

PUBLIC FINANCE

UNIT 1: FISCAL FUNCTIONS: AN OVERVIEW, CENTRE AND STATE FINANCE

Introduction

1. Which of the following is covered under the scope of public finance?

- (a) Public Revenue & Public Expenditure
- (b) Public Debt
- (c) Financial Administration (To Control) processes and operations of public revenue, public expenditure and public debt
- (d) All of the above

2. Which of the following is not correct about public finance?

- (a) Public Finance aims at increasing social welfare along with economic gain
- (b) Public Budgets are always prepared for a year
- (c) A Public authority can use coercive methods to realise its revenue
- (d) All of the above are correct

3. Macroeconomic stabilization may be achieved through

- (a) Free market economy
- (b) Fiscal policy

- (c) Monetary policy
- (d) Both (b) and (c) above

4. Which one of the following is the main macroeconomic goals of any nation?

- (a) Economic Growth
- (b) High levels of employment
- (c) Stable price levels
- (d) All of the above

5. Which of the following is not an economic system?

- (a) Oligopoly
- (b) Capitalism
- (c) Socialism
- (d) Mixed Economy

6. Who is often regarded as a bold advocate of free markets and minimal governmental activity?

- (a) Marshall
- (b) Adam Smith
- (c) Both (a) and (b)
- (d) None of the above

7. Who has introduced the three-branch taxonomy of the role of

government in a market economy in the book "The Theory of Public Finance"?

- (a) Adam Smith
- (b) J.B. Say
- (c) J.M. Keynes
- (d) Richard Musgrave

8. Which of the following is primarily a macroeconomic function?

- (a) Allocation function
- (b) Income Redistribution
- (c) Stabilization Function
- (d) All of the above

9. In Public Finance, which one of the following is related with the function to ensure price stability?

- (a) Resource Allocation
- (b) Income redistribution
- (c) Macroeconomic stabilization
- (d) All of the above

10. The function of the government "to ensure efficiency" is executed through ____.

- (a) Resource Allocation
- (b) Income Redistribution
- (c) Macroeconomic Stabilization
- (d) None of the above

The Allocation Function

11. Which of the following is not correct as regards the Allocation Function?

- (a) It refers to the way in which the available resources are allocated among the various users to which they might be put.

- (b) It determines how much of the various kinds of goods and services will actually be produced in an economy.

- (c) It is a critical problem as resources are limited in supply and have alternative uses.

- (d) All the above are correct.

12. Government of Emeline Land decides to provide most modern road infrastructure throughout the nation. This can be classified as:

- (a) Distribution function
- (b) Allocation function
- (c) Stabilization function
- (d) None of the above

13. The justification for government intervention is best described by:

- (a) The need to prevent recession and inflation in the economy
- (b) The need to modify the outcomes of private market actions
- (c) The need to bring injustice in distribution of income and wealth
- (d) All of the above

14. The allocative function in budgeting determines ____.

- (a) Who and what will be taxed?
- (b) The process by which the total resources of the economy are divided among various uses
- (c) The level of involvement of the public sector in the national economy
- (d) All of the above

15. Which of the following is not allocation instruments by which

governments can influence resource allocation in the economy?

- (a) The Government can directly produce an economic good (like electricity, public transportation services).
- (b) The Government may direct resource allocation through incentives and disincentives.
- (c) The Government may influence allocation through legislation and force (like ban of single use plastic goods).
- (d) Employment reservation and preferences to protect certain segments of the population

The Redistribution Function

16. Redistribution policies are likely to have efficiency costs because—

- (a) They will reduce the efficiency of governments
- (b) They may create disincentives to work and save
- (c) Governments have to forego taxes
- (d) They are likely to make the poor people dependent on the rich

17. Which of the following policies of the government fulfils the redistribution function?

- (a) Parking the army on the northern borders of the country
- (b) Supply of food grains at subsidized prices to the poor people
- (c) Controlling the supply of money through monetary policy
- (d) All of the above

18. When a government offers unemployment benefits and also resorts to progressive taxation which function does it seem to fulfil?

- (a) It is trying to establish stability in an economy
- (b) It is trying to redistribute income and wealth
- (c) It is trying to allocate resources to their most efficient use
- (d) It is creating a source of market failure

19. Which function does the government perform when it provides transfer payments to offer support to the underprivileged?

- (a) Allocation
- (b) Efficiency
- (c) Distribution
- (d) None of the above

20. The redistribution measures should be accomplished with _____ efficiency costs by carefully balancing _____ objectives.

- (a) minimal, equity and efficiency
- (b) minimal, equity and taxation
- (c) maximising, equity and efficiency
- (d) maximising equity and taxation

21. The distributive function of budget is related to which of the following basic questions

- (a) "For whom" should an economy produce
- (b) "By whom" should an economy produce
- (c) Both (a) & (b)
- (d) Neither (a) nor (b)

22. The Government can redistribute income and wealth through _____

- (a) Expenditure side of the budget
- (b) Revenue side of the budget
- (c) Either (a) or (b)
- (d) None of these

23. When the redistribution function is done by Government through revenue side, then which of the following method is adopted?

- (a) Free or subsidised education
- (b) Healthcare
- (c) Progressive Taxation
- (d) Flat rate of Taxation

24. Which of the following is not adopted when redistribution function is done on the expenditure side?

- (a) Progressive Taxation
- (b) Subsidised Education
- (c) Subsidised healthcare
- (d) Free basic goods to deserving people

25. In exercising the redistributive function, there would be a conflict between _____ and _____.

- (a) Efficiency and effectiveness
- (b) Equity and effectiveness
- (c) Efficiency and equity
- (d) None of the above

26. Effective demand is determined by the level of income of the households and this, in turn determines the distribution of _____ among people.

- (a) Real Output
- (b) Nominal Output
- (c) Total Output
- (d) None of the above

27. The distributive function also relates to the manner in which the _____ over the _____ is divided among the various individual and family spending unit of the society.

- (a) Nominal demand, economic goods
- (b) Effective demand, economic goods
- (c) National demand, non-economic goods
- (d) Effective demand, non-economic goods

28. Which of the following is an objective of distribution function?

- (a) Redistribution of income to achieve an equitable distribution of societal output among households
- (b) Advancing the well-being of those members of the society who suffer from deprivations of different types
- (c) Providing equality of income, wealth and opportunities
- (d) All of the above

29. Which of the following is not an example of redistribution function?

- (a) Progressive taxation of the rich along with subsidy to poor
- (b) Special schemes for backward regions
- (c) Unemployment-benefits and transfer payments to provide support to underprivileged people
- (d) Production of goods like electricity by the Government

Stabilization Function

7.5

30. In a federal set up, the stabilization function can be effectively performed by:

- (a) Respective state governments
- (b) Ministry of taxes
- (c) The government at the centre
- (d) None of the above

31. Macroeconomic stability is said to exist when an economy's:

- (a) Output matches its production capacity
- (b) Total Spending matches its total output
- (c) Labour resources are fully employed and inflation is low & stable
- (d) All of the above

32. The theoretical rationale for the stabilization function is that a market economy does not automatically generate full employment and price stability. Who has given this proposition?

- (a) Keynesian
- (b) Hicksian
- (c) Marshallian
- (d) None of these

33. The government and the country's central bank promote full employment and price stability through which of the following policy?

- (a) Fiscal policy
- (b) Monetary Policy
- (c) Both (a) & (b)
- (d) Neither (a) nor (b)

34. The stabilization issue also becomes more complex due to

- (a) Contagion effect
- (b) Contraction effect
- (c) Expansion effect
- (d) Recession effect

35. The increased international interdependence and financial integration causes forces of instability to get easily transmitted from one country to other countries. What is this called?

- (a) Contagion effect
- (b) Contraction effect
- (c) Expansion Effect
- (d) Recession Effect

36. The stabilization function is concerned with the performance of the aggregate economy in terms of

- (a) labour employment and capacity utilization
- (b) general price levels
- (c) the rate of economic growth
- (d) all of the above

37. The government stabilization intervention may be through which of the following?

- (a) Monetary Policy
- (b) Fiscal policy
- (c) Monetary Policy as well as fiscal policy
- (d) None of these

38. Read the following statements:

1. The market-generated allocation of resources is usually imperfect and leads to inefficient allocation of resources in the economy
2. Market failures can at all times be corrected through government intervention

3. Public goods will not be produced in sufficient quantities in a market economy of the three statements above:

- (a) 1, 2 and 3 are correct
- (b) 1 and 3 are correct
- (c) 2 and 3 are correct
- (d) 3 alone is correct

39. Choose the correct statement.

(a) Fiscal policy involves the use of changes in taxation and government spending; while monetary policy involves the use of price and profit controls.

(b) Fiscal policy involves the use of price and profit controls; while monetary policy involves the use of taxation and government spending.

(c) Fiscal policy involves the use of changes in taxation and government spending; while monetary policy involves the use of changes in the supply of money and interest rates.

(d) Fiscal policy involves the use of changes in the supply of money and interest rates; while monetary policy involves the use of changes in taxation and government spending.

40. Which of the following fiscal policy is adopted to alleviate recession?

- (a) Expansionary
- (b) Contractionary
- (c) Both (a) & (b)
- (d) Neither (a) nor (b)

41. The Contractionary fiscal policy is resorted to _____.

(a) Alleviate recession

(b) For controlling high inflation

(c) For increasing general price level

(d) None of these

42. If there is high inflation, then which of the following action is taken by the government?

- (a) Decrease government spending
- (b) Raise taxes
- (c) Reduce money supply
- (d) Any one/more of the above.

43. As a part of its policy the government has increased its spending, reduced the taxes and also increased the money supply. This fiscal policy is adopted in which of the following situations:

- (a) Very high inflation
- (b) High employment
- (c) High unemployment
- (d) High inflation

44. The Monetary policy works through controlling _____:

- (a) The size of money supply
- (b) The interest rate in economy
- (c) Both (a) and (b)
- (d) None of these

Centre and State Finance

45. Fiscal Federalism refers to _____.

- (a) Organizing and implementing development plans
- (b) Sharing of political power between centres and states

(c) The management of fiscal policy by a nation

(d) Division of economic functions and resources among different layers of the government

46. Which one of the following taxes is levied by the state government only?

(a) Corporation tax

(b) Wealth tax

(c) Income tax

(d) None of the above

47. Who has introduced the term "Fiscal Federalism"?

(a) Richard Musgrave

(b) Robin Musgrave

(c) Starlin Musgrave

(d) None of the above

48. India is a federation of _____ States and _____ Union territories.

(a) 29,9

(b) 28,9

(c) 29,8

(d) 28,8

49. In terms of fiscal federalism, introduced by Musgrave, _____ functions should be the responsibility of Central Government and State government & local govt. should be responsible for _____.

(a) Allocation of resources, Economic Stabilization

(b) Economic Stabilization & income distribution, allocation of resources

(c) Stabilization & allocation, income distribution

(d) None of these

50. Which of the following Article of the constitution demarcates the powers of the union and the state by classifying their powers into three lists?

(a) Article 244

(b) Article 245

(c) Article 246

(d) Article 247

51. Which of the following items are contained in the contained in the concurrent list?

(a) Items on which the union parliament alone can legislate

(b) Items on which the State legislative assemblies alone can legislate

(c) Items on which both the parliament and the legislative assemblies can legislate

(d) None of the above

52. In India, Taxes are levied by the:

(a) Centre only

(b) States only

(c) Centre as well as States

(d) Parliament only

53. On which of the following items, the State Government cannot levy taxes?

(a) Lands and Buildings

(b) Electricity

(c) Vehicles

(d) Capital Value of assets

54. Which of the following is not a subject matter of levy of tax by the Union Government?

(a) Taxes on income (Others than agricultural Income)

(b) Corporate Tax

7.8

- (c) Toll Tax
(d) Security Transaction Tax
55. Which Article provides for an institutional mechanism, namely the Finance commission, for recommending the sharing of taxes?

- (a) Article 277
(b) Article 278
(c) Article 279
(d) Article 280

56. Which of the following is true in respect of centre and state government finances?

- (a) The centre can tax agricultural income and mineral rights
(b) Finance commission recommends distribution of taxes between the centre and states
(c) GST subsumes majority of direct taxes and a few indirect taxes
(d) IGST is collected by the state governments

57. Which of the following is true in respect of the role of Finance Commissions in India?

- I. The distribution between the union and the states of the net proceeds of taxes.

II. Allocation between the states of the respective shares of such proceeds.

III. Make Recommendations on integrated GST on inter-State movement of goods and services.

IV. To recommend expenditure decentralization among different states

- (a) I and II are correct
(b) II and III are correct

- (c) I, II and III are correct

- (d) All the above are correct

58. Which of the following is concerned with division of economic responsibilities between the central and state Government of India?

- (a) NITI Aayog
(b) Central bank
(c) Finance Commission
(d) Parliament

59. The percentage of share of states in central taxes for the period 2021-26 recommended by the Fifteenth Finance Commission is:

- (a) 38 per cent
(b) 41 per cent
(c) 42 per cent
(d) The commission has not submitted its report

60. Which of the following is not a criterion for determining distribution of central taxes among states for 2021-26 period?

- (a) Demographic performance
(b) Forest and ecology
(c) Infrastructure performance
(d) Tax and fiscal efforts

61. On which date, the GST was rolled out across the country?

- (a) 1st April, 2017
(b) 1st July, 2017
(c) 1st January, 2018
(d) 1st July, 2018

62. For any particular good or service or a combination of the two, what is the ratio of SGST and CGST?

- (a) Equal

- (b) 60% CGST & 40% SGST
- (c) 40% CGST & 60% SGST
- (d) None of these

63. Providing social sector services such as health and education is:

- (a) The responsibility of the central government
- (b) The responsibility of the respective state governments
- (c) The responsibility of local administrative bodies
- (d) None of the above

64. GST compensation is given:

- (a) To the industries which have made losses due to the introduction of GST
- (b) To compensate for the lower rates of GST on essential items
- (c) To the states to compensate for the loss of revenue due to the introduction of GST
- (d) To compensate for the loss of input tax credit in manufacturing

65. As per the Supreme Court verdict in May 2022.

- (a) The union has greater powers than the states for enacting GST laws

- (b) The union and state legislatures have "equal, simultaneous powers" to make laws on Goods and Services Tax

- (c) The union legislature's enactments will prevail in case of a conflict between those of union and states

- (d) The state legislatures can make rules only with the permission of central government

66. Which of the following government is/are entrusted with the responsibility of providing public utility services such as water supply and sanitation, local roads, electricity, etc.?

- (a) Central Government
- (b) State Government
- (c) Local Self government (Municipalities and Panchayats)
- (d) All of the above

67. Which one of the following is not the responsibility of Central Government?

- (a) Defence
- (b) Foreign Affairs
- (c) Money and Banking
- (d) Health and Education

UNIT 2 : MARKET FAILURE/GOVERNMENT INTERVENTION TO CORRECT MARKET FAILURE

Concept of Market Failure

68. 'Market failure' is a situation which occurs when:

- (a) Private goods are not sufficiently provided by the market
- (b) Public goods are not sufficiently provided by public sector

- (c) The market fail to form or they allocate resources efficiently
- (d) (b) and (c) above

69. Which of the following is an example of market failure?

- (a) Prices of goods tend to rise because of shortages

- (b) Merit goods are not sufficiently produced and supplied
- (c) Prices fall leading to fall in profits and closure of firms
- (d) None of the above

70. Which of the following State of allocation of resources in an economy is described as market failure?

- (a) Inefficient allocation
- (b) Efficient allocation
- (c) No allocation
- (d) None of the above

71. Which of the following is incorrect as regards Market failure?

- (a) Inefficient allocation of resources
- (b) Market is not working at all
- (c) Free market leads to overproduction or underproduction of particular goods or services
- (d) All of the above

72. What is the type of market failure when the market does not supply products at all despite the fact that such products and services are wanted by people?

- (a) Complete market failure
- (b) Partial Market failure
- (c) Appropriate Market failure
- (d) Misappropriate Market failure

73. Which of the following is not a type of market failure?

- (a) Complete market failure
- (b) Partial Market failure
- (c) Both (a) and (b)
- (d) Systematic market failure

74. Which of the following is true about partial market failure?

- (a) Market does actually function
- (b) Market produces either wrong quantity of product or at wrong price.
- (c) There is loss of economic welfare
- (d) All of the above

Why do markets fail?

75. Which of the following is not a part of major reasons for market failure?

- (a) Market power & Externalities
- (b) Public Goods
- (c) Incomplete Information
- (d) Non-functioning of market at all

76. Which of the following is an outcome of market power?

- (a) makes price equal to marginal cost and produce a positive external benefit on others
- (b) can cause markets to be efficient due to reduction in costs
- (c) makes the firms price makers and restrict output so as to make allocation inefficient
- (d) (b) and (c) above

77. Markets do not exist _____.

- (a) for goods which have positive externalities
- (b) for pure public goods
- (c) for goods which have negative externalities
- (d) none of the above

78. Market power or monopoly power is the ability of a firm to profitably raise the _____ of a good or service over its _____.

- (a) Marginal price, market Cost

Market Power
(b) produces either wrong quantity of product or at wrong price.
(c) Marginal price
(d) None of the above

79. In a partial market failure, the number of firms that would enter the market due to competition is _____
(a) More than the competitive level
(b) Less than the competitive level
(c) Equal to the competitive level
(d) None of the above

80. As a result of market failure, the social cost of production is _____
(a) Higher than the private cost
(b) Lower than the private cost
(c) Equal to the private cost
(d) None of the above

81. When a firm produces a good, it also produces a bad (either positive or negative externality) which is reflected in the market price. The market price is _____
(a) Higher than the private cost
(b) Lower than the private cost
(c) Equal to the private cost
(d) None of the above

82. Which of the following is not a reason for market failure?
(a) Externalities
(b) Monopoly
(c) Imperfect information
(d) None of the above

- (b) Market price, marginal cost
- (c) Production, Capacity to produce
- (d) Marginal production, actual capacity

79. In a particular type of market failure, the single producer or a small number of producers restrict output and change price higher than what would prevail under perfect competition. This situation is caused due to _____.

- (a) Market power
- (b) Externalities
- (c) Public goods
- (d) Incomplete information

80. As a reason of market failure, the externalities will have _____ effect.

- (a) Positive
- (b) Negative
- (c) Either (a) or (b)
- (d) No

81. When a consumption or production activity has an indirect effect (either positive or negative) on consumption or production activities of other and such effects are not reflected directly in market prices, then what is this called?

- (a) Internality
- (b) Externality
- (c) Market power
- (d) All of the above

82. Which of the following is synonymous to the term "Externalities"?

- (a) Spillover Effects
- (b) Neighbourhood Effects
- (c) Third party or side effects
- (d) All of the above

83. Which of the following happens in negative externalities?

- (a) When the action of one party imposes costs on another party
- (b) When the action of one party Confers benefits on another party
- (c) When sale of entire industry increases due to single party
- (d) None of these

84. Which one of the following is incorrect about the term "externalities" in relation to market failure?

- (a) Externalities are costs which are reflected in free market prices
- (b) Externalities are also referred to as third party effects
- (c) Negative externalities occur when the action of one party imposes costs on another party
- (d) Positive externalities occur when the action of one party confers benefits on another party

85. A factory, which produces aluminium, discharges untreated waste water into a nearby river and pollutes the water causing health hazards for people who use the water for drinking and bathing. What type of externality is this?

- (a) A negative production externality in consumption
- (b) A negative production externality in production
- (c) A positive production externality in consumption
- (d) Negative production externalities

86. Smoking in public is a case of:

- (a) Negative consumption externality
- (b) Negative production externality

- (c) Internalising externality
(d) None of the above

87. Which of the following statement is false?

- (a) Tradable permits provide incentive to innovate and reduce negative externalities
(b) A subsidy on a good which has substantial positive externalities would reduce its cost and consequently its price would be lower
(c) Substantial negative externalities are involved in the consumption of merit goods
(d) Merit goods are likely to be under-produced and under consumed through the market mechanism

88. Which one of the following would you suggest for reducing negative externality?

- (a) Production subsidies
(b) Excise duty
(c) Pigouvian taxes
(d) All of the above

89. A Pigouvian subsidy:

- (a) Cannot be present when externalities are present
(b) Is a good solution for negative externality as prices will increase
(c) Is not measurable in terms of money and therefore not practical
(d) May help production to be socially optimal when positive externalities are present

90. Which of the following is not the instance of negative consumption externalities affecting production?

- (a) Act of undisciplined students creating disturbance in the class

- (b) Excessive consumption of alcohol causing impairment in efficiency for work

- (c) Playing radio loudly obstructing one from enjoying a concert
(d) None of the above

91. Which of the following is part of private cost incurred by the firm?

- (a) Wages
(b) Raw Materials
(c) Heating and Lighting
(d) All of these

92. What is the correct relationship between social cost and private cost?

- (a) Social cost = Private cost - External Cost
(b) Social cost = Private cost + External Cost
(c) Private cost = Social Cost + External Cost
(d) External Cost = Social Cost + Private Cost

93. Read the following statements.

I. The market-based approaches to control externalities operate through price mechanism

II. When externalities are present, the welfare loss would be eliminated

III. The key is to internalizing an externality is to ensure that those who create the externalities include them while making decisions

Of the above statements

- (a) II and III are correct
(b) I only is correct
(c) II only is correct
(d) I and III are correct

94. Read the following statements.

- I. Social costs are the total costs incurred by the society when a good is consumed or produced.
- II. The external costs are not included in firms' income statements or consumers' decisions.
- III. Each firm's cost which is considered for determining output would be only private cost or direct cost of production which does not include external costs.
- IV. Production and consumption decisions are efficient only when private costs are considered

Of the above

- (a) Statements I and III are correct
- (b) Statements I, II and III are correct
- (c) Statement I only is correct
- (d) All the above are correct

Public Goods

95. Which economist developed the theory of public goods?

- (a) Paul A. Samuelson
- (b) Jean Baptist Say
- (c) J.R. Hicks
- (d) None of these

96. A public good is also called as _____.

- (a) Collective Consumption goods
- (b) Social goods
- (c) Both (a) and (b)
- (d) None of above

97. Which of the following is the right argument for provision of public good by government?

- (a) Governments have huge resources at their disposal

- (b) Public goods will never cause any type of externality

- (c) Markets are unlikely to produce sufficient quantity of public goods

- (d) Provision of public goods are very profitable for any government

98. Adequate amount of a pure public good will not be provided by the private market because of:

- (a) The possibility of free riding

- (b) The existence of very low prices and low profits

- (c) Governments would any way produce them, so there will be overproduction

- (d) There are restrictions as well as taxes on production of public goods

99. What is the name of the paper in which Paul A. Samuelson introduced the concept of "collective consumption good"?

- (a) The pure theory of public expenditure

- (b) The Abstract theory of public Expenditure

- (c) The applied theory of public Expenditure

- (d) The Empirical theory of public Expenditure

100. The incentive to let other people pay for a good or service, the benefits of which are enjoyed by an individual:

- (a) Is a case of negative externality

- (b) Is a case of market efficiency

- (c) Is a case of free riding

- (d) Is inappropriate and warrant action

101. The free rider problem arises because of:

- (a) Ability of participants to produce goods at zero marginal cost
- (b) Marginal benefit cannot be calculated due to externalities present
- (c) The good or service is non-excludable.
- (d) General poverty and unemployment of people.

102. Which of the following is NOT an example of public goods?

- (a) Food items
- (b) Clothing
- (c) Movie Ticket
- (d) All of the above

103. When it is possible to prevent consumers who have not paid for them for consuming them, then these are called as:

- (a) Excludable Goods
- (b) Non-Excludable Goods
- (c) Preventive Goods
- (d) Includable Goods

104. By which of the following issues, Public goods are generally more vulnerable?

- (a) Externalities
- (b) Inadequate property rights
- (c) Free rider problems
- (d) All of the above

105. In case of which goods, "free-riding" mostly occurs?

- (a) Private goods
- (b) Public goods
- (c) Personal goods
- (d) Secret goods

106. In case of which goods, market failure occurs?

- (a) Private goods
- (b) Public goods
- (c) Personal goods
- (d) Secret goods

107. The purchase and consumption of a private goods by one individual prevents another individual from consuming it. Therefore, consumption of private goods is _____.

- (a) Rivalrous
- (b) Non-Competitive
- (c) Demonstrative
- (d) Non-Rivalrous

108. In case of pure public goods, which of the following statement is correct?

- (a) Payment is made by consumer
- (b) No direct payment by the consumer is involved
- (c) All consumers have to pay individually
- (d) None of the above

109. Which of the following is not an example of public goods?

- (a) National Defence
- (b) Highways
- (c) Public Education
- (d) Clothing

110. Which of the following leads to the problem of free-riding?

- (a) The absence of excludability in the case of public goods
- (b) The tendency of people to act in their own self-interest

- (c) Both (a) & (b)
(d) None of these

One Word Information

111. Complete information is an important element of a competitive market. Perfect information implies that _____ have complete information about anything that may influence their decision making.

- (a) Buyers
(b) Sellers
(c) Both Buyers & sellers
(d) Government

112. Why the assumption of perfect information to buyers and sellers is not fully satisfied in real markets?

- (a) Complexity of products and services
(b) Difficulty of getting correct information
(c) Deliberate misinformation by interested parties
(d) All of the above

113. A chemical factory has full information regarding the risks of a product, but continues to sell it. This is possible because of:

- (a) Asymmetric information
(b) Moral hazard
(c) Free riding
(d) (a) and (c) above

114. There may be an imbalance in information between the buyer and the seller i.e. when the buyer knows more than the seller or the seller knows more than the buyer. This situation may be referred to as:

- (a) Symmetric Information
(b) Asymmetric Information
(c) Adequate information
(d) Improper information

115. Which of the following is an example of Asymmetric information?

- (a) The landlords know more about their properties than the tenants
(b) Health insurance buyers know more about their state of health than the insurance companies
(c) A used-car seller knows more about the vehicle quality than the buyer
(d) All of the above

116. Which of the following is a central concept related to the problem of information gaps in many markets?

- (a) Adverse selection
(b) Moral Hazard
(c) Both (a) & (b)
(d) None of these

117. Who has developed "lemons problem" in relation to the used car market?

- (a) George Martin
(b) George Akerlof
(c) George Akin
(d) None of these

118. If an individual tends to drive his car in a dangerously high speed because he has a comprehensive insurance cover, it is a case of:

- (a) Free riding
(b) Moral hazard
(c) Poor upbringing
(d) Inefficiency

119. Rules regarding product labelling:

- (a) Seeks to correct market failure due to externalities
- (b) Is a method of solving the problem of public good
- (c) May help solve market failure due to information failure
- (d) Reduce the problem of monopolies in the product market.

120. The Government has intervention mechanism for combating market failure so as to ensure greater welfare to the society. How does the Government insure a well functioning market?

- (a) By creating the necessary physical infrastructure
- (b) By provision of institutional infrastructure
- (c) By ensuring an appropriately framed competition and consumer law framework that regulates the activities of firms and individuals in their market exchanges
- (d) All of the above

Government Interventions to minimise market failure (Due to Market power and externalities)

121. The Competition Act, 2002 aims to -

- (a) Protect monopoly positions of firms that have developed unique innovations
- (b) To promote and sustain competition in markets
- (c) To determine pricing under natural monopoly
- (d) None of the above

122. To minimise market Power, the government intervenes through which of the following measures?

- (a) Controls on mergers and acquisitions
- (b) Price capping, price regulation, Profit or rate of return regulation and nationalisation
- (c) Patronage to consumer associations, tough investigations into cartelisation and unfair practices and reduction in import controls
- (d) All of the above

123. The most commonly referred negative externality is:

- (a) Pollution
- (b) Air Pollution
- (c) Water Pollution
- (d) Noise Pollution

124. Which of the following is the Government initiative towards negative externalities through direct controls?

- (a) Licensing and Production quotas
- (b) Complete ban on smoking at public places
- (c) Mandatory to install pollution abatement mechanism by the polluting firms
- (d) All of the above

125. What are Pigouvian taxes?

- (a) Pollution Taxes
- (b) Corruption Levy Tax
- (c) Penalty an over/under production
- (d) Anti-profiteering tax

126. What is the problem in administering an efficient pollution tax?

- (a) Requirement of complex and costly administrative procedure

- (b) Insignificant effect in case of inelastic goods
- (c) Negative consequences on employment and investments
- (d) All of the above

127. When positive externalities are present, government may attempt to solve the problem through which of the following subsidy?

- (a) Corrective subsidies to the PRODUCERS aimed at increasing the supply of the good
- (b) Corrective subsidies to CONSUMERS aimed at increasing the demand for the good.
- (c) Both (a) and (b)
- (d) None of the above

128. In the case of products and services whose externalities are vastly positive, the government enters the market directly as an entrepreneur to produce and provide them. Which of the following is an example in this regard?

- (a) Public Education
- (b) Health Care
- (c) Fundamental Research
- (d) None of the above

Government Intervention in the case of Merit-Demerit & Public Goods

129. Which of the following cannot be regarded as merit goods?

- (a) Education
- (b) Health care
- (c) Welfare services
- (d) Intoxicating drugs

130. Identify the Incorrect statement.

- (a) Merit goods have substantial positive externalities
- (b) Merit goods are socially undesirable
- (c) Merit goods have direct relation with social welfare
- (d) Public libraries, museum and public parks are the examples of merit goods

131. Which of the following is an example of Government intervention in case of merit goods?

- (a) Compulsory use of Helmets & Seat belts
- (b) Mandatory to avail insurance protection
- (c) Compulsory Immunization
- (d) All of the above

132. A government subsidy

- (a) Is a market-based policy
- (b) Involves the government paying part of the cost to the firms in order to promote the production of goods having positive externalities
- (c) Is generally provided for merit goods
- (d) All of the above

133. The production and consumption of demerit goods are:

- (a) Likely to be more than optimal under free markets
- (b) Likely to be less than optimal under free markets
- (c) Likely to be subjected to price intervention by government
- (d) (a) and (c) above

134. The argument for education subsidy is based on:

- (a) Education is costly
- (b) The ground that education is merit good
- (c) Education creates positive externalities
- (d) (b) and (c) above

135. If governments make it compulsory to avail insurance protection, it is because _____.

- (a) Insurance companies need to be running profitably
- (b) Insurance will generate moral hazard and adverse selection
- (c) Insurance is a merit good and government wants people to consume it
- (d) None of the above

136. Identify the incorrect statement.

- (a) A minimum support price for agricultural goods is a market intervention method to guarantee steady and assured incomes to farmers
- (b) An externality is internalised if the ones that generated the externality incorporate them into their private cost-benefit analysis
- (c) The production and consumption of demerit goods are likely to be less than optimal under free markets
- (d) Compared to pollution taxes, the cap and trade method is administratively cheap and simple to implement and ensures that pollution is minimised in the most cost-effective way

137. Which of the following is not an example of Demerit goods?

- (a) Cigarettes
 - (b) Alcohol
 - (c) Medical use of Alcohol
 - (d) Intoxicating drugs
138. Demerit goods are goods which are believed to be:
- (a) Socially desirable
 - (b) Socially Undesirable
 - (c) Having positive externalities
 - (d) None of above

139. Which of the following can be used by the Government to correct market failure resulting from demerit goods?

- (a) Complete ban on demerit goods
- (b) Prohibit the advertising or promotion of demerit goods
- (c) Regulatory controls in the form of spatial restrictions
- (d) Fixation of maximum price for demerit goods

140. Direct provision of a _____ by the government can help to overcome the free-rider problem which leads to market failure.

- (a) Public goods
- (b) Private goods
- (c) Demerit goods
- (d) Goods with negative externalities

141. Which of the following are PUBLIC goods that is invariably provided by the government?

- (a) Fire protection
- (b) Disease prevention
- (c) Defence
- (d) All of the above

142. Their products are goods that they assumed the following such goods
(a) Science
(b) Production
(c) Production
(d) Market

Price In pricing

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- (d) T

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- (a) B
- (b) E

142. There are some goods which are produced and consumed as public goods and services despite the fact that they can be produced or consumed as private goods. Which of the following is not an example of such goods?

- (a) Scientific approval of drugs
- (b) Production of strategic products such as atomic energy
- (c) Provision of securities at airport
- (d) Maintenance of Public Parks

Price Intervention: Non - Market Pricing

143. Which of the following is Not a price intervention in the form of price controls by the Government?

- (a) Fixation of minimum wages
- (b) Rent controls
- (c) Price floor or price ceiling
- (d) Pollution taxes

144. With the objective to provide guaranteed steady and assured incomes to farmers, which scheme has been initiated by the Government in this regard?

- (a) MSP
- (b) MPS
- (c) VSP
- (d) TSP

145. With the objective of ensuring stability in prices and distribution, governments often intervene in grain markets through:

- (a) Building and maintenance of Buffer stocks

- (b) Price ceilings
- (c) Price floor
- (d) None of the above

Government Intervention (For correcting information failure & for Equitable Distribution)

146. Which of the following cannot be regarded as example of government's intervention for correcting information failure?

- (a) Mandatory price tag on products indicating maximum, retail price
- (b) Mandatory to have accurate labelling and content disclosures
- (c) Regulation of advertising and setting of advertising standards
- (d) Public dissemination of information to improve knowledge

147. Which of the following is common policy intervention by the government to redistribute incomes?

- (a) Progressive Income Tax
- (b) Targeted budgetary allocations
- (c) Unemployment compensation
- (d) All of the above

148. Government failure occurs when

- (a) Government fails to implement its election promises on policies
- (b) A government is unable to get re-elected
- (c) Government intervention is ineffective and produces fresh and more serious problems
- (d) None of the above

149. In Order to bring equity and fairness in the society, the government intervenes to redistribute incomes. Which one of the following is NOT an example of such policy?

- (a) Social Security Schemes
- (b) Job reservations
- (c) Unemployment Compensation
- (d) Setting advertising standards to make advertising more responsible, information and less persuasive

UNIT 3 : THE PROCESS OF BUDGET MAKING : SOURCES OF REVENUE, EXPENDITURE MANAGEMENT AND MANAGEMENT OF PUBLIC DEBT

Introduction to Indian Union Budget

150. Who among the following presented the first Indian Union Budget on February 18, 1869 after Indian Budget was introduced on April 7, 1860 by the East India Company?

- (a) Mr. Lord Dalhousie
- (b) Mr. William Bentick
- (c) Mr. James Wilson
- (d) None of these

151. Who is honoured as Father of Indian Budget?

- (a) R. K. Shanmukham Chetty
- (b) Mr. Hugh Dalton
- (c) Mr. John Mathai
- (d) Mr. P.C. Mahalanobis

152. Which Article of the Constitution of India requires the Government to present Union budget?

- (a) Article 111
- (b) Article 112

(c) Article 113

(d) Article 114

153. Who has presented the budget for the maximum number of times?

- (a) Morarji Desai
- (b) P. Chidambaram
- (c) Pranab Mukherjee
- (d) Yashwant Sinha

154. _____ of the Indian Constitution defines the Finance Bill as a Money Bill.

- (a) Article 108
- (b) Article 109
- (c) Article 110
- (d) Article 111

155. Who is the first woman to hold the post of the finance minister of India?

- (a) Indira Gandhi
- (b) Sucheta Kriplani
- (c) Nandini Satpathy
- (d) Anwara Taimur

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The Process of Budget Making

156. The Finances of the government of India have traditionally been controlled by:

- (a) Ministry of Finance
- (b) Home Ministry
- (c) President of India
- (d) Prime Minister of India

157. The budget is prepared by the Ministry of Finance in consultation with _____

- (a) Finance commission
- (b) Niti Aayog
- (c) Relevant Ministry
- (d) Both (b) & (c)

158. The Budget must be presented and approved by _____ before the beginning of the fiscal year (April to March 31).

- (a) Lok Sabha
- (b) Rajya Sabha
- (c) State legislative
- (d) Both houses of parliament

159. Which Article of the Constitution provides that in respect of every financial year. The "President" shall cause to be laid before both the houses of parliament an annual financial Statement?

- (a) Article 111
- (b) Article 112
- (c) Article 113
- (d) None of these

160. Which of the following is not considered as a part of the Budgetary procedures:

- (a) Preparation of Budget

(b) Presentation and enactment of the budget

(c) Execution of the budget

(d) Collection of taxes & other revenue.

161. In NITI Aayog, NITI stands for:

- (a) National Initiative for Transforming India
- (b) National Institution for Transforming India
- (c) National Institute for Technology and Innovation
- (d) None of the above

162. The union budget is usually presented on:

- (a) 1st January
- (b) 31st January
- (c) 1st February
- (d) 28th February

163. Although the budget is presented on 1st February but the process of budget preparation commenced in _____ of the previous year.

- (a) August – September
- (b) September – October
- (c) October – November
- (d) November – December

164. The budget division of which ministry prepares a comprehensive schedule for carrying out the budget preparation activities?

- (a) Ministry of Industry
- (b) Ministry of Finance
- (c) PMO
- (d) None of the above

165. Broadly, the budget documents depict information relating

to receipts and expenditure for _____ years.

- (a) Strictly one year
- (b) Usually one year
- (c) Two Years
- (d) More than two years

166. Who makes a detailed budget speech at the time of presenting the budget before the Lok Sabha?

- (a) Prime Minister
- (b) President
- (c) Finance Minister
- (d) Governor (RBI)

167. The budget speech reveals the details of the proposals for the new financial year regarding _____ of the government.

- (a) Taxation
- (b) Borrowings
- (c) Expenditure plans
- (d) All of the above

168. Traditionally, the finance ministers carried the budget in a leather briefcase. Who broke this tradition by carrying the budget in a Bahi khata?

- (a) Morarji Desai
- (b) P. Chidambaram
- (c) Nirmala Sitharaman
- (d) None of these

169. Which of the following is a part of Annual Financial Statement?

- (a) Consolidated fund
- (b) Contingency fund
- (c) Public Account
- (d) All of the above

170. Which of the following is/are charged on the consolidated fund of India but are not subject to the vote of parliament?

- (a) Emoluments and allowances of the President of India
- (b) Emoluments of Judges of Supreme Court
- (c) Emoluments of High Ranking personnel of Constitutional bodies across India
- (d) All of the above

171. By convention in an election, year the budget may be presented:

- (a) Once as a full fledged budget
- (b) First to secure a vote on account for few months followed by the full fledged budget
- (c) First full budget is presented for few months followed by vote on account for period after election
- (d) No Budget is presented till the new Government takes charge

172. Which of the following is a statement submitted along with the budget as a requirement of FRBM Act.

- (a) Annual Financial Statement
- (b) Macro-Economic Framework Statement
- (c) Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement
- (d) (b) and (c) above

173. The union budget is laid on the table of the Rajya Sabha soon after presentation in Lok Sabha. Which of the following is true about Rajya Sabha?

- (a) Rajya Sabha does not vote on the demand for grants

(b) In Rajya Sabha there is general discussion on the budget

(c) In Rajya Sabha, same Procedure is followed as that of Lok Sabha

(d) Both (a) & (b)

174. In how many days of its introduction, pass the parliament has to pass the finance Bill?

(a) Within 50 days

(b) Within 60 days

(c) Within 75 days

(d) Within 80 days

175. On the last day of the days allotted for discussion on the demands for grants, the speaker put all the outstanding demands for grants to the vote of the house. What is this process called?

(a) Budgeting

(b) Appropriation

(c) Guillotine

(d) None of these

176. After the finance bill has been passed by the lok Sabha:

(a) It is transmitted to Rajya Sabha for its APPROVAL

(b) It is transmitted to Rajya Sabha for its RECOMMENDATIONS

(c) It is transmitted to office of PM for APPROVAL

(d) It is transmitted to office of president for Recommendations

177. From which year, the date of presentation of budget has been advanced of 1st February?

(a) 2015-16

(b) 2016-17

(c) 2017-18

(d) 2018-19

178. As a part of Budgetary reform, the railway budget was merged with the general budget. It has been implemented from the budget for financial year:

(a) 2016-17

(b) 2017-18

(c) 2018-19

(d) None of these

179. The railway budget is:

(a) Part of the general budget, but is presented by the railway minister

(b) Part of the general budget from the budget for financial year 2017-18

(c) Part of the general budget from the budget for financial year 2021-22

(d) Part of the general budget but presented on the next day of the general budget

Sources of Revenue

180. The Department of Revenue of the Ministry of Finance exercises control in respect of the revenue matters relating to _____.

(a) Direct taxes

(b) Indirect taxes

(c) Both (a) & (b)

(d) Direct and Indirect Union Taxes.

181. What is the statutory board through which the Department of Revenue exercises control in respect of Matters relating to all the direct and indirect union taxes?

(a) CBDT

(b) CBEC

- (c) CBDT & CBEC
(d) CBDT & CBIC

182. As regards levy and collection, which of the following taxes fall with in the purview of CBIC?

- (a) GST
(b) GST and Customs
(c) GST, Customs & Centre excise Duties
(d) All direct taxes

183. Corporate tax:

- (a) Is collected by the union government and can be a capital receipt or revenue receipt
(b) May be collected by the respective states and fall under revenue receipts
(c) May be collected either by the centre or states and fall under revenue receipts
(d) Is collected by the union government and is a revenue receipt

184. Which of the following is NOT a part of revenue receipts of the Government?

- (a) Tax Revenue
(b) Non-Tax revenue
(c) Debt receipts
(d) All of the above

185. Which of the following is NOT a part of non-tax revenues of the Government?

- (a) Interest receipts
(b) Dividends and profits from public sector enterprises
(c) Receipts of Union Territories
(d) Recovery of loans and advances

186. Government borrowing is treated as capital receipt because:

- (a) It is mainly used for creating assets by government
(b) It creates a liability for the government
(c) Both (a) and (b) above are correct
(d) None of the above is correct

187. Non-debt capital receipts:

- (a) Do not add to the assets of the government and therefore not treated as capital receipts
(b) Are those that do not create any future repayment burden for the government
(c) Are those that create future liabilities for the government
(d) Facilitate capital investments at low cost

188. Which of the following is a capital receipt?

- (a) Licence fee received
(b) Sale proceeds from disinvestment
(c) Assistance from Japan for covid vaccine
(d) Dividend from a public sector enterprise

189. Government borrowings from foreign governments and institutions:

- (a) Capital receipt
(b) Revenue receipt
(c) Accounts for fiscal deficit
(d) Any of the above depending on the purpose of borrowing

Instructions
answer
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hypothesis

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
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190.

- (a)
(b)
(c)
(d)

191.

- (a)
(b)
(c)
(d)

192.

of the

- (a)
(b)
(c)

Instruction: Read the Following and answer the questions 190 to 192

The following table relates to the revenue and expenditure figures of a hypothetical economy

In ₹ lakh Crores

(a)	Recovery of loans	5.1
(b)	Salaries of govt. servants	41.1
(c)	Capital Expenditure	45.0
(d)	Interest payments	1.3
(e)	Payments towards subsidies	3.2
(f)	Other receipts (mainly from disinvestment)	11.6
(g)	Tax revenue (net of states' share)	26.3
(h)	Non-tax revenue	12.3
(i)	Borrowings and other liabilities	6.8
(j)	States' share in tax revenue	11.9

190. The capital receipts are:

- (a) 23.5
- (b) 19.7
- (c) 11.3
- (d) None of the above

191. Revenue deficit is:

- (a) 23.6
- (b) 13.0
- (c) 7.0
- (d) 2.6

192. The non-debt capital receipts of this country is:

- (a) 45.1
- (b) 16.7
- (c) 15.8
- (d) None of the above

193. Receipts from disinvestments

will be covered under which of the following categories of receipts?

- (a) Capital receipts
- (b) Revenue receipts
- (c) Cash receipts
- (d) Accrued income receipts

194.

_____ are receipts of the government which create liabilities or reduce finance assets, e.g., market borrowing, recovery of loans, etc.

- (a) Revenue Receipts
- (b) Capital Receipts
- (c) Donations to Government
- (d) Revenue from export

195. The Government receipts which neither create asset nor reduce any liability are called as _____

- (a) Revenue Receipts
- (b) Capital Receipts
- (c) Deferred Receipts
- (d) Progressive Receipts

196. Which of the following is a non-tax revenue of the government?

- (a) Income tax
- (b) Dividend Income
- (c) Corporation tax
- (d) None of these

Public Expenditure Management

197. Grants given by the central government to state governments is:

- (a) A revenue expenditure as it is meant to meet the current expenditure of the states

- (b) A revenue expenditure as it does neither create any asset, nor reduces any liability of the government
- (c) A capital expenditure because it increases the capital base of the states
- (d) It is a grant and so does not come under revenue expenditure or capital expenditure

198. Salaries, subsidies and interest payments are part of _____ in union budget.

- (a) Indirect Expenditure
- (b) Revenue Expenditure
- (c) Direct Expenditure
- (d) Capital Expenditure

199. If an expenditure by the Government of India results in either creation of physical assets or reduction in financial liabilities, then what is the expenditure called?

- (a) Union Expenditure
- (b) National Expenditure
- (c) Revenue Expenditure
- (d) Capital Expenditure

200. Which of the following denotes short-term cost related assets that are not capitalized?

- (a) Revenue Expenditure
- (b) Planned Expenditure
- (c) Capital Expenditure
- (d) None of these

201. Which of the following will NOT be the effect of unproductive public expenditure?

- (a) Larger deficits
- (b) Higher economic growth

- (c) Higher level of taxation
- (d) Greater debt burden in the future

202. Which department of the ministry of finance is the nodal department for overseeing the public financial management system in the Central Government?

- (a) Department of Revenue
- (b) Department of Taxation
- (c) Department of Expenditure
- (d) Department of Revenue and Expenditure

203. Which of the following comes under the responsibility of the Department of Expenditure?

- (a) Implementation of recommendations of finance commission
- (b) Monitoring of audit comments/observations
- (c) Controlling the costs and prices of public services
- (d) All of the above

Public Debt Management

204. Public debt management aims at:

- (a) An efficient budgetary policy to avail of domestic debt facilities
- (b) Raising loans from international agencies at lower rates of interest
- (c) Raising the required amount of funding at the desired risk and cost levels
- (d) Management of public expenditure to reduce public debt

205. What is the appropriate term for Government debts from internal and external sources contracted in the consolidated fund of India?

- (a) General Debt
(b) Public Debt
(c) Government Revenue
(d) None of these

206. Which of the following institution is responsible for public debt management?

- (a) Reserve Bank of India
(b) Ministry of Finance
(c) Both (a) & (b)
(d) None of the above

207. Short-term credit from the Reserve Bank to state governments to bridge temporary mismatches in cash flows is known as:

- (a) RBI credit to states
(b) Commercial credit of RBI
(c) Ways and Means Advances (WMA)
(d) Short-term facility

208. Which department of RBI has the responsibility of managing the domestic debt of the Central Government and of State Governments?

- (a) Internal Debt management Department
(b) External Debt Management Department
(c) Central Debt Management Department
(d) None of these

209. In which year, the Fiscal Responsibility and Budget Management (FRBM) Act was passed?

- (a) 2001
(b) 2002
(c) 2003
(d) 2004

210. Which one of the following is the objective of FRBM Act?

- (a) Inter-generational equity in fiscal management
(b) Long run macro economic stability
(c) Better coordination between fiscal and monetary policy
(d) None of the above

211. 'Retail Direct' scheme is:

- (a) Initiated by the Reserve Bank of India
(b) Facilitate investment in government securities by individual investors
(c) Direct sale of goods and services by government departments
(d) Both (a) and (b) are correct

212. In which Year, The Public Debt Management Cell (PDMC) was created under the Department of Economic Affairs?

- (a) 2003
(b) 2015
(c) 2016
(d) None of these

Types of Budgets

213. A budget is said to be unbalanced when:

- (a) When government's revenue exceeds government's expenditure
(b) When government's expenditure exceeds government's revenue
(c) Either budget surplus of budget deficit occurs
(d) All the above

214. Budget of the government generally impacts

- (a) The resource allocation in the economy
- (b) Redistribution of income and enhance equity
- (c) Stability in the economy by measures to control price fluctuations
- (d) All the above

215. Which of the following is NOT correct about balanced budget?

- (a) Revenues are equal to expenditures
- (b) It is not a surplus budget
- (c) It is not a deficit budget
- (d) Revenues fall short of expenditure

216. Which of the following is TRUE about deficit budgetary?

- (a) Estimated government receipts are less than the government expenditures.
- (b) It increase the liabilities of the Government
- (c) It decreases the reserves of the Government
- (d) All of the above

217. Loan obtained from the Reserve Bank of India by the Government of India will be covered under which of the following budget?

- (a) Capital Budget
- (b) Revenue Budget
- (c) Cash Budget
- (d) Defence Budget

218. _____ refers to the estimated expenditure of the government during a given financial year.

- (a) Expenditure Budget

- (b) Demand for Grants

- (c) Revenue Expenditure
- (d) None of these

219. Which part of the Union Budget has accounts for capital payment and receipts of the Government?

- (a) Revenue Budget
- (b) Capital Budget
- (c) Expenditure Budget
- (d) All of the above

220. Budgetary Deficit may be calculated as _____

- (a) Revenue Expenditure – Revenue Receipts
- (b) Capital Expenditure – Capital Receipts

- (c) Total Estimated Expenditure (capital & Revenue) – Total Estimated Revenue (capital & Revenue)

- (d) Excess of estimated revenue over estimated expenditure

221. The difference between the budget deficit of a government and its debt service payments is

- (a) Fiscal deficit
- (b) Budget deficit
- (c) Primary deficit
- (d) None of the above

The following hypothetical figures relate to country A?

₹ Crores	
Revenue receipts	20,000
Recovery of loans	1,500
Borrowing	15,000
Other Receipts	5,000

Expenditure account
Expenditure account
Interest paid

222. The re

A is:

- (a) 5,000
- (b) 24,000
- (c) 4,500
- (d) None

223. Fisco

- (a) 14,000
- (b) 24,000
- (c) 23,500
- (d) None

224. Prim

- (a) 26,000
- (b) 26,500
- (c) 22,000
- (d) 24,500

225. Fisco

- (a) Lend
- (b) Borrow
- (c) Spend
- (d) Govern

226. Net

Crore.

Borrowing

Borrowing

What is

deficit?

(a) ₹ 1

(b) ₹ 1

Expenditure on revenue account	24,500
Expenditure on capital account	26,000
Interest payments	2,000

222. The revenue deficit for country A is:

- (a) 5,000
(b) 24,000
(c) 4,500
(d) None of the above

223. Fiscal deficit of country A is:

- (a) 14,000
(b) 24,000
(c) 23,500
(d) None of the above

224. Primary deficit of Country A is:

- (a) 26,000
(b) 26,500
(c) 22,000
(d) 24,500

225. Fiscal deficit of a government must be financed by:

- (a) Lending by the government
(b) Borrowing by the government
(c) Spending by the government
(d) Government subsidies and grants

226. Net borrowing at home = ₹ 800 Crore.

Borrowing from RBI = ₹ 600 Crore

Borrowing from abroad = ₹ 300 Crore

Borrowing from gross fiscal

What is the value of deficit?

- (a) ₹ 1100 Crore
(b) ₹ 100 Crore

- (c) ₹ 1,700 Crore
(d) ₹ 500 Crore

227. When fiscal deficit is financed by borrowing from _____, it is called deficit financing or money creation.

- (a) Reserve Bank of India
(b) Regional Rural Banks
(c) Public Sector Banks
(d) Private Sector Banks

228. Fiscal Deficit is calculated as a percentage of:

- (a) NNP
(b) GDP
(c) NDP
(d) None of these

229. Fiscal deficit refers to:

- (a) The excess of government's revenue expenditure over revenue receipts
(b) The excess of total expenditure over total receipts excluding borrowings
(c) Primary deficit-interest payments
(d) None of these

230. Finance Bill is the bill introduced immediately after the presentation of the union budget detailing the _____ of taxes proposed in the Budget.

- (a) Imposition
(b) Abolition & Alteration
(c) Regulation
(d) All of the above

231. How the primary deficit is determined?

- (a) Fiscal Deficit - Net interest liabilities
(b) Fiscal Deficit - Interest Payments

- (c) Fiscal Deficit – Interest Receipts
(d) None of these

232. Outcome budgeting:

- (a) Shares information about the money allocated for various purposes in a budget
(b) Establishes a direct link between budgetary allocations and performance targets measured through output and outcome indicators
(c) Establishes a direct link between budgetary performance targets and public account disbursements
(d) Shares information about public policies and programmes under the budget

Consolidated Fund Contingency Fund and Public Account

233. The Appropriation Bill is intended to:

- (a) Reduce unnecessary expenditure on the part of the government
(b) Give authority to government to incur expenditure from and out of the Consolidated Fund of India
(c) Give authority to government to incur expenditure from the revenue receipts only
(d) Be passed before the budget is taken for discussion

234. All revenues raised by the government, money borrowed and receipts from loans given by the government flow into the _____.

- (a) State Government fund of India
(b) Consolidated Fund of India
(c) Contingency fund of India
(d) Public Account

235. Which of the following is NOT an item of inflow into the consolidated fund of India?

- (a) Revenue raised by the Government
(b) Money borrowed
(c) Receipts from loans given by Government
(d) Provident fund and small savings

236. Which of the following gives power to the government to withdraw funds from the consolidated fund of India?

- (a) Finance bill
(b) Appropriation Bill
(c) Demand for Grants
(d) None of these

237. The Appropriation bill is introduced in:

- (a) Lok Sabha
(b) Rajya Sabha
(c) Either (a) or (b)
(d) Neither (a) nor (b)

238. Which of the following is the key to the Budget?

- (a) Consolidated Fund
(b) Contingency Fund
(c) Public Account
(d) DD for Grants

239. Which of the following is the flows for those transactions where the government merely acts as a banker?

- (a) Contingency Fund
(b) Profit and Loss A/c
(c) Consolidated Fund
(d) Public Account

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(d) Cons

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UNIT 4

**Concep
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243. WI
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(b) A di
(c) A ir c
(d) A

244. F

- (a) U t t
(b) (c)
(d)

240. The expenditure from which of the following funds do not require the approval of the parliament?

- (a) DD for grants
- (b) Public Account
- (c) Contingency fund
- (d) Consolidated Fund

241. Expenditure incurred from contingency fund _____.

- (a) Is at the disposal of finance minister
- (b) For routine expenditure

- (c) Which is a ₹ 1,500 crore fund
- (d) Requires a subsequent approval from the parliament

242. Which of the following fund is placed at the disposal of the president to enable him/her to make advances to the executive / Government to meet urgent unforeseen expenditure?

- (a) Consolidated fund of India
- (b) Contingency fund of India
- (c) Public Account
- (d) None of the above.

UNIT 4 : FISCAL POLICY

Concept and objectives of Fiscal policy

243. Which one of the following is an example of fiscal policy?

- (a) A tax cut aimed at increasing the disposable income and spending
- (b) A reduction in government expenditure to contain inflation
- (c) An increase in taxes and decrease in government expenditure to control inflation
- (d) All of the above

244. Fiscal policy refers to the:

- (a) Use of government spending, taxation and borrowing to influence the level of economic activity
- (b) Government activities related to use of government spending for supply of essential goods
- (c) Use of government spending, taxation and borrowing for reducing the fiscal deficits
- (d) and (b) above

245. Policies related to _____ is/are collectively known as fiscal policy through which the government manages the economy.

- (a) Public Revenue
- (b) Public Revenue and Public Expenditure
- (c) Public Revenue, public expenditure and public borrowings
- (d) None of the above

246. Fiscal policy is in the nature of:

- (a) Demand-side Policy
- (b) Cost- Side policy
- (c) Taxation policy strictly
- (d) State Policy

247. An economy which is _____ does not require government action in the form of fiscal policy.

- (a) Producing at partial employment level
- (b) Producing at full employment level

- (c) Producing at excess employment level
(d) None of these
- 248. Which of the following held the belief that the government should not intervene in the economy because the market mechanism makes the economy self adjusting.**
(a) Classical economists
(b) Modern economists
(c) British economists J.M. Keynes
(d) None of the above
- 249. According to Keynesian economics, when we have inflation an effective fiscal policy should not include:**
(a) Increase corporate taxes
(b) Decrease aggregate demand
(c) Increase government purchases
(d) None of the above is correct
- 250. Keynesian economists believe that:**
(a) Fiscal policy can have very powerful effects in altering aggregate demand, employment and output in an economy
(b) When the economy is operating at less than full employment levels and when there is a need to offer stimulus to demand fiscal policy is of great use
(c) Wages are flexible and therefore business fluctuations would be automatically adjusted
(d) (a) and (b) above
- 251. In 1936, J.M. Keynes advocated increase in government spending:**
(a) To combat the recessionary forces in the economy
(b) To solve the problem of unemployment
(c) Both (a) and (b)
(d) None of these
- 252. In the period of great depression (1930), there was**
(a) Very low aggregate demand
(b) High levels of unemployment
(c) Both (a) & (b)
(d) None of these

253. Which of the following is/are the most common objectives of fiscal policy?

- (a) Achievement and maintenance of full employment
(b) Maintenance of price stability and acceleration of the rate of economic development
(c) Equitable distribution of income and wealth
(d) All of the above

254. What may be the priorities of developing nations as regards objectives of fiscal policy?

- (a) Stability
(b) Stability & Growth
(c) Equity
(d) Employment & Equity

255. Which one of the following is NOT in higher priority in developing countries as regards objectives of fiscal policy?

- (a) Economic Growth
(b) Employment
(c) Stability
(d) Equity

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(d) All

258. An taking would i fect of:

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(b) A
(c) B
(d) B

259. W is like gregat
(a) I
(b) I

256. While the government resorts to deliberate fiscal policy it may not attempt to manipulate:

- (a) Government expenditures on public works
- (b) The rates of personal income taxes and corporate taxes
- (c) Government expenditures on goods and services purchased by government
- (d) The rate of interest prevailing in the economy

- (c) A tax cut along with increase in public expenditure
- (d) All the above

260. While resorting to expansionary fiscal policy:

- (a) The government may possibly have a budget surplus as increased expenditure will bring more output and more tax revenue
- (b) The government may run into budget deficits because tax cuts reduce government income and the government expenditures exceed tax revenues in a given year
- (c) It is important to have a balanced budget to avoid inflation and bring in stability
- (d) None of the above will happen

261. While if governments compete with the private sector to borrow money for securing resources for expansionary fiscal policy:

- (a) It is likely that interest rates will go up and firms may not be willing to invest
- (b) It is likely that interest rates will go up and the individuals too may be reluctant to borrow and spend
- (c) It is likely that interest rates will go up and the desired increase in aggregate demand may not be realized
- (d) All the above are possible

262. A recession is characterized by:

- (a) Declining prices and rising employment
- (b) Declining unemployment and rising prices
- (c) Declining real income and rising unemployment

Types of Fiscal Policy

257. Which of the following is NOT a type of Fiscal policy?

- (a) Expansionary Fiscal policy
- (b) Contractionary Fiscal policy
- (c) Progressive fiscal policy
- (d) All of the above

258. An expansionary fiscal policy, taking everything else constant, would in the short-run have the effect of:

- (a) A relative large increase in GDP and a smaller increase in price
- (b) A relative large increase in price, a relatively smaller increase in GDP
- (c) Both GDP and price will be increasing in the same proportion
- (d) Both GDP and price will be increasing in a smaller proportion

259. Which of the following policies is likely to shift an economy's aggregate demand curve to the right?

- (a) Increase in government spending
- (b) Decrease in taxes

- (d) Rising real income and rising prices

- (b) Taxes and Public Debt
(c) Budget
(d) RBI Policy

263. Contradictory fiscal policy

- (a) Is resorted to when government expenditure is greater than tax revenues of any particular year
(b) Increase the aggregate demand to sustain the economy
(c) To increase the disposable income of people through tax cuts and to enable greater demand
(d) Is designed to restrain the levels of economic activity of the economy during an inflationary phase

264. Contradictory Fiscal policy works through:

- (a) Decrease in Government Spending
(b) Increase in personal income tax / Business taxes
(c) Combination of (a) & (b)
(d) Increase in Government Spending and decrease in personal income tax.

The Instruments of Fiscal policy

265. Which of the following is included in Government Expenditure?

- (a) Current expenditures to meet the day-to-day running of the government
(b) Capital Expenditures
(c) Transfer Payments
(d) All of the above

266. Which of the following CANNOT be considered as an instrument of fiscal policy?

- (a) Government Expenditure

267. Which of the following is an indirect effect of increase in Government expenditure?

- (a) Generation of Incomes to labour
(b) Generation of Incomes to suppliers of material
(c) Both (a) and (b)
(d) Spending by people on consumer goods

268. Which of the following fiscal remedy would you advice when an economy is facing recession?

- (a) The government may cut interest rates to encourage consumption and investment
(b) The government may cut taxes to increase aggregate demand
(c) The government may follow a policy of balanced the budget
(d) None of the above will work

269. If real GDP is continuously declining and the rate of unemployment in the economy is increasing, the appropriate policy should be to:

- (a) Increase taxes and decrease government spending
(b) Decrease both taxes and government spending
(c) Decrease taxes and increase government spending
(d) Either (a) or (c)

270. Which of the following are likely to occur when an economy is in an expansionary phase of a business cycle?

- (A) Rising unemployment rate

(B) Falling unemployment rate

(C) Rising inflation rate

(D) Deflation

(E) Falling or stagnant wage for workers

(F) Increasing tax revenue

(G) Falling tax revenue

(a) A, B and F are most likely to occur

(b) B, C and F are most likely to occur

(c) D, E and F are most likely to occur

(d) A, E and G are most likely to occur

271. During recession the fiscal policy of the government should be directed towards:

(a) Increasing the taxes and reducing the aggregate demand

(b) Decreasing taxes to ensure higher disposable income

(c) Increasing government expenditure and increasing taxes

(d) None of the above

272. When government spending is deliberately reduced to bring in stability

(a) The government is resorting to contractionary fiscal policy

(b) The government is resorting to expansionary fiscal policy

(c) Trying to limit aggregate demand to sustainable levels

(d) (a) and (c) above

273. An increase in personal income taxes:

(a) Reduces disposable incomes leading to fall in consumption spending and aggregate demand

(b) Is desirable during inflation or when there is excessive levels of aggregate demand

(c) Is to compensate the deficiency in effective demand by boosting aggregate spending

(d) Both (a) and (b) are correct

274. Which of the following may ensure a decrease in aggregate demand during inflation?

(a) Decrease in all types of government spending and/or an increase in taxes

(b) Increase in government spending and/or a decrease in taxes

(c) Decrease in government spending and/or a decrease in taxes

(d) All the above

275. Read the following statements.

I. Fiscal policy is said to be contractionary when revenue is higher than spending i.e., the government budget is in surplus

II. Other things constant, a fiscal expansion will raise interest rates and "crowd out" some private investment

III. During inflation new taxes can be levied and the rates of existing taxes are raised to reduce disposable incomes

IV. Classical economists advocated contractionary fiscal policy to solve the problem of inflation

Of the above statements

(a) I and II are correct

(b) I, II and III are correct

(c) Only III is correct

(d) All are correct

276. Identify the incorrect statement.

(a) A progressive direct tax system ensures economic growth with

stability because it distributes the burden of taxes unequally

- (b) A carefully planned policy of public expenditure helps in redistributing income from the rich to the poorer sections of the society
- (c) There are possible conflicts between different objectives of fiscal policy such that a policy designed to achieve one goal may adversely affect another
- (d) An increase in the size of government spending during recessions may possibly 'crowd-out' private spending in an economy

277. Which of the following is INCORRECT about public Debt?

- (a) When the government borrows from its own people in the country, it is called internal debt.
- (b) When the government borrows from outside sources, the debt is called external debt
- (c) Public debt takes two forms namely, market loans and small savings
- (d) Public debt cannot be used to fight inflation

Fiscal policy for long-run Economic Growth and for reduction inequalities of income and wealth

278. When the environment taxes are increased by the government, then _____

- (a) Cost of firms increases
- (b) The Output of firms reduces
- (c) Income of individual increases
- (d) Both (a) and (b)

279. Which of the following is INCORRECT as regards Fiscal Policy as an instrument for long run economic growth?

- (a) Fiscal policies such as those involving infrastructure spending generally have positive supply-side effects
- (b) Taxes can have either positive or negative impact on economic growth depending on whether it encourages or discourages saving and investment
- (c) Subsidies on inputs and support prices to producers (e.g. farmers) generate higher output
- (d) None of the above

280. Fiscal policy is a chief instrument available for governments;

- (a) To influence income distribution
- (b) In reducing inequality
- (c) In achieving equity and social justice
- (d) All of above are correct

281. Which of the following is Not effective in redistribution of income from rich to the poorer sections of the society?

- (a) Poverty alleviation programmes
- (b) Free or subsidised medical care, education, housing, etc.
- (c) Social security schemes
- (d) A regressive tax systems

Limitations of Fiscal policy

282. Which of the following would illustrate a recognition lag?

- (a) The time required to identify the appropriate policy

- (b) The time to pass a law
 - (c) The time needed for the effect to be felt
 - (d) The time to get the policy implemented
- 283. Which type of lag is the most difficult to deal with?**

- (a) Recognition lag
- (b) Decision lag
- (c) Implementation lag
- (d) Program lag

284. Which of the following is not a characteristic of a good policy?

- (a) Impartiality
- (b) Decisiveness
- (c) Reciprocity
- (d) Artistic

285. Which of the following is involved in the implementation of a policy?

- (a) Recognition lag
- (b) Implementation lag
- (c) Decision lag
- (d) Program lag

286. Which of the following is not a characteristic of a good policy?

- (a) Impartiality
- (b) Decisiveness
- (c) Reciprocity
- (d) Artistic

- (b) The time required to identify to pass a legislation
- (c) The time required to identify the need for a policy change
- (d) The time required to establish the outcomes of fiscal policy

283. Which of the following is NOT a type of lags involved in fiscal -policy action?

- (a) Recognition Lag
- (b) Decision Lag
- (c) Implementation Lag
- (d) Progressive Lag

284. Which of the following lag occurs when the outcomes of a policy are not visible for sometime?

- (a) Impact Lag
- (b) Decision Lag
- (c) Recognition Lag
- (d) Artificial Lag

285. Which one of the following lags is involved in fiscal -policy action under a democratic setup?

- (a) Recognition Lag
- (b) Implementation Lag
- (c) Decision Lag
- (d) Impact Lag

286. Which statement(s) is (are) correct about crowding out?

- I. A decline in private spending may be partially or completely offset by the expansion of demand resulting from an increase in government expenditure.

II. Crowding out effect is the negative effect fiscal policy may generate when money from the private sector is 'crowded out' to the public sector.

III. When spending by government in an economy increases government spending would be crowded out.

IV. Private investments, especially the ones which are interest-sensitive, will be reduced if interest rates rise due to increased spending by government.

- (a) I and III only
- (b) I, II and III
- (c) I, II and IV
- (d) III only

287. During deep recessions crowding-out is less likely to happen as private sector investment is already minimal. Therefore, there is _____ to crowd out.

- (a) Only insignificant private spending
- (b) Only insignificant public spending
- (c) Only significant private spending
- (d) Only significant public spending

288. During a recession phase, the government would be able to borrow from the market _____ the interest rates.

- (a) By increasing
- (b) By decreasing
- (c) Without increasing
- (d) None of these

Answer

1.	(d)	2.	(d)	3.	(d)	4.	(d)	5.	(a)	6.	(b)	7.	(d)
8.	(c)	9.	(c)	10.	(c)	11.	(a)	12.	(b)	13.	(d)	14.	(d)
15.	(d)	16.	(b)	17.	(b)	18.	(b)	19.	(c)	20.	(a)	21.	(d)
22.	(c)	23.	(c)	24.	(c)	25.	(a)	26.	(a)	27.	(b)	28.	(a)
29.	(d)	30.	(c)	31.	(c)	32.	(d)	33.	(c)	34.	(a)	35.	(d)
36.	(d)	37.	(c)	38.	(c)	39.	(b)	40.	(a)	41.	(b)	42.	(a)
43.	(c)	44.	(c)	45.	(c)	46.	(d)	47.	(a)	48.	(d)	49.	(d)
50.	(c)	51.	(c)	52.	(c)	53.	(c)	54.	(c)	55.	(d)	56.	(b)
57.	(a)	58.	(c)	59.	(c)	60.	(b)	61.	(b)	62.	(a)	63.	(b)
64.	(c)	65.	(b)	66.	(c)	67.	(c)	68.	(c)	69.	(b)	70.	(a)
71.	(b)	72.	(a)	73.	(a)	74.	(d)	75.	(d)	76.	(c)	77.	(b)
78.	(b)	79.	(a)	80.	(a)	81.	(c)	82.	(d)	83.	(a)	84.	(a)
85.	(a)	86.	(a)	87.	(a)	88.	(c)	89.	(d)	90.	(c)	91.	(d)
92.	(b)	93.	(d)	94.	(d)	95.	(b)	96.	(c)	97.	(c)	98.	(a)
99.	(a)	100.	(c)	101.	(c)	102.	(c)	103.	(a)	104.	(d)	105.	(b)
106.	(b)	107.	(a)	108.	(a)	109.	(b)	110.	(c)	111.	(c)	112.	(d)
113.	(a)	114.	(b)	115.	(d)	116.	(d)	117.	(b)	118.	(b)	119.	(c)
120.	(d)	121.	(b)	122.	(d)	123.	(d)	124.	(d)	125.	(a)	126.	(d)
127.	(c)	128.	(d)	129.	(d)	130.	(b)	131.	(d)	132.	(d)	133.	(d)
134.	(d)	135.	(c)	136.	(c)	137.	(c)	138.	(b)	139.	(d)	140.	(a)
141.	(d)	142.	(d)	143.	(d)	144.	(a)	145.	(a)	146.	(a)	147.	(d)
148.	(c)	149.	(d)	150.	(c)	151.	(d)	152.	(b)	153.	(a)	154.	(c)
155.	(a)	156.	(a)	157.	(d)	158.	(d)	159.	(b)	160.	(d)	161.	(b)
162.	(c)	163.	(a)	164.	(b)	165.	(c)	166.	(c)	167.	(d)	168.	(c)
169.	(d)	170.	(d)	171.	(b)	172.	(d)	173.	(d)	174.	(c)	175.	(c)
176.	(b)	177.	(c)	178.	(b)	179.	(b)	180.	(d)	181.	(d)	182.	(c)
183.	(d)	184.	(c)	185.	(d)	186.	(b)	187.	(b)	188.	(b)	189.	(a)
190.	(a)	191.	(c)	192.	(b)	193.	(a)	194.	(b)	195.	(a)	196.	(b)
197.	(b)	198.	(b)	199.	(d)	200.	(a)	201.	(b)	202.	(c)	203.	(d)
204.	(c)	205.	(b)	206.	(c)	207.	(c)	208.	(a)	209.	(c)	210.	(d)
211.	(a)	212.	(c)	213.	(d)	214.	(d)	215.	(d)	216.	(d)	217.	(a)
218.	(a)	219.	(b)	220.	(c)	221.	(c)	222.	(c)	223.	(b)	224.	(c)
225.	(b)	226.	(c)	227.	(a)	228.	(b)	229.	(d)	230.	(d)	231.	(a)
232.	(b)	233.	(b)	234.	(b)	235.	(d)	236.	(b)	237.	(a)	238.	(a)
239.	(d)	240.	(b)	241.	(d)	242.	(b)	243.	(d)	244.	(a)	245.	(c)

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246.	(a)
253.	(a)
260.	(b)
267.	(c)
274.	(c)
281.	(c)
288.	(c)

246.	(a)	247.	(b)	248.	(a)	249.	(c)	250.	(d)	251.	(c)	252.	(c)
253.	(d)	254.	(b)	255.	(c)	256.	(d)	257.	(c)	258.	(a)	259.	(d)
260.	(b)	261.	(d)	262.	(c)	263.	(d)	264.	(c)	265.	(d)	266.	(d)
267.	(d)	268.	(b)	269.	(c)	270.	(b)	271.	(b)	272.	(b)	273.	(d)
274.	(a)	275.	(b)	276.	(a)	277.	(d)	278.	(d)	279.	(d)	280.	(d)
281.	(d)	282.	(c)	283.	(d)	284.	(a)	285.	(b)	286.	(c)	287.	(a)
288.	(c)												

Hints of selected questions

8. The allocation and distribution functions are primarily macroeconomic functions, while stabilization is a macroeconomic function.

15. Option (d) is related with the redistribution function.

29. Option (d) is part of the Allocation function.

129. The Option (d) is demerit goods.

130. Merit goods maximised Social welfare. Therefore, merit goods are socially desirable.

139. In case of demerit goods, the government can fix a minimum price below which these goods should not be exchanged.

144. Government has initiated Minimum Support Price (MSP) programme.

149. Option (d) is not the government intervention for equitable distribution such advertising standard are infact for correcting information failure.

235. The option (d) is an item of public account.

277. A rational policy of public borrowing and debt repayment is a potential weapon to fight inflation and deflation.

281. A regressive tax system levies the same percentage on products or goods purchased regardless of the buyer's income. Infact, A progressive direct tax system ensures that those who have greater ability to pay contribute more towards defraying the expenses of government.

285. Implementation lag occurs when appropriate policy measures are decided on, but there are possible delay in bringing in legislation and implementing them on account of bureaucracy. This is specially so under a democratic Setup.