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. Which of the following taxes is the one by which the revenue collected rises proportionally with income?

- Regressive tax
- Progressive tax
- Corporate tax
- Proportional tax

a) 1 only

b) 3 only

c) 2 only

d) 4 only

Q2. According to the provisions of the Fiscal Responsibility and Budget Management Act., 2003 and FRBM Rules, 2004, the Government is under obligation to present three statements before the parliament along with the Annual Budget. Which one of the following is **not** one of them?

a) Macroeconomic Framework Statement

b) Statement showing Short term Fiscal Policy

c) Fiscal Policy Strategy Statement

d) Medium-term Fiscal Policy Statement

Q3. Match the following:

List I	List II
1. 11th Finance Commission	A. A M Khusro
2. 12th Finance Commission	B. C Rangarajan
3. 13th Finance Commission	C. Dr Vijay Kelkar

4. 14th Finance Commission	D. Yaga Venugopal Reddy

Select the answer using the following codes: 1 2 3 4

a) C A D B

b) A B C D

c) B A C D

d) D A B C

Q4. When price of a substitute of commodity ‘x’ falls, the demand for ‘x’ :

a) rises

b) remains unchanged

c) falls

d) increases at increasing rate

Q5. Indirect taxes by nature are

a) proportional

b) regressive

c) degressive

d) progressive

Q6. Which among the following is/are the main objective of Monetary Policy?

- Maintenance of domestic price level
- Reducing the impact of business cycles
- Stability of external value

a) 1 only

b) 3 only

c) 1 and 2

d) 1, 2 and 3

Q7. The New Economic Policy was introduced by:

a) Khrushchev

b) Stalin

c) Lenin

d) Kerensky

Q8. Which of the following is the tax imposed on commodities imported into India (import duty) or those exported from India (export duty)?

- Customs duty
- Central excise duty
- Incorporate duty

a) 1 only

b) 3 only

c) 2 only

d) 2 and 3

Q9. The incidence of sales tax falls on

a) Producers

b) Wholesale dealers

c) Consumers

d) Retail dealers

Q10. Taxation is a tool of

a) Wage policy

b) Fiscal policy

c) Monetary policy

d) Price policy

Q11. Which of the following is the rate at which RBI lends to commercial banks?

- Corporate rate
- Economy rate
- Bank rate
- Growth rate

a) 1 only

b) 3 only

c) 1 and 2

d) 4 only

Q12. The diagram shows a relationship between inflation and unemployment for an economy. Which of the following policies would move the economy from A to B?

a) Reduce interest rate and increase income tax rates

b) Increase interest rates and increase Income tax rates

c) Reduce interest rates and decrease income tax rates

d) Increase interest rates and decrease income tax rates

Q13. With reference to '**Cash Reserve Ratio**', which of the following statements is/are **correct**?

- The RBI varies Cash Reserve Ratio to change the liquidity of the market
- CRR is subject to frequent changes as RBI intervenes from time to time to correct monetary or exchange rate imbalances
- CRR currently is 4%
- RBI is empowered to fix the CRR at a rate ranging between three per cent and 15 per cent

a) 1 only

b) 3 only

c) 1 and 2

d) 1, 2, 3 and 4

Q14. Consider the following options regarding recommendations of **Shyamala Gopinath Committee** on post offices:

- The interest rate on fixed deposits for one and two years has been increased to 8.4% from the present 8.2%.
- The interest rate on Public Provident Fund (PPF) has been kept unchanged at 8.7 %.
- The rate on National Savings Scheme (NSC) with 5 and 10-year maturities remains unchanged.
- Rate on the five-year Monthly Income Scheme (MIS) changed to 10%.

Choose the **correct** option from the codes given below:
a) 3 and 4

b) 1, 2 and 3

c) 1 and 2

d) 1, 2, 3 and 4

Q15. The '**Canons of Taxation**' were propounded by

a) Dalton

b) Adam Smith

c) Edwin Canon

d) J.M. Keynes

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Answers to the above questions :

Q1. Answer: (d)

Proportional tax is one by which the revenue collected rises proportionally with income.

A tax system could be made approximately proportional by having a uniform rate of income tax with very few exemptions, and indirect taxes levied at similar rates on as many goods and services as possible

Q2. Answer: (b)

The Act requires the government to lay before the parliament three policy statements in each financial year namely Medium Term Fiscal Policy Statement; Fiscal Policy Strategy Statement and Macroeconomic Framework Policy Statement.

Q3. Answer: (b)

11th Finance Commission was appointed in 1998 under chairmanship of AM Khusro, 12th in 2002 under C Rangarajan, 13th in 2007 under Dr Vijay Kelkar and 14th in 2013 under Yaga Venugopal Reddy.

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Q4. Answer: (c)

Cross Price Effect refers to the effect on the demand for a given commodity due to a change in the price of a substitute commodity. A change (increase or decrease) in the price of substitutes directly affects the demand for a given commodity.

When the price of substitute goods (say, coffee) rises, demand for the given commodity (say, tea) also rises at the same price.

It leads to a rightward shift in the demand curve of the given commodity. With the decrease in the price of substitute goods (coffee), demand for the given commodity (tea) also decreases. It shifts the demand curve of the given commodity towards the left.

Q5. Answer: (b)

An indirect tax is one in which the burden can be shifted to others. The taxpayer is not the tax bearer. The impact and incidence of indirect taxes are on different persons.

Since most of the indirect taxes are not progressive in nature, individuals may not mind paying them. In other words, indirect taxes are generally regressive in nature.

Therefore, individuals would not be de-motivated to work and to save, which may increase investment.

Q6. Answer: (d)

Objectives of Monetary Policy are:

Stability of external value: Fluctuation in the exchange rate of a currency affects foreign trade and investment.

It is, therefore, important that the rate of exchange is maintained without violent fluctuations. Maintenance of domestic price level: Fluctuation in prices affects investment decisions.

It also leads to increasing income disparities. However, monetary policy alone cannot ensure the maintenance of domestic prices, as several other factors such as erratic monsoons, changes in tastes, fluctuation in world prices etc., affect domestic prices.

Reducing the impact of business cycles (slumps and booms) by manipulation of credit and interest policy. However, economists are not of the same opinion on whether business cycles are primarily caused by monetary factors.

Q7. Answer: (c)

The New Economics Policy was introduced by Vladimir Ilyich Lenin (1870-1924). He was the founder of modern communist Russia. He was the leader of the Soviet Revolution of October 1917.

He liberated the country from the Czars and became Head of its first Communist Government (1917-1924). He dedicated himself to the cause of the workers' revolution.

Q8. Answer: (a)

Customs duty is the tax imposed on commodities imported into India (import duty) or those exported from India (export duty).

Since imposing duties on exports reduced the competitive position of the country, the government withdrew export duties

Q9. Answer: (c)

In economics, tax incidence is the analysis of the effect of a particular tax on the distribution of economic welfare.

Tax incidence is said to "fall" upon the group that ultimately bears the burden of, or ultimately has to pay, the tax. The key concept is that the tax incidence or tax burden does not depend on where the revenue is collected but on the price elasticity of demand and price elasticity of supply.

A tax on the sale of goods (sales tax, excise tax) will ultimately be paid by either the consumer or the firm based on elasticities, regardless of who the government actually levies the tax on. If the consumer ultimately pays the tax, it means that the tax incidence falls on the consumer.

If the firm ultimately pays the tax, it means that the tax incidence ultimately falls on the firm.

Q10. Answer: (b)

In economics, fiscal policy is the use of government revenue collection (taxation) and expenditure (spending) to influence the economy. The two main instruments of fiscal policy are government taxation and expenditure.

Q11. Answer: (b)

Bank rate is an instrument of monetary policy which is the rate at which RBI lends to commercial banks

Q12. Answer: (b)

Q13. Answer: (d)

Every commercial bank is required to keep a certain percentage of its demand and time liabilities (deposits) with the RBI (either as cash or book balance).

The RBI varies this ratio to change the liquidity of the market. RBI is empowered to fix the CRR at a rate ranging between three per cent and 15 per cent.

Like the Bank Rate, CRR is also subject to frequent changes as RBI intervenes from time to time to correct monetary or exchange rate imbalances. This ratio, currently, is 4%

Q14. Answer: (b)

As per the Shyamala Gopinath Committee's recommendations, the interest rate on fixed deposits for one and two years has been increased to 8.4% from the present 8.2%.

The rate on National Savings Scheme (NSC) with 5 and 10-year maturities also remains unchanged at 8.5% and 8.8%. The rate on the five-year Monthly Income Scheme (MIS) remains the same at 8.4%.

The interest rate on the Public Provident fund (PPF) has been kept unchanged at 8.7%.

Q15. Answer: (b)

Canons of Taxation were first originally laid down by economist Adam Smith in his famous book "The Wealth of Nations".

In this book, Adam smith only gave four canons of taxation:

1. canon of equity;
2. canon of certainty;
3. canon of convenience; and
4. canon of economy.