

12th Economics Lesson 7 Questions in English**7] Fiscal Economics**

1. Which of the following statement is correct?

- 1) The term 'Fiscal Economics' is a new one; the old and popular term of the subject is 'Public Finance'.
- 2) The term fiscal is derived from Greek word which means basket and symbolizes the public purse
- 3) The subject Public Finance is related to the financing of the State activities and it discusses the financial operations of the Government treasury.

- a) 1, 2
- b) 1, 3
- c) 2, 3
- d) **All the above**

Explanation

The term 'Fiscal Economics' is a new one; the old and popular term of the subject is 'Public Finance'. The subject Public Finance is related to the financing of the State activities and it discusses the financial operations of the Government treasury. The term fiscal is derived from Greek word which means basket and symbolizes the public purse. Hence the subject 'Public Finance' has been newly termed 'Fiscal Economics'.

2. The modern state is a-----

- a) Laissez-faire state
- b) Aristocratic state
- c) **Welfare state**
- d) Police state

Explanation

Public Finance studies the manner in which the state raises and spends the resources. The state is concerned with the collective wants of the citizens. The modern state is a welfare state. The activities of the state have increased extensively and intensively. To perform these activities, the state needs funds. This chapter deals with the Public Revenue, Public Expenditure, Public Debt, Budget, Federal Finance and Local Finance.

3. Who among the following stated this:

"Public finance is an investigation into the nature and principles of the state revenue and

expenditure”.

- a) John Dalton
- b) Huge Dalton
- c) **Adam Smith**
- d) George Floyd

Explanation

“Public finance is one of those subjects that lie on the border line between Economics and Politics. It is concerned with income and expenditure of public authorities and with the adjustment of one to the other”.

-Huge Dalton

“Public finance is an investigation into the nature and principles of the state revenue and expenditure”.

-Adam Smith

4. How many major sub-divisions are included in Public Finance?

- a) 4
- b) 6
- c) **5**
- d) 2

Explanation

In Modern times, the subject ‘Public Finance’ includes five major sub-divisions, viz., Public Revenue, Public Expenditure, Public Debt, Financial Administration and Fiscal Policy.

5. Which of the following statement is correct?

- 1) Public revenue deals with the methods of raising public revenue such as tax and non-tax, the principles of taxation, rates of taxation, impact, incidence and shifting of taxes and their effects
 - 2) Public Expenditure part studies the fundamental principles that govern the Government expenditure, effects of public expenditure and control of public expenditure
 - 3) Taxes, subsidies, public debt and public expenditure are the instruments of fiscal policy
- a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) **All the above**

Explanation

1. Public Revenue

Public revenue deals with the methods of raising public revenue such as tax and non-tax, the principles of taxation, rates of taxation, impact, incidence and shifting of taxes and their effects.

2. Public Expenditure

This part studies the fundamental principles that govern the Government expenditure, effects of public expenditure and control of public expenditure.

3. Public Debt

Public debt deals with the methods of raising loans from internal and external sources. The burden, effects and redemption of public debt fall under this head.

4. Financial Administration This part deals with the study of the different aspects of public budget. The budget is the Annual master financial plan of the Government. The various objectives and steps in preparing a public budget, passing or sanctioning, allocation evaluation and auditing fall within financial administration.

5. Fiscal Policy Taxes, subsidies, public debt and public expenditure are the instruments of fiscal policy.

6. Assertion(A): Public finance deals with study of income, expenditure, borrowing and financial administration of the government

Reason(R): Both public and private finance are fundamentally similar in nature but different from each other on various operational aspects.

- a) Both (A) and (R) are correct, but (R) does not explain (A)
- b) Both (A) and (R) are wrong
- c) Both (A) and (R) are correct and (R) explains (A)
- d) (A) is Correct and (R) is wrong

Explanation

Public finance deals with study of income, expenditure, borrowing and financial administration of the government. Private finance is the study of income, expenditure, borrowing and financial administration of individual or private companies. Both public and private finance are fundamentally similar in nature but different from each other on various operational aspects.

7. Which of the following statement is correct?

- 1) Both public finance and private finance are based on rationality.

- 2) Both have to apply restraint with regard to borrowing
- 3) Both the private and public sectors have limited resources at their disposal.
 - a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

1. Rationality Both public finance and private finance are based on rationality. Maximization of welfare and least cost factor combination underlie both.
2. Limit to borrowing Both have to apply restraint with regard to borrowing. The Government also cannot live beyond its means. There is a limit to deficit financing by the state also.
3. Resource utilisation Both the private and public sectors have limited resources at their disposal. So both attempt to make optimum use of resources.
8. Assertion(A): The effectiveness of measures of the Government as well as private depends on the administrative machinery

Reason(R): If the administrative machinery is inefficient and corrupt it will result in wastages and losses.

- a) Both (A) and (R) are correct, but (R) does not explain (A)
- b) Both (A) and (R) are wrong
- c) Both (A) and (R) are correct and (R) explains (A)
- d) (A) is Correct and (R) is wrong

Explanation

The effectiveness of measures of the Government as well as private depends on the administrative machinery. If the administrative machinery is inefficient and corrupt it will result in wastages and losses.

9. Which of the following statement is correct?
 - 1) The government can borrow from internal and external sources; it can borrow from the people by issuing bonds.
 - 2) The private sector aims to provide social benefit in the economy.
 - 3) The government can print currency which involves the creation, distribution and monitoring of currency
- a) 1, 2

- b) 1, 3
- c) 2, 3
- d) All the above

Explanation

Dissimilarities between public and private finance:

1. Income and Expenditure adjustment

The government adjusts the income to the expenditure while individuals adjust their expenditure to the income. Private finance involves stitching coat according to cloth available whereas public finance decides the cloth according to the need for the coat.

2. Borrowing

The government can borrow from internal and external sources; it can borrow from the people by issuing bonds. However, an individual cannot borrow from himself.

3. Right to print currency

The government can print currency. This involves the creation, distribution and monitoring of currency. The private sector cannot create currency.

4. Present vs. future decisions

The public finance is more involved with future planning and making long term decisions. These investments could include building of schools, hospitals and infrastructure. The private finance makes financial decisions on projects with a short-term vision.

5. Objective

The public sector's main objective is to provide social benefit in the economy. The private sector aims to maximize personal benefit i.e. Profit.

6. Coercion to get revenue

The sources of income of a private individual is relatively limited while those of the Government is wide. The Government can use its power and authority.

7. Ability to make huge and deliberate changes

The public finance has the ability to make big decisions on income. For example, it can effectively and deliberately adjust the revenue. But individuals cannot make such massive decisions

10. Assertion(A): The primary function of the Government is to protect the people from external

aggression and internal disorder.

Reason(R): The government has to maintain adequate police and military forces and render protective services.

- a) Both (A) and (R) are correct, but (R) does not explain (A)
- b) Both (A) and (R) are wrong
- c) Both (A) and (R) are correct and (R) explains (A)
- d) (A) is Correct and (R) is wrong

Explanation

The modern state is a welfare state and not just police state. The state assumes greater roles by creating economic and social overheads, ensuring stability both internally and externally, conserving resources for sustainable development and so on. The primary function of the Government is to protect the people from external aggression and internal disorder. The government has to maintain adequate police and military forces and render protective services.

11. Which of the following statement is correct?

- 1) Rendering justice and settlement of disputes are the concern of the government
 - 2) The regulation and control of private enterprise fall under the purview of the modern State.
 - 3) Ownership of certain enterprises and operating them successfully are the responsibilities of the government
- a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

Rendering justice and settlement of disputes are the concern of the government. It should provide adequate judicial structure to render justice to all classes of citizens. The regulation and control of private enterprise fall under the purview of the modern State. Ownership of certain enterprises and operating them successfully are the responsibilities of the government.

12. Which of the following provisions should be made by government?

- 1) education
 - 2) social security
 - 3) social insurance
 - 4) health
- a) 1, 2, 4

- b) 1, 3, 4
- c) 2, 3, 4
- d) All the above

Explanation

Modern States have to build the base for the economic development of the country by creating social and economic infrastructure. It is the duty of the state to make provisions for education, social security, social insurance, health and sanitation for the betterment of the people in the country.

13. Assertion(A): The Government needs to intervene with fiscal measures to redistribute income.

Reason(R): Concentration of economic power is another evil to be corrected by the Government

- a) Both (A) and (R) are correct, but (R) does not explain (A)
- b) Both (A) and (R) are wrong
- c) Both (A) and (R) are correct and (R) explains (A)
- d) (A) is Correct and (R) is wrong

Explanation

During the process of growth of an economy, certain sections of the society gain at the cost of others. The Government needs to intervene with fiscal measures to redistribute income. Concentration of economic power is another evil to be corrected by the Government. So, the state intervenes through control of monopolies and restrictive trade practices to curb concentration of economic power. In fine, the state can play three kinds of roles. i) As a producer of goods and services. ii) As a supplier of public goods and social goods. iii) As a regulator of the system.

14. Whose spending refers to Public expenditure?

- 1) State government
 - 2) Central government
 - 3) Local government
- a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

Public expenditure can be defined as, "The expenditure incurred by public authorities like central, state and local governments to satisfy the collective social wants of the people is known as public

expenditure". Public expenditure refers to Government spending incurred by Central, State and Local governments of a country.

15. Who classified the public expenditure on the basis of benefit?

- 1) Adam Smith
- 2) Cohn
- 3) Plehn
 - a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

Cohn and Plehn have classified the public expenditure on the basis of benefit into four classes: a) Public expenditure benefiting the entire society, e.g., the expenditure on general administration, defence, education, public health, transport. b) Public expenditure conferring a special benefit on certain people and at the same time common benefit on the entire community, e.g. administration of justice etc. c) Public expenditure directly benefiting particular group of persons and indirectly the entire society, e.g. social security, public welfare, pension, unemployment relief etc. d) Public expenditure conferring a special benefit on some individuals, e.g., subsidy granted to a particular industry.

16. Match the following

- | | |
|----------------------------|---|
| I. Protection Functions | 1. public expenditure incurred for the development infrastructure |
| II. Commercial Functions | 2. development of means of transport and communication |
| III. Development Functions | 3. public expenditure incurred on the security |
| a) 3, 1, 2 | |
| b) 2, 1, 3 | |
| c) 3, 2, 1 | |
| d) 2, 3, 1 | |

Explanation

Adam Smith classified public expenditure on the basis of functions of government in the following main groups: a) Protection Functions: This group includes public expenditure incurred on the security of the citizens, to protect from external invasion and internal disorder, e.g., defence, police, courts etc. b) Commercial Functions: This group includes public expenditure incurred on the development of trade and commerce, e.g., development of means of transport and communication

etc. c) Development Functions: This group includes public expenditure incurred for the development infrastructure and industry

17. Which of the following functions has to be performed by a modern state?

- 1) Social
- 2) Economical
- 3) Political
 - a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

The modern state is a welfare state. In a welfare state, the government has to perform several functions viz Social, economic and political. These activities are the cause for increasing public expenditure.

18. Which of the following statement is correct?

- 1) During the past 67 years of planning, the population of India has increased from 36.1 crore in 1951, to 151 crores in 2011
- 2) The growth in population requires massive investment in health and education, law and order, etc
- 3) Young population requires increasing expenditure on education & youth services
 - a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

During the past 67 years of planning, the population of India has increased from 36.1 crore in 1951, to 121 crores in 2011. The growth in population requires massive investment in health and education, law and order, etc. Young population requires increasing expenditure on education & youth services, whereas the aging population requires transfer payments like old age pension, social security & health facilities.

19. Assertion(A): There has been enormous increase in defence expenditure in India during planning period.

Reason(R): The defence expenditure has been increasing tremendously due to modernisation of defence equipment

- a) Both (A) and (R) are correct, but (R) does not explain (A)
- b) Both (A) and (R) are wrong
- c) **Both (A) and (R) are correct and (R) explains (A)**
- d) (A) is Correct and (R) is wrong

Explanation

There has been enormous increase in defence expenditure in India during planning period. The defence expenditure has been increasing tremendously due to modernisation of defence equipment. The defence expenditure of the government was ₹ 10,874 crores in 1990-91 which increased significantly to ₹ 2,95,511 crores in 2018-19.

20. On which of the following Government of India has been providing subsidies?

- 1) Fertilizer
- 2) Education
- 3) Food
- a) 1, 2
- b) 1, 3
- c) 2, 3
- d) **All the above**

Explanation

The Government of India has been providing subsidies on a number of items such as food, fertilizers, interest on priority sector lending, exports, education, etc. Because of the massive amounts of subsidies, the public expenditure has increased manifold. The expenditure on subsidies by central government in 1990-91 was ₹ 9581 crores which increased significantly to ₹ 2, 29,715.67 crores in 2018-19. Besides this, the corporate sectors also receive subsidies (incentives) of more than ₹ 5 lakh crores

21. What was the interest payment central government during 1990-91?

- a) 21 crores
- b) **21,500 crores**
- c) 2105 crores
- d) None

Explanation

The government has been borrowing heavily both from the internal and external sources, As a result, the government has to make huge amounts of repayment towards debt servicing. The interest payment of the central government has increased from ₹ 21,500 crores in 1990-91 to ₹5, 75,794crores in 2018-19.

22. What % of population was urban based during 1950-51?

- a) 40
- b) 17**
- c) 23
- d) 29

Explanation

The government has been undertaking various development projects such as irrigation, iron and steel, heavy machinery, power, telecommunications, etc. The development projects involve huge investment. There has been an increase in urbanization. In 1950-51 about 17% of the population was urban based.

23. How many cities have population above 1 million?

- a) 4
- b) 54**
- c) 24
- d) 30

Explanation

Now the urban population has increased to about 43%. There are more than 54 cities above one million population. The increase in urbanization requires heavy expenditure on law and order, education and civic amenities.

24. Assertion(A): Setting up of basic and heavy industries involves a huge capital and long gestation period.

Reason(R): The developed countries need a strong of infrastructure like transport, communication, power, fuel, etc

- a) Both (A) and (R) are correct, but (R) does not explain (A)
- b) Both (A) and (R) are wrong
- c) Both (A) and (R) are correct and (R) explains (A)
- d) (A) is Correct and (R) is wrong**

Explanation

Setting up of basic and heavy industries involves a huge capital and long gestation period. It is the government which starts such industries in a planned economy. The under developed countries

need a strong of infrastructure like transport, communication, power, fuel, etc. There has been tremendous increase in grant-in-aid to state and union territories to meet natural disasters.

25. Assertion(A): Public revenue occupies an important place in the study of public finance.

Reason(R): The amount of public revenue to be raised depends on the necessity of public expenditure and the people's ability to pay.

- a) Both (A) and (R) are correct, but (R) does not explain (A)
- b) Both (A) and (R) are wrong
- c) Both (A) and (R) are correct and (R) explains (A)
- d) (A) is Correct and (R) is wrong

Explanation

Public revenue occupies an important place in the study of public finance. The Government has to perform several functions for the welfare of the people. They involve substantial amount of public expenditure which can be financed only through public revenue. The amount of public revenue to be raised depends on the necessity of public expenditure and the people's ability to pay

26. Who classified Public income as Wide and Narrow sense?

- a) Adam Smith
- b) Dalton
- c) Llyod
- d) M.S. Swaminathan

Explanation

The income of the government through all sources is called public income or public revenue. According to Dalton, the term "Public Income" has two senses – wide and narrow

27. Which of the following statement about wide and narrow sense of public income is correct?

- 1) In its wider sense it includes all the incomes or receipts which a public authority may secure during any period of time.
 - 2) In its narrow sense, it includes only those sources of income of the public authority which are ordinarily known as "revenue resources."
- a) 1 alone
 - b) 2 alone
 - c) 1, 2
 - d) None

Explanation

In its wider sense public income includes all the incomes or receipts which a public authority may secure during any period of time. In its narrow sense, it includes only those sources of income of the public authority which are ordinarily known as "revenue resources." To avoid ambiguity, the former is termed "public receipts" and the latter "public revenue."

28. In which of the following sense the loans raised by the Government included?

- a) Narrow sense
- b) Broad sense**
- c) Either a or b
- d) Both a and b

Explanation

In a narrow sense, it includes only those sources of income of the Government which are described as "revenue resources". In broad sense, it includes loans raised by the Government also.

29. Which of the following statement is correct?

- 1) Tax is a compulsory payment by the citizens to the government to meet the public expenditure
 - 2) It is legally imposed by the government on the tax payer and in no case tax payer can refuse to pay taxes to the government.
- a) 1 alone
 - b) 2 alone
 - c) 1, 2**
 - d) None

Explanation

Tax is a compulsory payment by the citizens to the government to meet the public expenditure. It is legally imposed by the government on the tax payer and in no case tax payer can refuse to pay taxes to the government.

30. Who among the following stated this:

"A Tax is a compulsory payment made by a person or a firm to a government without reference to any benefit the payer may derive from the government."

- a) Adam Smith
- b) Dalton
- c) Anatol Murad**
- d) Llyod

Explanation

"A Tax is a compulsory payment made by a person or a firm to a government without reference to any benefit the payer may derive from the government."

-Anatol Murad

"A Tax is a compulsory contribution imposed by public authority, irrespective of the exact amount of service rendered to the tax payer in return and not imposed as a penalty for any legal offence."

- Dalton

31. Which of the following statement is correct?

- 1) A tax is levied as a fine or penalty for breaking law
- 2) Every tax involves some sacrifice on part of the tax payer.
- 3) Refusal to pay the tax is a punishable offence.
 - a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

Characteristics of Tax

1. A tax is a compulsory payment made to the government. People on whom a tax is imposed must pay the tax. Refusal to pay the tax is a punishable offence. 2. There is no quid pro quo between a taxpayer and public authorities. This means that the tax payer cannot claim any specific benefit against the payment of a tax. 3. Every tax involves some sacrifice on part of the tax payer. 4. A tax is not levied as a fine or penalty for breaking law

32. Which of the following are tax revenue sources?

- 1) Income tax
- 2) Sales tax
- 3) Surcharge and Cess
 - a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

Some of the tax revenue sources are

- Income tax
- Corporate tax

- Sales tax
- Surcharge and
- Cess

33. Which of the following statement is correct?

- 1) Fees are another important source of revenue for the government.
- 2) A fee is charged by public authorities for rendering a service to the citizens.
- 3) fees are charged for issuing of passports, driving licenses, etc.
 - a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

Fees are another important source of revenue for the government. A fee is charged by public authorities for rendering a service to the citizens. Unlike tax, there is no compulsion involved in case of fees. The government provides certain services and charges certain fees for them. For example, fees are charged for issuing of passports, driving licenses, etc.

34. Assertion(A): The Government also gets revenue by way of surplus from public enterprises

Reason(R): A fine is a penalty imposed on an individual for violation of law.

- a) Both (A) and (R) are correct, but (R) does not explain (A)
- b) Both (A) and (R) are wrong
- c) Both (A) and (R) are correct and (R) explains (A)
- d) (A) is Correct and (R) is wrong

Explanation

A fine is a penalty imposed on an individual for violation of law. For example, violation of traffic rules, payment of income tax after the stipulated time etc. Earnings from Public Enterprises The Government also gets revenue by way of surplus from public enterprises. Some of the public sector enterprises do make a good amount of profits. The profits or dividends which the government gets can be utilized for public expenditure.

35. due to a public park comes under_____

- a) Gifts, Grants and Aids
- b) Fine
- c) Earnings from Public Enterprises
- d) Special assessment of betterment levy

Explanation

Special assessment of betterment levy is a kind of special charge levied on certain members of the community who are beneficiaries of certain government activities or public projects. For example, due to a public park or due to the construction of a road, people in that locality may experience an appreciation in the value of their property or land.

36. Which of the following statement is correct?

- 1) A grant from one government to another is an important source of revenue in the modern days
 - 2) Grants from foreign countries are known as Foreign Aid.
 - 3) The government at the Centre provides grants to State governments and the State governments provide grants to the local government to carry out their functions
- a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) **All the above**

Explanation

A grant from one government to another is an important source of revenue in the modern days. The government at the Centre provides grants to State governments and the State governments provide grants to the local government to carry out their functions. Grants from foreign countries are known as Foreign Aid. Developing countries receive military aid, food aid, technological aid, etc. from other countries.

37. _____ refers to the claim of the state to the property of persons who die without legal heirs

- a) Fine
- b) Fees
- c) **Escheats**
- d) Special assessment of betterment levy

Explanation

Escheats refers to the claim of the state to the property of persons who die without legal heirs or documented will.

38. Who accorded four cannons of taxation?

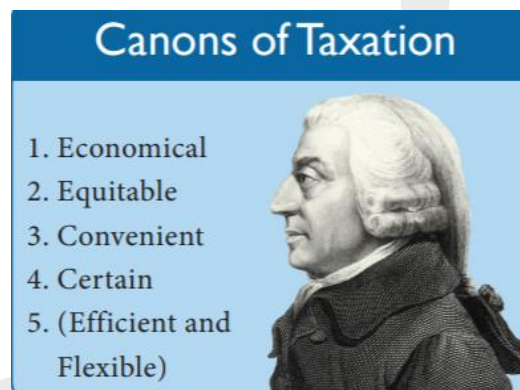
- a) **Adam Smith**
- b) Dalton
- c) Andrew ruse
- d) Steven Smith

Explanation

The characteristics or qualities which a good tax should possess are described as canons of taxation. It must be noted that canons refer to the qualities of an isolated tax and not to the tax system as a whole. A good tax system should have a proper combination of all kinds of taxes having different canons. According to Adam Smith, there are four canons or maxims of taxation.

39. Which of the following is not a Canons of Taxation?

- a) Economical
- b) Certain
- c) Equitable
- d) Equal

Explanation

40. Which of the following statement is correct?

- 1) The Government should impose tax in such a way that the people have to pay taxes according to their ability
 - 2) The Government must ensure that there is no uncertainty regarding the rate of tax or the time of payment
 - 3) According to Smith, the Government should impose only those taxes whose collection costs are very less and cheap.
- a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

1. Canon of Ability: The Government should impose tax in such a way that the people have to pay taxes according to their ability. In such case a rich person should pay more tax compared to a middle class person or a poor person.

2. Canon of Certainty: The Government must ensure that there is no uncertainty regarding the rate of tax or the time of payment. If the Government collects taxes arbitrarily, then these will adversely affect the efficiency of the people and their working ability too.

3. Canon of Convenience: The method of tax collection and the timing of the tax payment should suit the convenience of the people. The Government should make convenient arrangement for all the tax payers to pay the taxes without difficulty.

4. Canon of Economy: The Government has to spend money for collecting taxes, for example, salaries are given to the persons who are responsible for collecting taxes. The taxes, where collection costs are more are considered as bad taxes. Hence, according to Smith, the Government should impose only those taxes whose collection costs are very less and cheap.

41. Which of the following statement is correct?

- 1) A direct tax is referred to as a tax levied on person's income and wealth and is paid directly to the government; the burden of such tax cannot be shifted
 - 2) The tax is regressive in nature.
 - 3) The plans and policies of the Direct Taxes are being recommended by the Central Board of Direct Taxes (CBDT) which is under the Ministry of Finance, Government of India
- a) 1, 2
 - b) 1, 3**
 - c) 2, 3
 - d) All the above

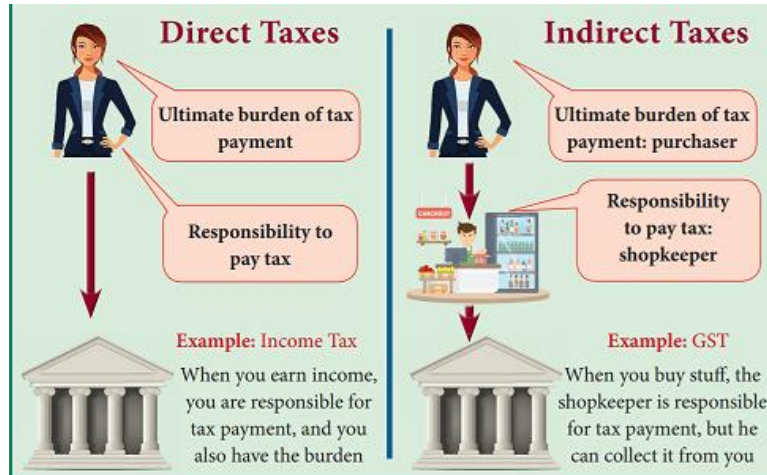
Explanation

A direct tax is referred to as a tax levied on person's income and wealth and is paid directly to the government; the burden of such tax cannot be shifted. The tax is progressive in nature. It is levied according to the paying capacity of the person, i.e. the tax is collected more from the rich and less from the poor people. The plans and policies of the Direct Taxes are being recommended by the Central Board of Direct Taxes (CBDT) which is under the Ministry of Finance, Government of India.

42. I am buying a match box, the tax of it is paid to government comes under the Responsibility of_____

- a) Buyer
- b) Manufacturing company
- c) Seller**
- d) None

Explanation



43. Assertion(A): Direct taxes are progressive

Reason(R): rate of tax varies according to tax base.

- a) Both (A) and (R) are correct, but (R) does not explain (A)
- b) Both (A) and (R) are wrong
- c) Both (A) and (R) are correct and (R) explains (A)
- d) (A) is Correct and (R) is wrong

Explanation

Merits of Direct Taxes

1. Equity Direct taxes are progressive i.e. rate of tax varies according to tax base. For example, income tax satisfies the canon of equity.
2. Certainty Canon of certainty can be ensured by direct taxes. For example, an income tax payer knows when and at what rate he has to pay income tax.
3. Elasticity: Direct taxes also satisfy the canon of elasticity. Income tax is income elastic in nature. As income level increases, the tax revenue to the Government also increases automatically.
4. Economy The cost of collection of direct taxes is relatively low. The tax payers pay the tax directly to the state.

44. Which of the following statement is correct?

- 1) Direct taxes are generally unpopular. It is inconvenient and less flexible.
 - 2) According to many economists direct tax may adversely affect productivity.
 - 3) The burden of direct tax is so heavy that tax-payers always try to evade taxes.
- a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

Demerits of Direct Taxes

1. Unpopular Direct taxes are generally unpopular. It is inconvenient and less flexible. 2. Productivity affected According to many economist direct tax may adversely affect productivity. Citizens are not willing to earn more income because in that case they have to pay more taxes. 3. Inconvenient The tax payers find it inconvenient to maintain accounts, submit returns and pay tax in lump sum. 4. Tax Evasion The burden of direct tax is so heavy that tax-payers always try to evade taxes. This ultimately leads to the generation of black money, which is harmful to the economy

45. which of the following statement about Indirect Tax is correct?

- 1) Indirect Tax is referred to as a tax charged on a person who purchases the goods and services and it is paid indirectly to the government.
 - 2) The burden of tax can be easily shifted to another person
 - 3) It is levied on all persons unequally
- a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

Indirect Tax is referred to as a tax charged on a person who purchases the goods and services and it is paid indirectly to the government. The burden of tax can be easily shifted to another person. It is levied on all persons equally whether rich or poor.

46. Match the following

- | | |
|-----------------------|--|
| I. Custom Duty | 1. Liability is on the cinema theatre owners |
| II. Entertainment Tax | 2. Import duties levied on goods from outside the country |
| III. Excise Duty | 3. Paid by a shopkeeper or retailer |
| IV. Sales Tax | 4. Payable by the manufacturer who shifts the tax burden to retailers and wholesalers. |
- a) 3, 1, 2, 4
 - b) 1, 4, 2, 3
 - c) 2, 1, 4, 3
 - d) 2, 4, 1, 3

Explanation

There are several types of Indirect Taxes, such as: Excise Duty: Payable by the manufacturer who shifts the tax burden to retailers and wholesalers. Sales Tax: Paid by a shopkeeper or retailer, who then shifts the tax burden to customers by charging sales tax on goods and services. Custom Duty: Import duties levied on goods from outside the country, ultimately paid for by consumers and

retailers. Entertainment Tax: Liability is on the cinema theatre owners, who transfer the burden to cinema goers. Service Tax: Charged on services like telephone bill, insurance premium such as food bill in a restaurant etc.

47. Which of the following statement is correct?

- 1) All the consumers, whether they are rich or poor, have to pay indirect taxes
- 2) Cost of collection is less as producers and retailers collect tax and pay to the Government.
- 3) The Government imposes indirect taxes on those commodities which are harmful to health e.g. tobacco, liquor etc. They are known as sin taxes.
 - a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

Merits of Indirect Taxes (1) Wider Coverage All the consumers, whether they are rich or poor, have to pay indirect taxes. For this reason, it is said that indirect taxes can cover more people than direct taxes. For example, in India everybody pays indirect tax as against just 2 percent paying income tax. (2) Equitable The indirect tax satisfies the canon of equity when higher tax is imposed on luxuries used by rich people. (3) Economical Cost of collection is less as producers and retailers collect tax and pay to the Government. The traders act as honorary tax collectors. (4) Checks harmful consumption The Government imposes indirect taxes on those commodities which are harmful to health e.g. tobacco, liquor etc. They are known as sin taxes. (5) Convenient Indirect taxes are levied on commodities and services. Whenever consumers make purchase, they pay tax along with the price. They do not feel the pinch of paying tax.

48. Which of the following statement is correct?

- 1) The cost of collection of direct taxes is higher than the indirect taxes
- 2) Indirect taxes are less elastic compared to direct taxes.
- 3) As the tax is hidden in price, the consumers are not aware of paying tax.
 - a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

Demerits of Indirect Taxes (1) Higher Cost of Collection The cost of collection of indirect taxes is higher than the direct taxes. The Government has to spend huge money to collect indirect taxes. (2) Inelastic Indirect taxes are less elastic compared to direct taxes. As indirect taxes are generally proportional. (3) Regressive Indirect taxes are sometimes unjust and regressive in nature since

both rich and poor persons have to pay same amount as taxes irrespective of their income level. (4)
No civic Consciousness As the tax is hidden in price, the consumers are not aware of paying tax.

49. Who said that under indirect taxes 2+2 is not 4 but 3 or even less than 3?

- a) Anton George
- b) George Llyod
- c) Adam Smith
- d) Dalton

Explanation

The rise in indirect taxes increase the price and reduces the demand for goods. Therefore, the Government is uncertain about the expected revenue collection. So, Dalton says under indirect taxes 2+2 is not 4 but 3 or even less than 3.

50. In which of the following forms direct tax are Imposed on and collected?

- 1) Hindu Undivided Family
 - 2) Company
 - 3) Individual
- a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

Direct Tax is Imposed on and collected from assesses, i.e. Individual, HUF (Hindu Undivided Family), Company, Firm etc. Indirect Tax is Imposed on and collected from consumers of goods and services but paid and deposited by the assesses.

51. Which of the following helps to control Inflation?

- a) Direct tax
- b) Indirect tax
- c) Both a and b
- d) Either a or b

Explanation

Direct tax helps in controlling the inflation. Tax evasion is possible Tax evasion is possible. Indirect taxes push up price inflation. Tax evasion is hardly possible because it is included in the price of the goods and services in indirect tax.

52. Which of the following is regressive in nature?

- 1) Direct tax
- 2) Indirect tax
 - a) 1 alone
 - b) 2 alone**
 - c) 1, 2
 - d) None

Explanation

Basis For Comparison	Direct Tax	Indirect Tax
Meaning	Direct tax is referred to as the tax, levied on person's income and wealth and is paid directly to the government.	Indirect Tax is referred to as the tax, levied on a person who consumes the goods and services and is paid indirectly to the government.
Nature	Progressive	Regressive
Incidence and Impact	Falls on the same person.	Falls on different persons.
Tax base	Income or wealth of the assessee	Purchase/sale/manufacture of goods and provision of services

53. Which of the following statement is correct?

- 1) GST is an direct Tax which has replaced many Indirect Taxes in India
- 2) Goods & Services Tax in India is a comprehensive, multistage, destination-based tax that is levied on every value addition
- 3) In case of intra-state sales, Central GST and State GST will be charged
 - a) 1, 2
 - b) 1, 3
 - c) 2, 3**
 - d) All the above

Explanation

GST is an Indirect Tax which has replaced many Indirect Taxes in India. Goods & Services Tax in India is a comprehensive, multistage, destination-based tax that is levied on every value addition. Under the GST regime, the tax will be levied at the final point of sale. In case of intra-state sales, Central GST and State GST will be charged. Inter-state sales will be chargeable to Integrated GST.

54. When Goods and Service Tax Act was passed in the Parliament?

- a) 29th July 2016
- b) 27th march 2017
- c) 29th March 2017**
- d) 1st July 2017

Explanation

The Goods and Service Tax Act was passed in the Parliament on 29th March 2017. The Act came into effect on 1st July 2017. In simple words, Goods and Service Tax (GST) is an indirect tax levied on the supply of goods and services. This law has replaced many indirect tax laws that previously existed in India. GST is one indirect tax for the entire country.

55. Consider goods manufactured in Tamil Nadu and are sold to the final consumer in Karnataka
entire tax revenue will go to_____

- a) Tamil Nadu
- b) Karnataka**
- c) Central Government
- d) Equally shared between and b

Explanation

Consider goods manufactured in Tamil Nadu and are sold to the final consumer in Karnataka. Since Goods & Service Tax is levied at the point of consumption, in this case, Karnataka, the entire tax revenue will go to Karnataka and not Tamil Nadu.

56. What was the old regime tax for Sale to another State?

- a) IGST
- b) Central Sales Tax + Excise/Service Tax**
- c) VAT + Central Excise/Service tax
- d) None

Explanation

Transaction	New Regime	Old Regime	
Sale within the State	CGST + SGST	VAT + Central Excise/Service tax	Revenue will be shared equally between the Centre and the State
Sale to another State	IGST	Central Sales Tax + Excise/Service Tax	There will only be one type of tax (central) in case of inter-state sales. The Center will then share the IGST revenue based on the destination of goods.

57. How many components of GST are there?

- a) 3**
- b) 5
- c) 2
- d) 7

Explanation

The component of GST are of 3 types. They are: CGST, SGST & IGST. CGST: Collected by the Central Government on an intra-state sale (Eg: Within state/ union territory) SGST: Collected by the State Government on an intra-state sale (Eg: Within state/ union territory) IGST: Collected by the Central Government for inter-state sale (Eg: Maharashtra to Tamil Nadu)

58. Which of the following statement is correct?

- 1) Sales tax was multipoint tax with cascading effect
 - 2) VAT was multipoint tax with cascading effect
 - 3) GST is one-point tax without cascading effect.
- a) 1, 2
 - b) 1, 3**
 - c) 2, 3
 - d) All the above

Explanation

Nature of Sales tax, VAT and GST:

1. Sales tax was multipoint tax with cascading effect.
2. VAT was multipoint tax without cascading effect.
3. GST is one-point tax without cascading effect.

59. Which of the following statement is correct regarding GST?

- 1) GST will mainly remove the cascading effect on the sale of goods and services
 - 2) Since tax on tax is eliminated in this regime, the cost of goods decreases.
 - 3) All activities like registration, return filing, application for refund and response to notice need to be done online on the GST Portal
- a) 1, 2
 - b) 1, 3**
 - c) 2, 3
 - d) All the above

Explanation

Advantages of GST

1. GST will mainly remove the cascading effect on the sale of goods and services. Removal of cascading effect will directly impact the cost of goods. Since tax on tax is eliminated in this regime, the cost of goods decreases.

2. GST is also mainly technologically driven. All activities like registration, return filing, application for refund and response to notice need to be done online on the GST Portal. This will speed up the processes.

60. Which of the following statemen is correct?

- 1) In the 18th and 19th centuries, the role of the state was minimum
 - 2) The amount of borrowing is huge in the under developed countries to finance development activities.
 - 3) since 20th century there has been enormous increase in the responsibilities of the state.
- a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) **All the above**

Explanation

centuries, the role of the state was minimum. But since 20th century there has been enormous increase in the responsibilities of the state. Hence the state has to supplement the traditional revenue sources with borrowing from individuals, and institutions within and outside the country. The amount of borrowing is huge in the under developed countries to finance development activities. The debt burden is a big problem and most of the countries are in debt trap.

61. Assertion(A): An internal public debt is a loan taken by the Government from the citizens

Reason(R): An internal public debt only involves transfer of wealth.

- a) **Both (A) and (R) are correct, but (R) does not explain (A)**
- b) Both (A) and (R) are wrong
- c) Both (A) and (R) are correct and (R) explains (A)
- d) (A) is Correct and (R) is wrong

Explanation

An internal public debt is a loan taken by the Government from the citizens or from different institutions within the country. An internal public debt only involves transfer of wealth.

62. Which of the following are main sources of internal Public debt?

- 1) Non-financial institutions
 - 2) Banks
 - 3) Individuals, who purchase government bonds and securities
- a) 1, 2
 - b) 1, 3

- c) 2, 3
- d) **All the above**

Explanation

The main sources of internal public debt are as follows: → Individuals, who purchase government bonds and securities; → Banks, both private and public, buy bonds from the Government. → Non-financial institutions like UTI, LIC, GIC etc. also buy the Government bonds. → Central Bank can lend the Government in the form of money supply. The Central Bank can also issue money to meet the expenditures of the Government.

63. Which of the following are the main sources of External Public debt?

- 1) World Bank
 - 2) ADB
 - 3) UNICEF
 - 4) IMF
- a) 1, 2, 3
 - b) **1, 2, 4**
 - c) 2, 3, 4
 - d) All the above

Explanation

When a loan is taken from abroad or from an international organisation it is called external public debt. The main sources of External public debt are IMF, World Bank, IDA and ADB etc. Loan from other countries and the Governments.

64. Which country has highest external debt according to World Bank Report on 29th July 2019?

- a) UK
- b) **USA**
- c) India
- d) China

Explanation

Countries External Debt as on June-2018					
Rank	Country/Region		External debt (USD Millions)	Per capita US dollars	% of GDP
1		USA	21,171,000	58,200	98
2		UK	8,475,956	127,000	313
3		France	5,689,745	87,200	213
4		Germany	5,398,267	65,600	141
7		Japan	3,586,817	28,200	74
13		China	1,710,625	1,200	14
21		Russia	537,458	3,700	40
22		India	529,000	380	20

(Source: World Bank Report and India's External Debt as at the end of March 2018 – RBI REPORT DATED 29-06-2018)

65. Assertion(A): Preparation for war is one of the important reasons for increase in Public debt

Reason(R): In modern times, the preparation for war and nuclear defence programmes take away the major share of the government's revenue and so it incurs debt.

- a) Both (A) and (R) are correct, but (R) does not explain (A)
- b) Both (A) and (R) are wrong
- c) Both (A) and (R) are correct and (R) explains (A)
- d) (A) is Correct and (R) is wrong

Explanation

Waging war has become one of the important causes for incurring debts by the governments. In modern times, the preparation for war and nuclear defence programmes take away the major share of the government's revenue and so it incurs debt.

66. Which of the following statement is correct?

- 1) Modern states are considered to be 'Welfare States' and they have to undertake many social obligations like public health, sanitation, education, insurance, transport and communications, etc.,
 - 2) To finance these, the State has to incur a heavy public debt.
 - 3) Due to heavy public expenditure, the governments always face deficit budget. Such deficits have to be financed only through borrowings.
- a) 1, 2
 - b) 1, 3

- c) 2, 3
- d) All the above

Explanation

Modern states are considered to be 'Welfare States' and they have to undertake many social obligations like public health, sanitation, education, insurance, transport and communications, etc., besides providing the minimum necessities of life to the citizens of the country. To finance these, the State has to incur a heavy public debt. The government has to undertake many projects for economic development of the country. Construction of railways, power projects, irrigation projects, heavy industries, etc., could be thought of only by means of mobilising resources in the form of public debt. Due to heavy public expenditure, the governments always face deficit budget. Such deficits have to be financed only through borrowings.

67. Which of the following statement is correct?

- 1) Most of the governments of modern days face the problem of unemployment and it has become the duty to solve this by making huge public expenditure.
 - 2) To solve the unemployment problem, and to fight recession, the government has to make huge expenditures. For this the States have to resort to public debt
 - 3) The Government can withdraw excess money from circulation, by raising public debt and thus prevent prices from rising.
- a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

Most of the governments of modern days face the problem of unemployment and it has become the duty to solve this by making huge public expenditure. To solve the unemployment problem, and to fight recession, the government has to make huge expenditures. For this the States have to resort to public debt. The Government can withdraw excess money from circulation, by raising public debt and thus prevent prices from rising. During the depression phase, private investment is lacking. The Government applies compensatory public spending by borrowing from internal and external sources.

68. The process of repaying a public debt is called_____

- a) Redemption
- b) Recession
- c) Reduction
- d) Depreciation

Explanation

The process of repaying a public debt is called redemption. The Government sells securities to the public and at the time of maturity, the person who holds the security surrenders it to the Government.

69. Who introduced sinking fund for the first time?

- a) India
- b) Australia
- c) **England**
- d) USA

Explanation

Under this method, the Government establishes a separate fund known as "Sinking Fund". The Government credits every year a fixed amount of money to this fund. By the time the debt matures, the fund accumulates enough amount to pay off the principal along with interest. This method was first introduced in England by Walpol.

70. Who felt that debt conversion actually relaxes the debt burden?

- a) Morley
- b) **Dalton**
- c) Adam Smith
- d) Boris Johnson

Explanation

Conversion of loans is another method of redemption of public debt. It means that an old loan is converted into a new loan. Under this system a high interest public debt is converted into a low interest public debt. Dalton felt that debt conversion actually relaxes the debt burden.

71. When does a surplus budget occur?

- a) **public revenue exceeds the public expenditure**
- b) public revenue exceeds the public debt
- c) public debt exceeds the public expenditure
- d) none

Explanation

When the Government presents surplus budget, it can be utilised for repaying the debt. Surplus occurs when public revenue exceeds the public expenditure. However, this method is rarely possible.

72. Which of the following is easiest way of paying off the public debt without losing its credibility?

- a) Budgetary Surplus
- b) Terminal Annuity**
- c) Sinking Fund
- d) Repudiation

Explanation

In Terminal Annuity method, Government pays off the public debt on the basis of terminal annuity in equal annual instalments. This is the easiest way of paying off the public debt.

73. Assertion(A): In Repudiation case, the Government does not recognise its obligation to repay the loan.

Reason(R): In normal case the Government does not do so; if done it will lose its credibility.

- a) Both (A) and (R) are correct, but (R) does not explain (A)**
- b) Both (A) and (R) are wrong
- c) Both (A) and (R) are correct and (R) explains (A)
- d) (A) is Correct and (R) is wrong

Explanation

Repudiation is the easiest way for the Government to get rid of the burden of payment of a loan. In such cases, the Government does not recognise its obligation to repay the loan. It is certainly not paying off a loan but destroying it. However, in normal case the Government does not do so; if done it will lose its credibility.

74. During which time compulsory reduction rate of interest will be carried out?

- a) Normal times
- b) When budget is surplus
- c) financial crisis**
- d) all the above

Explanation

Another method of debt redemption is the compulsory reduction in the rate of interest, during the time of financial crisis.

75. Which of the following statement is correct?

- 1) When the Government imposes levy on the capital assets owned by an individual or any institution, it is called capital levy.
- 2) The fund so collected can be used by the Government for paying off war time debt obligations

3) This is the most controversial method of debt repayment.

- a) 1, 2
- b) 1, 3
- c) 2, 3
- d) **All the above**

Explanation

When the Government imposes levy on the capital assets owned by an individual or any institution, it is called capital levy. This levy is imposed on capital assets above a minimum limit on a progressive scale. The fund so collected can be used by the Government for paying off war time debt obligations. This is the most controversial method of debt repayment.

76. French word "Bougett" which refers to_____

- a) Fund
- b) **Small leather bag**
- c) Big leather bag
- d) Raising fund

Explanation

The word 'budget' is said to have its origin from the French word "Bougett" which refers to 'a small leather bag'. The budget is an annual financial statement which shows the estimated income and expenditure of the Government for the forthcoming financial year.

77. Who among the following stated this:

"Budget is a document containing a preliminary approved plan of public revenue and expenditure".

- a) **Reney Stourn**
- b) Bastabale
- c) Adam smith
- d) Dalton

Explanation

Definitions on budget:

"It is a document containing a preliminary approved plan of public revenue and expenditure".

-Reney Stourn.

"The budget has come to mean the financial arrangements of a given period, with the usual implication that they have been submitted to the legislature for approval".

- Bastabale

78. Central Government has to submit annual financial statement, i.e., Union Budget under Article_____

- a) 112
- b) 131
- c) 202
- d) 212

Explanation

India is a Federal Economy, hence public budget is divided into two layers of the Government. According to the Indian Constitution, the Central Government has to submit annual financial statement, i.e., Union Budget under Article 112 to the Parliament and each State Government has to submit the same for the State in the Legislative Assembly under Article 202.

79. Which of the following statement is incorrect?

- 1) Revenue Budget consists of revenue receipts and revenue expenditure
 - 2) revenue expenditure can be categorised into tax revenue and non-tax revenue
 - 3) Revenue receipt can also be categorised into plan revenue expenditure and non-plan revenue expenditure
- a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

Revenue Budget consists of revenue receipts and revenue expenditure. Moreover, the revenue receipts can be categorised into tax revenue and non-tax revenue. Revenue expenditure can also be categorised into plan revenue expenditure and non-plan revenue expenditure

80. Which of the following are main sources of capital receipts?

- 1) Loans
 - 2) Advances
 - 3) Tax
- a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

Capital Budget consists of capital receipts and capital expenditure. In this case, the main sources of capital receipts are loans, advances etc. On the other side capital expenditure can be categorised into plan capital expenditure and nonplan capital expenditure.

81. Assertion(A): During the time of war emergencies and natural calamities like tsunami, flood etc, supplementary budget is introduced

Reason(R): Under these circumstances, a supplementary budget can be presented by the Government to tackle these unforeseen events

- a) Both (A) and (R) are correct, but (R) does not explain (A)
- b) Both (A) and (R) are wrong
- c) **Both (A) and (R) are correct and (R) explains (A)**
- d) (A) is Correct and (R) is wrong

Explanation

During the time of war emergencies and natural calamities like tsunami, flood etc, the expenditures allotted in the budget provisions are not always enough. Under these circumstances, a supplementary budget can be presented by the Government to tackle these unforeseen events.

82. Which article provides provision for producing budget in middle of the year?

- a) 112
- b) **116**
- c) 202
- d) 111

Explanation

Under Article 116 of the Indian Constitution, the budget can be presented in the middle of the year. The reason may be political in nature. The existing Government may or may not continue for the year, on account of the fact that elections are due, then the Government places a 'lame duck budget'. This is also called 'Vote-on-account Budget'.

83. Which of the following statement is correct?

- 1) The vote on account budget is a special provision by which the Government gets permission from the parliament to incur expenditures on necessary items till the budget is finally passed in the parliament

- 2) The legal permission of both the Houses of the parliament for the withdrawal of money from the Consolidated Fund of India to meet the requisite expenses till the budget is finally approved is known as vote-on - account budget.
- 3) This type of budget is generally sanctioned for more than two months.
- a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

The vote on account budget is a special provision by which the Government gets permission from the parliament to incur expenditures on necessary items till the budget is finally passed in the parliament. The legal permission of both the Houses of the parliament for the withdrawal of money from the Consolidated Fund of India to meet the requisite expenses till the budget is finally approved is known as vote-on - account budget. This type of budget is generally sanctioned for not more than two months.

84. When did GOI introduced Zero Base Budget?

- a) 1947- 48
- b) 1977- 78
- c) **1987- 88**
- d) 1997- 98

Explanation

The Government of India presented Zero-Base-Budgeting (ZBB first) in 1987-88. It involves fresh evaluation of expenditure in the Government budget, assuming it as a new item. The review has been made to provide justification or otherwise for the project as a whole in the light of the socio-economic objectives which have been already set up for this project and as well as in view of the priorities of the society.

85. Which country for the first time presented Performance Budget?

- a) UK
- b) France
- c) India
- d) **USA**

Explanation

When the outcome of any activity is taken as the base of any budget, such budget is known as 'Performance Budget'. For the first time in the world, the performance budget was made in USA.

The Administrative Reforms Commission was set up in 1949 in America under Sir Hooper. This commission recommended making of a 'Performance Budget' in USA.

86. What is the other name of Outcome Budget in India?

- a) Zero Base Budget
- b) Performance Budget**
- c) Capital Budget
- d) Supplementary Budget

Explanation

In the Performance Budget, it is the compulsion of the government to tell 'what is done', 'how much done' for the betterment of the people. In India, the Performance Budget is also known as 'Outcome Budget'.

87. Which of the following statement is correct?

- 1) Balanced budget is a situation, in which estimated revenue of the government during the year is equal to its anticipated expenditure.
 - 2) The budget is a surplus budget when the estimated revenues of the year are greater than anticipated expenditures.
 - 3) Deficit budget is one where the estimated government expenditure is more than expected revenue.
- a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above**

Explanation

Balanced budget is a situation, in which estimated revenue of the government during the year is equal to its anticipated expenditure. The budget in which Revenue & Expenditure are not equal to each other is known as Unbalanced Budget. The budget is a surplus budget when the estimated revenues of the year are greater than anticipated expenditures. Deficit budget is one where the estimated government expenditure is more than expected revenue.

88. Which of the following statement is correct?

- 1) Budgetary procedure refers to the system through which the budget is prepared, enacted and executed.
 - 2) The Ministry of Finance prepares the Central Budget every year
 - 3) At the state level the finance department is responsible for the Annual State Budget.
- a) 1, 2
 - b) 1, 3

- c) 2, 3
- d) All the above

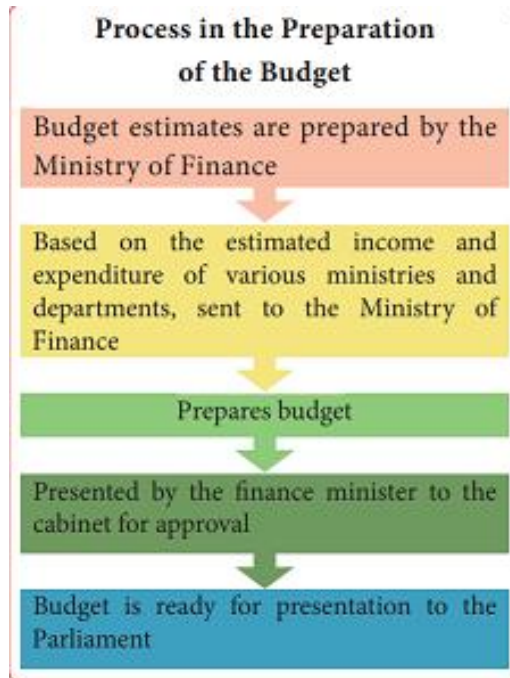
Explanation

Budgetary procedure refers to the system through which the budget is prepared, enacted and executed. The Ministry of Finance prepares the Central Budget every year. At the state level the finance department is responsible for the Annual State Budget. While preparing the budget, the following factors are taken into account: → The macro economic targets to be achieved within a plan period; → The basic strategy of the budget; → The financial requirements of different projects; → Estimates of the revenue expenditures (includes defence expenditure, subsidy, interest payment on debt etc.); → Estimates of the capital expenditures (includes development of railways, roadways, irrigations etc.); → Estimates of revenue receipts from tax and non-tax revenues; → Estimates of capital receipts from the recovery of loans, disinvestment of public sector units, market borrowings etc. → Estimates of the gap between revenue receipts and revenue expenditure; and → Estimates of fiscal deficit, primary deficit, and revenue deficit.

89. Arrange the following in sequence:

- 1) Based on the estimated income and expenditure of various ministries and departments, sent to the Ministry of Finance
 - 2) Budget is ready for presentation to the Parliament
 - 3) Presented by the finance minister to the cabinet for approval
 - 4) Budget estimates are prepared by the Ministry of Finance
- a) 3, 1, 2, 4
 - b) 2, 1, 3, 4
 - c) **4, 1, 3, 2**
 - d) 1, 3, 2, 4

Explanation



90. Which of the following statement is correct?

- 1) The hon'ble Minister of Finance, on behalf of the Central Government, places the Union Budget before Parliament on the eve of a new financial year
 - 2) According to the Indian Constitution, money bills can be initiated in any House
 - 3) After the finance bill is passed, an appropriation bill is presented to give legal effect to the voted demands, and to authorise the expenditure as per the budget.
- a) 1, 2
b) 1, 3
c) 2, 3
d) All the above

Explanation

The hon'ble Minister of Finance, on behalf of the Central Government, places the Union Budget before Parliament on the eve of a new financial year. Similarly, at state levels, the Hon'ble Finance Minister of the respective State Government places the State Budget before the State Legislature. According to the Indian Constitution, all money bills must be initiated in the Lower House. All the money bills are first placed before the Lok Sabha at the Centre, and before the Vidhan Sabha at the State level. The demands of various tax proposals are included in the budget. After the finance bill is passed, an appropriation bill is presented to give legal effect to the voted demands, and to authorise the expenditure as per the budget. In this way, the budgets are enacted in India.

91. How many parts are there in Indian Government account?

- a) 2

- b) 3
- c) 4
- d) 5

Explanation

The budget is mainly executed by different departments of the Government. Proper execution of the budgetary provisions are important for the efficient utilisation of the allocated funds. In India, the Government Accounts are maintained in three parts: (i) Consolidated Fund (ii) Contingency Fund (iii) Public Accounts

92. How many Parliamentary committees are there for finance are there in India?

- a) 2
- b) 4
- c) 5
- d) 6

Explanation

There are also two committees of parliament, viz, (i) The Public Accounts Committee, and (ii) The Estimates Committee. These committees keep a constant vigil on the expenditure so that no Ministry or Department exceeds the amount sanctioned to it.

93. How many major budget deficits are there in Indian government?

- a) 4
- b) 2
- c) 3
- d) 5

Explanation

Budget deficit is a situation where budget receipts are less than budget expenditures. This situation is also known as government deficit. In reference to the Indian Government budget, budget deficit is of four major types. (a) Revenue Deficit (b) Budget Deficit (c) Fiscal Deficit, and (d) Primary Deficit

94. Which of the following statement is correct?

- 1) Revenue Deficit refers to the excess of the government revenue expenditure over revenue receipts
- 2) It considers capital receipts and capital expenditure
- 3) Revenue Deficit (RD) = Total Revenue Expenditure (RE) - Total Revenue Receipts (RR), when $RE - RR > 0$
 - a) 1, 2
 - b) 1, 3

- c) 2, 3
- d) All the above

Explanation

Revenue Deficit refers to the excess of the government revenue expenditure over revenue receipts. It does not consider capital receipts and capital expenditure. Revenue deficit implies that the government is living beyond its means to conduct day-to-day operations.

Revenue Deficit (RD) = Total Revenue Expenditure (RE) - Total Revenue Receipts (RR),

When $RE - RR > 0$

95. Which of the following is correct?

- 1) Budget deficit is the difference between total receipts and total expenditure
 - 2) Fiscal deficit (FD) = Budget deficit + Government's market borrowings and liabilities
 - 3) Primary Deficit (PD) = Fiscal deficit (FD) - Interest Payment (IP)
- a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

Budget deficit is the difference between total receipts and total expenditure (both revenue and capital),

Budget Deficit = Total Expenditure – Total Revenue

Fiscal deficit (FD) = Budget deficit + Government's market borrowings and liabilities

Primary deficit is equal to fiscal deficit minus interest payments. It shows the real burden of the government and it does not include the interest burden on loans taken in the past. Thus, primary deficit reflects borrowing requirement of the government exclusive of interest payments. Primary Deficit (PD) = Fiscal deficit (FD) - Interest Payment (IP)

96. Which of the following statement is correct?

- 1) Federal finance refers to the system of assigning the source of revenue to the Central as well as State Governments for the efficient discharge of their respective functions
 - 2) clear-cut division is made regarding the allocation of resources of revenue between the central and state authorities.
- a) 1 alone
 - b) 2 alone
 - c) 1, 2

d) None

Explanation

Federal finance refers to the system of assigning the source of revenue to the Central as well as State Governments for the efficient discharge of their respective functions i.e. clear-cut division is made regarding the allocation of resources of revenue between the central and state authorities.

97. Which schedule speaks about the division of power?

- a) 9th
- b) 7th
- c) 5th
- d) 12th

Explanation

In our Constitution, there is a clear division of powers so that none violates its limits and tries to encroach upon the functions of the other and functions within own sphere of responsibilities. There are three lists enumerated in the Seventh Schedule of constitution. They are: the Union list, the State list and the Concurrent List.

98. Electricity comes under which list of Indian constitution?

- a) State list
- b) Central list
- c) **Concurrent list**
- d) None

Explanation

The Union List consists of 100 subjects of national importance such as Defence, Railways, Post and Telegraph, etc.

The State List consists of 61 subjects of local interest such as Public Health, Police etc.

The Concurrent List has 52 subjects important to both the Union and the State, such as Electricity, Trade Union, Economic and Social Planning, etc.

99. Which of the following are sources of Union government?

- 1) Public Debt of the Union
 - 2) Taxes on agricultural income
 - 3) Rates of stamp duty in respect of Bills of Exchange, Cheques, Promissory Notes, etc.
 - 4) Foreign Loans
- a) 1, 2, 4

- b) 1, 3, 4
- c) 2, 3, 4
- d) All the above

Explanation

Union Sources: 1. Corporation tax 2. Currency, coinage and legal tender, foreign exchange. 3. Duties of customs including export duties. 4. Duties of excise on tobacco and certain goods manufactured or produced in India. 5. Estate duty in respect of property other than agricultural land. 6. Fees in respect of any of the matters in the Union List, but not including any fees taken in any Court. 7. Foreign Loans. 8. Lotteries organized by the Government of India or the Government of a State. 9. Post Office Savings Bank. 10. Posts and Telegraphs, telephones, wireless, Broadcasting and other forms of communication. 11. Property of the Union. 12. Public Debt of the Union. 13. Railways. 14. Rates of stamp duty in respect of Bills of Exchange, Cheques, Promissory Notes, etc. 15. Reserve Bank of India. 16. Taxes on income other than agricultural income. 17. Taxes on the capital value of the assets, exclusive of agricultural land of individuals and companies. 18. Taxes other than stamp duties on transactions in stock exchanges and future markets. 19. Taxes on the sale or purchase of newspapers and on advertisements published therein. 20. Terminal taxes on goods or passengers, carried by railways, sea or air.

100. Which of the following are sources of State government?

- 1) Taxes on land and buildings
 - 2) Taxes on the entry of goods into a local area for consumption, use or sale therein.
 - 3) Tolls
 - 4) Taxes on animals and boats.
- a) 1, 3, 4
 - b) 2, 3, 4
 - c) 1, 2, 4
 - d) All the above

Explanation

State Sources: 1. Capitation tax 2. Duties in respect of succession to agricultural land. 3. Duties of excise on certain goods produced or manufactured in the State, such as alcoholic liquids, opium, etc. 4. Estate duty in respect of agricultural land. 5. Fees in respect of any of the matters in the State List, but not including fees taken in any Court. 6. Land Revenue. 7. Rates of stamp duty in respect of documents other than those specified in the Union List. 8. Taxes on agricultural income. 9. Taxes on land and buildings. 10. Taxes on mineral rights, subject to limitations imposed by Parliament relating to mineral development. 11. Taxes on the consumption or sale of electricity. 12. Taxes on the entry of goods into a local area for consumption, use or sale therein. 13. Taxes on the sale and purchase of goods other than newspapers. 14. Taxes on the advertisements other than those published in newspapers. 15. Taxes on goods and passengers carried by road or on inland

waterways. 16. Taxes on vehicles. 17. Taxes on animals and boats. 18. Taxes on professions, trades, callings and employments. 19. Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling. 20. Tolls.

101. Which article defines Taxes Levied and Collected by the union but Assigned to the States?

- a) 219
- b) 293
- c) 269
- d) 212

Explanation

Taxes Levied and Collected by the union but Assigned to the States (Art.269)

1. Duties in respect of succession to property other than agricultural land. 2. Estate duty in respect of property other than agricultural land. 3. Taxes on railway fares and freights. 4. Taxes other than stamp duties on transactions in stock exchanges and future markets. 5. Taxes on the sale or purchase of newspapers and on advertisements published therein 6. Terminal taxes on goods or passengers carried by railways, sea or air. 7. Taxes on the sale or purchase of goods other than newspapers where such sale or purchase takes place in the course of inter-State trade or commerce.

102. Which of the following statement about Duties levied by the Union but collected and

Appropriated by the states?

- 1) Taxes on income other than agricultural income
 - 2) Union duties of excise other than such duties of excise on medicinal and toilet preparations as are mentioned in the Union List and collected by the Government of India
 - 3) Taxes which are Levied and Collected by the Union but which may be Distributed between the Union and the States (Arts.270 and 272)
- a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

Duties levied by the Union but collected and Appropriated by the states (Art.268)

Stamp duties and duties of excise on medicinal and toilet preparation (those mentioned in the Union List) shall be levied by the Government of India but shall be collected. (i) In the case where such duties are leviable within any Union territory, by the Government of India. (ii) In other cases, by the States within which such duties are respectively leviable. (v) Taxes which are Levied and

Collected by the Union but which may be Distributed between the Union and the States (Arts.270 and 272) 1. Taxes on income other than agricultural income. 2. Union duties of excise other than such duties of excise on medicinal and toilet preparations as are mentioned in the Union List and collected by the Government of India. "Taxes on income" does not include corporation tax. The distribution of income-tax proceeds between the Union and the States is made on the recommendations of the Finance Commission.

103. When was finance commission established?

- a) 1948
- b) 1952
- c) **1951**
- d) 1949

Explanation

Finance commission is a quasi-judicial body set up under Article 280 of the Indian Constitution. It was established in the year 1951, to define the fiscal relationship framework between the Centre and the state.

104. Which of the following statement is correct?

- 1) Finance Commission aims to reduce the fiscal imbalances between the centre and the states (Vertical imbalance) and also between the states (horizontal imbalance).
 - 2) A Finance Commission is set up once in every 10 years.
 - 3) The 15th Finance Commission recommendations will be implemented starting 1 April 2020.
- a) 1, 2
 - b) **1, 3**
 - c) 2, 3
 - d) All the above

Explanation

Finance Commission aims to reduce the fiscal imbalances between the centre and the states (Vertical imbalance) and also between the states (horizontal imbalance). It promotes inclusiveness. A Finance Commission is set up once in every 5 years. It is normally constituted two years before the period. It is a temporary Body. The 14th Finance Commission was set up in 2013. Its recommendations were valid for the period from 1st April 2015 to 31st March 2020. The 15th Finance Commission has been set up in November 2017. Its recommendations will be implemented starting 1 April 2020.

105. Who was the chairman of 15th finance commission?

- a) A.P. Shahi
- b) **N. K. Singh**

- c) Dr. Y. V Reddy
- d) C. Rangarajan

Explanation

Finance Commission	Year of establishment	Chairman	Operational duration
First	1951	K. C. Neogy	1952–57
Second	1956	K. Santhanam	1957–62
Third	1960	A. K. Chanda	1962–66
Fourth	1964	P. V. Rajamannar	1966–69
Fifth	1968	Mahaveer Tyagi	1969–74
Sixth	1972	K. Brahmananda Reddy	1974–79
Seventh	1977	J. M. Shelat	1979–84
Eighth	1983	Y. B. Chavan	1984–89
Ninth	1987	N. K. P. Salve	1989–95
Tenth	1992	K. C. Pant	1995–2000
Eleventh	1998	A. M. Khusro	2000–05
Twelfth	2002	C. Rangarajan	2005–10
Thirteenth	2007	Dr. Vijay L. Kelkar	2010–15
Fourteenth	2013	Dr. Y. V Reddy	2015–20
Fifteenth	2017	N. K. Singh	2020–25

106. Which of the following statement is correct?

- 1) Article 260 (3) speaks about the functions of the Finance Commission.
 - 2) To determine the quantum of grants in-aid to be given by the Centre to states [Article 275 (1)] and to evolve the principles governing the eligibility of the state for such grant-in-aid
 - 3) Any other matter referred to the Commission by the President of India in the interest of sound finance. Several issues like debt relief, financing of calamity relief of states, additional excise duties, etc. have been referred to the Commission invoking this clause.
- a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

Article 280 (3) speaks about the functions of the Finance Commission. The Article states that it shall be the duty of the Commission to make the recommendations to the President as to: 1. The distribution between the Union and the States of the net proceeds of taxes, which may be divided between them and the allocation among the states of the respective shares of such proceeds; 2. To determine the quantum of grants-in-aid to be given by the Centre to states [Article 275 (1)] and to evolve the principles governing the eligibility of the state for such grant-in-aid; 3. Any other matter referred to the Commission by the President of India in the interest of sound finance. Several issues

like debt relief, financing of calamity relief of states, additional excise duties, etc. have been referred to the Commission invoking this clause.

107. How many local bodies are functioning today in our country?

- a) 3
- b) 5
- c) 4
- d) 2

Explanation

Local finance refers to the finance of local bodies in India. There is a large variety of local bodies in India. We have the following main four local bodies which are functioning today in our country:

Types of Local Bodies 1. Village Panchayats 2. District Boards or Zila Parishads 3. Municipalities 4. Municipal Corporations

108. Which of the following statement is correct?

- 1) The jurisdiction of a panchayat is usually confined to one revenue village.
 - 2) The establishment of panchayat raj is the avowed policy of most states in India.
 - 3) The supply of water, both for drinking and irrigation, falls within their field of responsibility, and in some cases farming, marketing, storage, etc. are entrusted to them
- a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

The jurisdiction of a panchayat is usually confined to one revenue village. In some cases, though not very frequently, two or more small villages are grouped under one panchayat. The establishment of panchayat raj is the avowed policy of most states in India.

→ Functions

- a) The functions of panchayats range over a wide area including civil, economic and so on. Thus, small disputes may be disposed of by panchayats on the spot.
- b) Roads, primary schools, village dispensaries etc. are to be managed by panchayats.
- c) The supply of water, both for drinking and irrigation, falls within their field of responsibility, and in some cases farming, marketing, storage, etc. are entrusted to them

109. Which of the following are sources of revenue of village panchayats?

- 1) general property tax
 - 2) taxes on land
 - 3) profession tax
- a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

The following are the sources of revenue of village panchayats. (i) general property tax, (ii) taxes on land, (iii) profession tax, and (iv) tax on animals and vehicles. Other taxes include service tax, octroi, theatre tax, pilgrim tax, tax on marriage, tax on birth and deaths, and labour tax. As a matter of fact, taxes are levied by the panchayats only with the sanction of the state government, and there are certain limits in respect of tax rates which have to be observed.

110. Which of the following statement is incorrect?

- 1) In Tamil Nadu, the Zila Parishad is a co-ordinating body which exercises general supervision over the working of Panchayat Samitis and advises them on implementation of Development Schemes.
 - 2) The territorial jurisdiction of a district board is generally a revenue district
- a) 1 alone
 - b) 2 alone
 - c) 1, 2
 - d) None

Explanation

In rural areas, district boards or Zila Parishads are established at district level. The territorial jurisdiction of a district board is generally a revenue district.

→ Functions: In Tamil Nadu, the Zila Parishad is a co-ordinating body which exercises general supervision over the working of Panchayat Samitis and advises them on implementation of Development Schemes.

Sources of revenue of District Boards

(i) Grants-in-aid from the state government. (ii) Land Cesses. (iii) Toll, fees etc. (iv) Income from the property and loans from the state governments. (v) Grants for the centrally sponsored schemes relating to development work. (vi) Income from fairs and exhibitions. (vii) Property tax and other taxes which the state governments may authorise the district boards.

111. Which of the following are the Sources of revenue of municipalities?

- 1) taxes on property
 - 2) taxes on vehicles and animals
 - 3) income tax
- a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

Sources of revenue of municipalities (i) taxes on property (ii) taxes on goods, particularly octroi and terminal tax (iii) personal taxes, taxes on profession, trades and employment (iv) taxes on vehicles and animals (v) theatre or show tax, and (vi) grants-in-aid from state government.

112. Which of the following are sources of income for municipal corporation?

- 1) taxes on advertisement
 - 2) octroi and terminal tax
 - 3) tax on vehicles and animals
- a) 1, 2 output
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

Sources of revenue of Corporations (i) tax on property, (ii) tax on vehicles and animals, (iii) tax on trades, calling and employment, (iv) theatre and show tax, (v) taxes on goods brought into the cities for sale, (vi) taxes on advertisements, (vii) octroi and terminal tax etc. The corporations have a fair degree of freedom in respect of their choice and modification of these taxes, subject to the maximum and minimum rates laid down by the law

113. Which of the following are budgetary manipulations affecting the macro economic variables?

- 1) Output
 - 2) Employment
 - 3) Investment
- a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

As an instrument of macro-economic policy, fiscal policy has been very popular among modern governments. The growing importance of fiscal policy was due to the Great Depression and the development of 'New Economics' by Keynes. In common parlance fiscal policy means the budgetary manipulations affecting the macro economic variables – output, employment, saving, investment etc.

114. Which of the following statement is correct?

- 1) Taxes transfer income from the people to the Government
- 2) During depression, taxes are to be reduced
- 3) Public expenditure raises wages and salaries of the employees and thereby the aggregate demand for goods and services.
 - a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) All the above

Explanation

Taxes transfer income from the people to the Government. Taxes are either direct or indirect. An increase in tax reduces disposable income. So, taxation should be raised to control inflation. During depression, taxes are to be reduced. Public expenditure raises wages and salaries of the employees and thereby the aggregate demand for goods and services. Hence public expenditure is raised to fight recession and reduced to control inflation.

115. Which of the following aims at employment generation in India?

- a) MGNREGS
- b) Pradhan Mantri Kisan Yojana
- c) Pradhan Mantri Awas Yojana
- d) All the above

Explanation

Full Employment is the common objective of fiscal policy in both developed and developing countries. Public expenditure on social overheads help to create employment opportunities. In India, public expenditure on rural employment programmes like MGNREGS is aimed at employment generation.

116. Which of the following statement is correct?

- 1) Fiscal Policy is used to increase the productive capacity of the economy.
- 2) When resource mobilization through tax measures is inadequate, the Government resorts to borrowing both from internal and external sources to finance growth projects.
- 3) Progressive rates in taxation help to reduce the gap between rich and poor.

- a) 1, 2
- b) 2, 3
- c) 1, 3
- d) **All the above**

Explanation

Progressive rates in taxation help to reduce the gap between rich and poor. Similarly progressive rates in public expenditure through welfare schemes such as free education, noon meal for school children and subsidies promote the living standard of poor people. Fiscal Policy is used to increase the productive capacity of the economy. Tax is to be used as an instrument for encouraging investment. Tax holidays and tax rebates for new industries stimulate investment. Public sector investments are to be increased to fill the gap left by private investment. When resource mobilization through tax measures is inadequate, the Government resorts to borrowing both from internal and external sources to finance growth projects.

117. Which of the following statement is correct?

- 1) Capital formation is essential for rapid economic development.
 - 2) Government expenditure on infrastructure development like power and transport encourages private investment.
 - 3) Public expenditure may be used to start industrial estates so that industrial activity is stimulated in backward regions
- a) 1, 2
 - b) 1, 3
 - c) 2, 3
 - d) **All the above**

Explanation

Capital formation is essential for rapid economic development. Tax relief helps to increase disposable income, savings and thereby capital formation. Government expenditure on infrastructure development like power and transport encourages private investment. Fiscal incentives for industries in the backward regions help to narrow down regional imbalances. Public expenditure may be used to start industrial estates so that industrial activity is stimulated in backward regions.