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. Ad Valorem tax is levied

a) according to value added by the finance ministry

b) according to value addition to a commodity

c) according to value added by the Government.

d) according to value given by producers

Q2. Disinvestment in Public Sector is called

a) Privatisation

b) Globalisation

c) Liberalisation

d) Industrialisation

Q3. Taxes are as certain as the death, because

a) Government has its own budget constraints.

b) Government have no other source of revenue.

c) They constitute the major source of government revenue.

d) Most PSUs are run inefficiently.

Q4. Excess of total expenditure over total revenues is termed as

- Revenue deficit
- Fiscal deficit
- Budget deficit
- Overall deficit

a) 1 only

b) 3 only

c) 1 and 2

d) 4 only

Q5. With reference to the Indian Public Finance, consider the following statements.

- External liabilities reported in the Union Budget are based on historical exchange rates.
- The continued high borrowing has kept the real interest rates high in the economy.
- The upward trend in the ratio of Fiscal Deficit to GDP in recent years has an adverse effect on private investments.
- Interest payments is the single largest component of the non-plan revenue expenditure of the Union Government.

Which of these statements are **correct**?
a) 1, 2 and 3

b) 2, 3 and 4

c) 1 and 4

d) 1, 2, 3 and 4

Q6. A high fiscal deficit is a cause for concern for any economy. What does it denote?

a) It is a measure of the borrowing of an economy

b) it means the lack of liquidity and earnings for the economy

c) It is total expenditure less total receipts excluding borrowings

d) It reflects the decrease in tax collections for the year

Q7. Consider the following:

- Income tax
- Fringe tax
- Interest tax
- Security transaction tax (STT)

Which of the above mentioned taxes are direct taxes?
a) 1, 2 and 3

b) 2 and 3

c) 1 and 2

d) 1, 2, 3 and 4

Q8. What is Value Added Tax (VAT) ?

a) A new tax to be imposed on the producers of capital goods

b) A new initiative taken by the Government to increase the tax-burden of high income groups

c) A simple, transparent, easy to pay tax imposed on consumers

d) A single tax that replaces State taxes like, surcharge, turnover tax, etc.

Q9. The tax levied on gross sales revenue from business transactions is called

a) Corporation Tax

b) Sales Tax

c) Turnover Tax

d) Capital Gains Tax

Q10. Which one of the following is **not** the objective of fiscal policy of government of India?

a) Economic growth

b) Regulation of inter-state trade

c) Full employment

d) Price stability

Q11. Which of the following details can be obtained by Annual financial statement?

- Government forecasts of receipts and payments for the next year
- An outline of the results of the last financial year compared with the previous budget estimates
- Proposed changes in taxes and expenditure allocations

a) 1 only

b) 3 only

c) 1 and 2

d) 1, 2 and 3

Q12. 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) 2 and 3

b) 1 and 3

c) 1, 2 and 3

d) only 2

Q13. In India, deficit financing is used for raising resources for

a) economic development

b) reducing the foreign debt

c) redemption of public debt

d) adjusting the balance of payments

Q14. 'Gold' is mainly related to

a) Regional market

b) National market

c) Local market

d) International market

Q15. The permission given to a bank customer to draw cheques in excess of his current account balance is called

a) an overdraft

b) an ordinary loan

c) a personal loan

d) discounting a bill of exchange

Read More public finance fiscal and monetary policy Question and Answes »

Answers to the above questions :

Q1. Answer: (d)

An ad valorem tax (Latin for "according to value") is a tax based on the value of the real estate or personal property. It is more common than a specific tax, a tax based on the quantity of an item, such as cents per kilogram, regardless of price.

It is levied on the basis of the value given by producers. So sometimes, the primary difficulty with such taxation, especially in the case of tariffs, is in establishing a satisfactory value figure.

Q2. Answer: (a)

Privatization is the process of transferring ownership of a business, enterprise, agency, public service or public property from the public sector (a government) to the private sector, either to a business that operates for a profit or to a non-profit organization.

The term can also mean government outsourcing of services or functions to private firms, e.g. revenue collection, law enforcement, and prison management.

There are four main methods of privatization:

1. **Share issue privatization (SIP)** - selling shares on the stock market;
2. **Asset sale privatization** - selling an entire organization (or part of it) to a strategic investor, usually by auction or by using the Treuhand model;
3. **Voucher privatization** - distributing shares of ownership to all citizens, usually for free or at a very low price; and
4. **Privatization from below** - Start-up of new private businesses in formerly socialist countries.

Q3. Answer: (c)

Benjamin Franklin's utterance, "In this world, nothing can be said to be certain, except death and taxes," when applied in economics means that the largest amount of revenue raised by governments comes from taxation.

The proverb draws on the actual inevitability of death to highlight the difficulty in avoiding the burden of taxes.

Q4. Answer: (b)

Budget deficit is the overall deficit i.e., the excess of total expenditure over total revenues. It includes both capital and revenue items in receipts and expenditure. Traditionally, deficit financing in Indian budgets had meant filling this gap

Q5. Answer: (b)

Q6. Answer: (c)

Q7. Answer: (a)

Income tax, fringe tax, interest tax all are direct taxes paid directly to the government by the persons on whom it is imposed.

Q8. Answer: (d)

A value-added tax (VAT) is a form of consumption tax. A VAT is like a sales tax in that ultimately only the end consumer is taxed. It differs from the sales tax in that, with the latter, the tax is collected and remitted to the government only once, at the point of purchase by the end consumer.

VAT comes under the single tax system based primarily or exclusively on one tax, typically chosen for its special properties. Most of the Indian States have replaced Sales tax with Value Added Tax (VAT) from 1 April 2005.

VAT is imposed on goods only and not services and it has replaced sales tax.

Q9. Answer: (c)

A turnover tax is similar to a sales tax or a VAT, with the difference that it taxes intermediate and possibly capital goods. It is charged on gross sales revenue from business transactions.

Unlike a sales tax, which is levied only on gross value at the point of retail sale, a turnover tax is levied on all intermediate transactions between businesses leading to and including the final sale.

Q10. Answer: (b)

Q11. Answer: (d)

Annual financial statement gives various information for the current, last and next year

Q12. Answer: (a)

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..

Q13. Answer: (a)

Deficit financing refers to the difference between expenditure and receipts. In public finance, it means the govt. is spending more than what it is earning.

Deficit financing is a necessary evil in a welfare state as the states often fail to generate tax revenue that is sufficient enough to take care of the expenditure of the state.

The basic intention behind deficit financing is to provide the necessary impetus to economic growth by artificial means.

Q14. Answer: (d)

Gold is mainly related to the international market as of all the precious metals, it is the most popular as an investment.

Gold has been used throughout history as money and has been a relative standard for currency equivalents specific to economic regions or countries, until recent times.

The gold price has shown a long term correlation with the price of crude oil.

Q15. Answer: (a)

Overdrafts are an extension of credit from a lending institution when an account reaches zero.

An overdraft allows the individual to continue withdrawing money even if the account has no funds in it. Basically, the bank allows people to borrow a set amount of money.

An overdraft occurs when money is withdrawn from a bank account and the available balance goes below zero. In this situation, the account is said to be “overdrawn.”