged in agriculture; however, in reality, a sufficient number of them are unemployed. Their contribution regarding production is negligible.

Q15. Answer: (d)

Operational research is a discipline that deals with the application of advanced analytical methods to help make better decisions.

Employing techniques from other mathematical sciences, such as mathematical modelling, statistical analysis, and mathematical optimization, operations research arrives at optimal or near-optimal solutions to complex decision-making problems.

In a nutshell, operations research (O.R.) is the discipline of applying advanced analytical methods to help make better decisions.

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