



CA Foundation – New Syllabus  
Business Economics

Chapter 7  
**PUBLIC FINANCE**

**New MCQs by MVSIR**

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**New MCQs by MVSIR**

**UNIT 1**

1

Macroeconomic goals for any nation are-

- a) economic growth
- b) high levels of employment
- c) stable price levels
- d) All of the above

2

\_\_\_\_\_ study of the economy as a whole

- a) Micro Economics
- b) Macro Economics
- c) Both a & b
- d) None of the above

3

Allocation Function is a \_\_\_\_\_ function

- a) Macro Economic
- b) Micro Economic
- c) Both a and b
- d) None of the above

4

\_\_\_\_\_ was a bold advocate of free markets and minimal governmental activity

- a) Alfred Marshall
- b) J.M. Keynes
- c) Milton Friedman
- d) Adam Smith

5

As per Adam Smith, the role of government was-

- a) national defense
- b) establishing a system of justice & internal law & order
- c) establishment and maintenance of highly beneficial public institutions
- d) All of the above

6

Who introduced the three-branch taxonomy of the role of government in a market economy in his book 'The Theory of Public Finance' ?

- a) Keynes
- b) Buchanan
- c) Richard Musgrave
- d) Garrett Hardin

7

Market failures which hinder efficient allocation of resources occur due to

- a) Imperfect competition and presence of monopoly power
- b) Externalities
- c) Inequalities in distribution of income.
- d) All of the above

8

Which one is the Allocation instrument which government can use to influence resource allocation ?

- a) Government may directly produce an economic good
- b) Employment reservations
- c) Special schemes for backward regions
- d) All of the above

9

Using the proceeds from progressive taxes used for financing public services that benefit low-income households, is an example of \_\_\_\_\_

- a) Allocation Function
- b) Redistribution Function
- c) Stabilisation Function
- d) None of the above

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10	Aim of Redistribution Function is _____
<p>a) Achieve an equitable distribution of societal output among households</p> <p>b) Advancing the well-being of those members of the society who suffer from deprivations</p> <p>c) Providing equality in income, wealth and opportunities</p> <p>d) All of the above</p>	

11	Allocation Function in Govt Budgeting determines _____
<p>a) Who and what will be taxed</p> <p>b) how and on what the government revenue will be spent</p> <p>c) Level of involvement of public sector in economy</p> <p>d) All of the above</p>	

12	Macro economic stability is said to exist when :
<p>a) Economy's output = production capacity</p> <p>b) Economy's total spending = total output</p> <p>c) Economy's labour resources are fully employed and inflation is low and stable.</p> <p>d) All of the above</p>	

13	Govt's stabilization intervention may be through _____
<p>a) Foreign Exchange</p> <p>b) Monetary policy &amp; Fiscal policy</p> <p>c) Both a and b</p> <p>d) None of the above</p>	

14	Fiscal federalism, a term introduced by _____
<p>a) Buchanan</p> <p>b) Keynes</p> <p>c) Richard Musgrave</p> <p>d) None of the above</p>	

15	India is a federation of _____
<p>a) 28 states and 7 union territories.</p> <p>b) 28 states and 8 union territories.</p> <p>c) 27 states and 7 union territories.</p> <p>d) 27 states and 8 union territories.</p>	

16	Federalism is an institutional arrangement to accommodate two sets of government – one at the national level and the other at _____
<p>a) Regional level</p> <p>b) State Level</p> <p>c) International level</p> <p>d) District level</p>	

17	In order to control high inflation, the government may
<p>a) Decrease expenditure &amp; raise tax</p> <p>b) Increase expenditure &amp; raise tax</p> <p>c) Decrease expenditure &amp; reduce tax</p> <p>d) Increase expenditure &amp; reduce tax</p>	

18	Finance Commission is responsible for _____
<p>a) Evaluating the state of finances of union and state Government</p> <p>b) Recommending the sharing of taxes between them\</p> <p>c) Laying down the principles determining the distribution of these taxes among states</p> <p>d) All of the above</p>	

19	The 15 <sup>th</sup> Finance Commission was constituted on _____
<p>a) 24<sup>th</sup> Nov 2017</p> <p>b) 21<sup>st</sup> Nov 2017</p> <p>c) 27<sup>th</sup> Nov 2017</p> <p>d) 23<sup>th</sup> Nov 2017</p>	

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**20** GST accounts for \_\_\_\_\_

a) 35% of gross tax revenue of union & 44% tax revenue of state  
 b) 40% of gross tax revenue of union & 60% tax revenue of state  
 c) 25% of gross tax revenue of union & 24% tax revenue of state  
 d) 55% of gross tax revenue of union & 35% tax revenue of state

**21** How can government perform redistribution function on the expenditure side of the budget?

a) By providing free or subsidised education, healthcare, etc to deserving people  
 b) Through progressive taxation  
 c) Both a & b  
 d) None of the above

**22** \_\_\_\_\_ deals with the division of governmental functions and financial relations among the different levels of government

a) Vertical Equity  
 b) Horizontal Equity  
 c) Fiscal Federalism  
 d) Either a or b

**23** Article \_\_\_\_\_ of the Constitution demarcates powers of union & state by classifying their powers into three lists

a) 268  
 b) 269  
 c) 246  
 d) 275

**24** In the event of conflicting legislation in concurrent list, the law passed by the \_\_\_\_\_ prevails

a) State Government  
 b) Central Government  
 c) Chief Minister of State  
 d) Both a & c

**25** Who can levy taxes on agricultural income?

a) State Government  
 b) Central Government  
 c) Both a & b  
 d) None of the above

**25** Who can levy taxes on agricultural income?

a) State Government  
 b) Central Government  
 c) Both a & b  
 d) None of the above

**26** Finance Commission recommended share of states in the central taxes (vertical devolution) for year 2021-26 to be \_\_\_\_\_

a) 35%  
 b) 44%  
 c) 42%  
 d) 41%

**27** Borrowing by the government of India and borrowing by states are defined under \_\_\_\_\_ of Constitution of India

a) Article 246 & 247  
 b) Article 268 & 269  
 c) Article 292 & 293  
 d) Article 255 & 256

**28** \_\_\_\_\_ is entrusted with providing social sector services such as health and education, police protection

a) Central Government  
 b) State Government  
 c) Local self governments  
 d) All of the above



29 \_\_\_\_\_ is entrusted with providing public utility services such as water supply and sanitation

a) Central Government  
b) State Government  
c) Local self governments  
d) All of the above

30 While recommending transfers, the Finance Commission considers issues related to \_\_\_\_\_, which deals with deciding about the share of all states in the revenue collected by centre

a) Horizontal equity  
b) Vertical Equity  
c) Parallel Equity  
d) All of the above

31 GST was rolled out in India on \_\_\_\_\_

a) 1<sup>st</sup> April 2014  
b) 1<sup>st</sup> April 2017  
c) 1<sup>st</sup> July 2014  
d) 1<sup>st</sup> July 2017

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

a) 59% CGST & 41% SGST  
b) 70% CGST & 30% SGST  
c) 30% CGST & 70% SGST  
d) Both rates are equal

33 GST Compensation cess amount was given to \_\_\_\_\_

a) The companies who suffered loss due to high rates of GST  
b) Compensate the lower rates on essential items  
c) Compensate the central government for the loss of revenue due to introduction of GST  
d) The manufacturing states for loss of revenue arising on account of implementation of GST

34 \_\_\_\_\_ is applied on inter-state movement of goods and services and on imports and exports

a) CGST  
b) SGST  
c) IGST  
d) UTGST

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**Answer Key - Chapter 7 - New MCQs (Unit - 1)**

1	D	6	C	11	D	16	A	21	A	26	D	31	D
2	B	7	D	12	D	17	A	22	C	27	C	32	D
3	B	8	A	13	B	18	D	23	C	28	B	33	D
4	D	9	B	14	C	19	C	24	B	29	C	34	C
5	D	10	D	15	B	20	A	25	A	30	B		

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**New MCQs**

**UNIT 2**

<b>1</b>	<b>Complete Market failure occurs when _____</b>
<p>a) The market does not supply products at all despite the fact that such products and services are wanted by people.</p> <p>b) The market does actually function but it produces wrong quantity or at wrong price.</p> <p>c) Both a and b</p> <p>d) None of the above</p>	
<b>2</b>	<b>Externalities can be _____</b>
<p>a) Negative Externalities</p> <p>b) Positive Externalities</p> <p>c) Both a and b</p> <p>d) None of the above</p>	
<b>3</b>	<b>Externalities are also be referred to as _____</b>
<p>a) Spillover effects</p> <p>b) Neighborhood effects</p> <p>c) Third party effects or side effects</p> <p>d) All of the above</p>	
<b>4</b>	<b>Which of the below is initiated in production and imposes an external cost on others?</b>
<p>a) Negative Consumption Externality</p> <p>b) Negative Production Externality</p> <p>c) Positive Production Externality</p> <p>d) Positive Consumption Externality</p>	
<b>5</b>	<b>Which of the below is initiated in Consumption and confers external benefits on others?</b>
<p>a) Negative Consumption Externality</p> <p>b) Positive Production Externality</p> <p>c) Negative Production Externality</p> <p>d) Positive Consumption Externality</p>	

<b>6</b>	<b>Which of the following is true? Social Cost are _____</b>
<p>a) Social Cost are costs borne by individuals directly involved in a transaction</p> <p>b) Social Cost are external costs borne by third parties not directly involved in transaction.</p> <p>c) Social Cost = Private cost + External Cost</p> <p>d) All of the above</p>	
<b>7</b>	<b>Who gave the concept of "collective consumption good" in his paper "The pure theory of Public Expenditure" ?</b>
<p>a) Paul A. Samuelson</p> <p>b) Garrett Hardin</p> <p>c) Oakland and Sandmo</p> <p>d) Buchanan</p>	
<b>8</b>	<b>Characteristics of Public Goods are-</b>
<p>a) Consumption of a public good by one individual does not reduce the quality or quantity available for all other</p> <p>b) Public goods are not vulnerable to free-rider problem</p> <p>c) it is possible to exclude or prevent consumers who have not paid for them</p> <p>d) All of the above</p>	
<b>9</b>	<b>Though public goods are extremely valuable for the well-being of the society, left to the market, they will be _____</b>
<p>a) Over-produced</p> <p>b) Not be produced at all</p> <p>c) Under-produced</p> <p>d) Both b &amp; c</p>	

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<b>10</b>	<b>Government intervention to correct Negative Externalities are _____</b>
a) Direct Controls b) Market Based Policies c) Market liberalisation d) a and b above	
<b>11</b>	<b>The use of tradable permits to limit emissions is often called _____</b>
a) Cap and trade b) Permit and Trade c) Both a and b d) None of the above	
<b>12</b>	<b>Which statement is correct with regard to Demerit goods?</b>
a) Demerit goods are socially undesirable b) The production and consumption of demerit goods are likely to be more than optimal under free markets. c) Both a and b d) None of the above	
<b>13</b>	<b>Examples of Demerit goods are _____</b>
a) Cigarettes b) Education c) Health care d) All of the above	
<b>14</b>	<b>Which are the goods are produced and consumed as public goods and services despite the fact that they can be produced or consumed as private goods which may prove dangerous to society.</b>
a) scientific approval of drugs, b) production of strategic products such as atomic energy, c) provision of security at airports etc d) All of the above	

<b>15</b>	<b>Measures to minimize the market power are _____</b>
a) Market liberalisation by introducing competition in previously monopolistic sectors such as energy, telecommunication etc b) Limiting amount of pollutants released into water c) Charge an emissions fee which is levied on each unit of a firm's emissions d) All of the above	
<b>16</b>	<b>When pollution of river affects fish output as there will be less catch for fishermen due to loss of fish resources This is an example of _____</b>
a) negative production externality is received in consumption b) negative production externality is received in production c) negative consumption externality is received in production d) negative consumption externality is received in consumption	
<b>17</b>	<b>When an individual raises an attractive garden and the persons walking by enjoy the garden This is an example of _____</b>
a) negative production externality is received in consumption b) positive production externality is received in production c) positive production externality is received in consumption d) positive consumption externality is received in production	



18	Smoking cigarettes in public place causing passive smoking by others This is an example of ____
a) negative production externality is received in consumption b) negative production externality is received in production c) negative consumption externality is received in production d) negative consumption externality is received in consumption	

19	If people get immunized against contagious diseases, they would confer a social benefit to others as well by preventing others from getting infected. This is an example of ____
a) Positive production externality is received in consumption b) Positive production externality is received in production c) Negative consumption externality is received in production d) Positive consumption externality is received in consumption	

20	Excessive consumption of alcohol causing impairment in efficiency for work. This is an example of ____
a) negative production externality is received in consumption b) negative production externality is received in production c) negative consumption externality is received in production d) negative consumption externality is received in consumption	

21	A firm which offers training to its employees for increasing their skills generates benefits on other firms when they hire such workers as they change their jobs This is an example of ____
a) Positive production externality is received in consumption b) Positive production externality is received in production c) Positive consumption externality is received in production d) Positive consumption externality is received in consumption	

22	A firm which offers training to its employees for increasing their skills generates benefits on other firms when they hire such workers as they change their jobs This is an example of ____
a) Positive production externality is received in consumption b) Positive production externality is received in production c) Positive consumption externality is received in production d) Positive consumption externality is received in consumption	

23	____ occurs when there is 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
a) Asymmetric information b) Symmetric information c) Perfect information d) All of the above	



24 The concept of Lemons Problem was given by \_\_\_\_

a) Paul Samuelson  
b) JM Keynes  
c) Baumol & Tobin  
d) George Akerlof

25 \_\_\_\_ is about informed person's taking advantage of a less-informed person through an unobserved action

a) Adverse Selection  
b) Asymmetric Information  
c) Moral Hazard  
d) None of the above

25 \_\_\_\_ is about informed person's taking advantage of a less-informed person through an unobserved action

a) Adverse Selection  
b) Asymmetric Information  
c) Moral Hazard  
d) None of the above

26 The concept of Pollution Tax was given by \_\_\_\_

a) AC Pigou  
b) JM Keynes  
c) Hawtrey  
d) George Akerlof

27 Problems in administering an efficient pollution tax are \_\_\_\_

a) Easy to determine and administer because it involves the use of cheaper administrative procedures  
b) If the demand for the good is inelastic, the tax may have only an insignificant effect in reducing demand  
c) High pollution taxes in one country may leads to high FDI  
d) All of the above

28 \_\_\_\_ are are goods that have substantial positive externalities and hence they are socially desirable

a) Public goods  
b) Wage goods  
c) Merit goods  
d) Demerit goods

29 \_\_\_\_ is a maximum price sellers are allowed to charge for a good or service

a) Price floor  
b) Price ceiling  
c) Both a & b  
d) None of the above

30 Setting of minimum support price by the government is an example of \_\_\_\_

a) Price floor  
b) Price ceiling  
c) Both a & b  
d) None of the above

30 Setting of minimum support price by the government is an example of \_\_\_\_

a) Price floor  
b) Price ceiling  
c) Both a & b  
d) None of the above

31 When prices which are set below the market price is called

a) Price floor  
b) Price ceiling  
c) Both a & b  
d) None of the above

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Answer Key – Chapter 7 New MCQs (Unit – 2)

1	A	6	C	11	A	16	B	21	B	26	A	31	B
2	C	7	A	12	C	17	C	22	B	27	B		
3	D	8	A	13	A	18	D	23	A	28	C		
4	B	9	D	14	D	19	D	24	D	29	B		
5	D	10	D	15	A	20	C	25	C	30	A		

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**New MCQs**

**UNIT 3**

<b>1.</b>	<b>A budget is a statement that presents the details of _____</b>
	a) where the money comes from' b) where the money goes to c) Both a and b d) None of the above
<b>2</b>	<b>The budget also contains estimates of the government's accounts for the next fiscal year called _____</b>
	a) budgeted estimates. b) comprehensive report c) Consolidated report d) None of the above
<b>3</b>	<b>The budget is prepared by the Ministry of Finance in consultation with _____</b>
	a) Prime Minister b) NITI Aayog and other relevant ministries c) President d) Leader of the Opposition
<b>4</b>	<b>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 the "Annual Financial Statement"</b>
	a) Article 110 b) Article 112 c) Article 113 d) Article 114
<b>5</b>	<b>The budgetary procedures are-</b>
	a) Preparation of the budget b) Presentation and enactment of the budget c) Execution of the budget d) All of the above

<b>6</b>	<b>The finance minister makes a detailed budget speech at the time of presenting the budget before the _____</b>
	a) Lok Sabha b) Rajya Sabha c) Vidhan Sabha d) All of the above
<b>7</b>	<b>The budget documents depict information relating to receipts and expenditure for two years. They are:</b>
	a) Budget estimates (BE) of receipts and expenditure in respect of current and ensuing financial year b) For the current year through Revised Estimates (RE); and c) Actuals of the year preceding the current year d) All of the above
<b>8</b>	<b>Part A of the budget speech gives an outline of _____</b>
	a) the progress the government has made on various developmental measures, the direction of future policies and the government's tax proposals b) the prevailing macro economic situation of the country and the budget estimates for the next financial year. c) Both a and b d) None of the above
<b>9</b>	<b>The budget process mainly consists of _____</b>
	a) The administrative process, wherein the budget along with the accompanying documents are prepared in consultation with various stakeholders; b) The legislative process wherein the budget is passed by the parliament after discussions. c) Both a and b d) None of the above

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10	By convention in an election year, the budget may be presented _____
	<ul style="list-style-type: none"> <li>a) Once</li> <li>b) Twice</li> <li>c) Thrice</li> <li>d) Four times</li> </ul>
11	The Parliament has to pass the Finance Bill within _____ of its introduction
	<ul style="list-style-type: none"> <li>a) 30 days</li> <li>b) 45 Days</li> <li>c) 60 Days</li> <li>d) 75 Days</li> </ul>
12	_____ is intended to give authority to government to incur expenditure from and out of Consolidated Fund of India
	<ul style="list-style-type: none"> <li>a) Policy Cut Motions</li> <li>b) Guillotine</li> <li>c) Appropriation Bill</li> <li>d) Finance Bill</li> </ul>
13	Department of Revenue exercises control for matters relating to direct & indirect union taxes through _____
	<ul style="list-style-type: none"> <li>a) Central Board of Direct Taxes (CBDT) and</li> <li>b) Central Board of Indirect Taxes and Customs (CBIC)</li> <li>c) Both a &amp; b</li> <li>d) Ministry of Finance</li> </ul>
14	_____ consists of tax revenue and non tax revenue
	<ul style="list-style-type: none"> <li>a) Revenue Expenditure</li> <li>b) Revenue Receipts</li> <li>c) Capital Expenditure</li> <li>d) Capital Receipts</li> </ul>

15	Centre's net tax revenue is the total of tax revenue after paying of _____
	<ul style="list-style-type: none"> <li>a) states' share</li> <li>b) National Calamity Contingent duty (NCCD)</li> <li>c) Both a and b</li> <li>d) None of the above</li> </ul>
16	The institutions responsible for public debt management are:
	<ul style="list-style-type: none"> <li>a) Reserve Bank of India</li> <li>b) Ministry of Finance (MOF)</li> <li>c) Both b and c</li> <li>d) None of the above</li> </ul>
17	Which of the following is/are Non-Tax Revenue of govt?
	<ul style="list-style-type: none"> <li>a) Customs duties</li> <li>b) Union excise duties</li> <li>c) Interest Receipts</li> <li>d) All of the above</li> </ul>
18	Recoveries of loans and advances is an example of _____
	<ul style="list-style-type: none"> <li>a) Non debt capital receipts</li> <li>b) Debt capital receipts</li> <li>c) Capital Expenditure</li> <li>d) Revenue Expenditure</li> </ul>
18	Recoveries of loans and advances is an example of _____
	<ul style="list-style-type: none"> <li>a) Non debt capital receipts</li> <li>b) Debt capital receipts</li> <li>c) Capital Expenditure</li> <li>d) Revenue Expenditure</li> </ul>
19	The economic costs of unproductive public expenditures can be extensive and may have far reaching effects such as-
	<ul style="list-style-type: none"> <li>a) larger deficits</li> <li>b) higher levels of taxation,</li> <li>c) lower economic growth</li> <li>d) All of the above</li> </ul>



20	_____ is nodal department for overseeing the public financial management system in the central government and matters connected with state finances	25	The risk associated with external debt is the _____ vis-à-vis the currency of denomination of external loans leading to _____ in the government's debt servicing cost
a) Department of Revenue b) Department of Expenditure c) Central Board of Direct Taxes (CBDT) d) Both a & c		a) appreciation in the value of domestic currency, increase b) depreciation in the value of foreign currency, increase c) appreciation in the value of domestic currency, decrease d) depreciation in the value of domestic currency, increase	
21	_____ consists of relevant data across all ministries/departments to outline a profile of the general financial performance of the government of India. It gives an aggregation of various types of expenditure and certain other items across demands	26	_____ lead to a reduction in assets or an increase in liabilities of govt
a) Revenue Profile b) Expenditure Profile c) Both a & b d) None of the above		a) Revenue Expenditure b) Revenue Receipts c) Capital Expenditure d) Capital Receipts	
22	_____ acts as the debt manager for marketable internal debt	27	Interest payments on debt is an example of _____
a) Department of Economic Affairs b) Ministry of Finance c) RBI d) Both a & b		a) Revenue Expenditure b) Revenue Receipts c) Capital Expenditure d) Capital Receipts	
23	External debt (bilateral and multilateral loans) is managed by _____	28	_____ shows the government revenue is insufficient to meet the regular expenditures in connection with the normal functioning of the government
a) Department of Economic Affairs in the Ministry of Finance b) RBI c) Department of Revenue d) Both a & b		a) Revenue Deficit b) Budgetary Deficit c) Fiscal Deficit d) Primary Deficit	
24	When govt. spends less than receipts the budget becomes _____		
a) Deficit b) Surplus c) Balanced d) Any of the above			

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29	The excess of total expenditure over total receipts excluding borrowings during a given fiscal year is called the _____
	a) Revenue Deficit b) Budgetary Deficit c) Fiscal Deficit d) Primary Deficit
30	_____ shows the total borrowing requirements of the government from all sources.
	a) Revenue Deficit b) Budgetary Deficit c) Fiscal Deficit d) Primary Deficit
31	In case revenue deficit occupies a substantial share of fiscal deficit, it is an indication that a large part of borrowing is used for _____
	a) investment purposes rather than for consumption b) consumption purposes rather than for investment c) creation of assets d) Investment purposes
32	_____ tells how much of the government's borrowings are going towards meeting expenses other than interest payments
	a) Revenue Deficit b) Budgetary Deficit c) Fiscal Deficit d) Primary Deficit
33	_____ is a progress card on what various ministries and departments have done with the outlays in the previous annual budget.
	a) Cut Motions b) Guillotine c) Outcome budget d) Consolidated Fund of India

34	Motions for reduction to various demands for grants are made in the form of _____ seeking to reduce sums sought by govt on grounds of economy or difference of opinion
	a) Cut Motions b) Guillotine Motion c) Outcome budget d) Consolidated Fund of India
35	Once the prescribed period for the discussion on demands for grants is over, the speaker of Lok Sabha puts all the outstanding demands for grants, whether discussed or not, to the vote of the house. This is known as _____
	a) Cut Motions b) Guillotine c) Outcome budget d) Consolidated Fund of India
36	The motion for leave to introduce a finance bill _____
	a) can be opposed b) can be opposed by Lok Sabha c) can be opposed by Rajya Sabha d) cannot be opposed
37	The finance bill is taken up for consideration and passing _____ the Appropriation Bill is passed.
	a) Before b) After c) At the same time d) Any of the above
38	The recommendations of Rajya Sabha on Finance Bill _____ by the Lok Sabha
	a) Must be accepted b) May be accepted or rejected c) Have to be accepted d) Are always rejected



39 The \_\_\_\_\_ seeking to give effect to the government's taxation proposals is introduced in Lok Sabha immediately after the presentation of the general budget

a) Appropriation Bill  
b) Finance Bill  
c) Guillotine  
d) Expenditure Profile

40 All revenues received, loans raised and all moneys received by the government in repayment of loans are credited to \_\_\_\_\_

a) Consolidated Fund of India  
b) Contingency Fund of India  
c) Contingency Fund of State  
d) Public Account

41 \_\_\_\_\_ is a fund 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) Contingency Fund of State  
d) Public Account

42 Under Article 266(1) of the Constitution of India, \_\_\_\_\_ is used in relation to all the fund flows where government is acting as a banker. The expenditure from this fund need not be approved by the parliament.

a) Consolidated Fund of India  
b) Contingency Fund of India  
c) Contingency Fund of State  
d) Public Account

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**Answer Key - Chapter 7 New MCQs (Unit - 3)**

1	C	6	A	11	D	16	C	21	B	26	D	31	B	36	D	41	B
2	A	7	D	12	C	17	C	22	C	27	A	32	D	37	B	42	D
3	B	8	B	13	C	18	A	23	A	28	A	33	C	38	B		
4	B	9	C	14	B	19	D	24	B	29	C	34	A	39	B		
5	D	10	B	15	C	20	B	25	D	30	C	35	B	40	A		

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**New MCQs**

**UNIT 4**

1 Fiscal policy is the deliberate policy of govt. where it uses

- a) instruments of taxation,
- b) public expenditure
- c) public borrowing
- d) All of the above

2 Fiscal policy is in the nature of a \_\_\_\_\_

- a) demand-side policy
- b) Supply-side policy
- c) Cost-side policy
- d) Price-side policy

3 An economy which is producing at \_\_\_\_\_ does not require government action in the form of fiscal policy

- a) full-employment level
- b) Less than full-employment level
- c) More than full-employment level
- d) Both b & c

4 \_\_\_\_\_ were of the belief that the government should not intervene in the economy because the market mechanism makes the economy self-adjusting and keeps the economy at or near the natural level of real GDP at all times

- a) Modern Economists
- b) Keynes & related economists
- c) Classical Economists
- d) Both a & b

5 Public Debt may be \_\_\_\_\_

- a) Internal Debt
- b) External Debt
- c) Both a and b
- d) None of the above

6 During recession, if Government increases the taxes, it will be self defeating as \_\_\_\_\_ taxes will \_\_\_\_\_ the disposable incomes and thus aggregate demand

- a) increased, reduce
- b) decreased, reduce
- c) increased, increase
- d) decreased increase

7 Tax as an instrument of fiscal policy consists of changes in \_\_\_\_\_ aimed at encouraging or restricting private expenditures on consumption and investment.

- a) Government revenue
- b) Rates of taxes
- c) Either a or b
- d) None of the above

8 The most common objectives of fiscal policy are:

- a) Achievement and maintenance of full employment
- b) Maintenance of price stability,
- c) Acceleration of rate of economic development
- d) All of the above

9 \_\_\_\_\_ may get higher priority in developing countries as objectives of fiscal policy

- a) stability and equality
- b) Stability
- c) economic growth
- d) economic growth, employment and equity

10 Policy used to close the recessionary gap is \_\_\_\_\_

- a) Anti-inflationary fiscal policy
- b) Contractionary fiscal policy
- c) Expansionary fiscal Policy
- d) Recessionary fiscal policy



<b>11</b>	<b>Fiscal policies such as those involving infrastructure spending generally have _____ supply-side effects.</b>
<p>a) Negative b) Positive c) Balanced d) None of the above</p>	
<b>12</b>	<b>What measures can government take to achieve desired redistribution of income.</b>
<p>a) Progressive direct tax system b) Indirect taxes can be differential. More tax on Luxury goods, Less tax on Necessities c) Both a and b d) None of the above</p>	
<b>13</b>	<b>What are the limitations of Fiscal Policy?</b>
<p>a) Bad Timing b) Practically difficult to reduce in Govt. Borrowings c) Difficulties in instantaneously changing Govt. spending &amp; taxation policies d) All of the above</p>	
<b>14</b>	<b>_____ means when there are possible delays in bringing in legislation and implementing them on account of bureaucracy</b>
<p>a) Recognition Lag b) Decision Lag c) Implementation Lag d) Impact Lag</p>	

<b>15</b>	<b>Under _____, fiscal policy becomes ineffective as the decline in private spending partially or completely offsets the expansion in demand resulting from an increase in government expenditure</b>
<p>a) Liquidity Trap b) Economics Bads c) Crowding Out effect d) Impact Lag</p>	
<b>16</b>	<b>Decrease in government spending &amp; increase in taxes is an example of _____</b>
<p>a) Anti-inflationary monetary policy b) Contractionary fiscal policy c) Expansionary fiscal Policy d) Recessionary monetary policy</p>	
<b>17</b>	<b>Contractionary fiscal policy should ideally lead to a _____ government budget deficit or a _____ budget surplus</b>
<p>a) Smaller, smaller b) Smaller, larger c) Larger, larger d) Larger, smaller</p>	
<b>18</b>	<b>Government expenditures related to meet the day to day running of the government are called as _____</b>
<p>a) current expenditures b) capital expenditures c) transfer payments d) Revenue receipts</p>	
<b>19</b>	<b>Government expenditure is _____ when there is a fear of inflationary rise in prices</b>
<p>a) Increased b) Decreased c) Remains same d) Both a &amp; b</p>	

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20 During recession and depression, government can

a) Levy new taxes  
b) Increase the rates of existing taxes  
c) Lower the tax rates  
d) Both a & b

21 During inflation, government can

a) Levy new taxes  
b) Increase the rates of existing taxes  
c) Lower the tax rates  
d) Both a & b

22 When the government borrows from its own people in the country, it is called \_\_\_\_\_

a) external debt  
b) internal debt  
c) Market loan  
d) Revenue receipts

23 In case of \_\_\_\_\_ the government issues treasury bills and government securities of varying denominations and duration which are traded in debt markets

a) external debt  
b) internal debt  
c) Market loan  
d) Small savings

24 For financing capital projects of government, long-term capital bonds are floated and for meeting short-term government expenditure, \_\_\_\_\_ are issued.

a) Commercial Papers  
b) Long term debentures  
c) Treasury bills  
d) Small savings loans

25 National Savings Certificates is an example of \_\_\_\_\_

a) Commercial Papers  
b) Market loans  
c) Treasury bills  
d) Small savings

26 \_\_\_\_\_ has negative net effect on aggregate demand since leakages will be greater than injections.

a) Balanced Budget  
b) Budget Surplus  
c) Budget Deficit  
d) Both b & c

27 Which of the following is not effective in reduction in inequalities of income

a) progressive direct tax system  
b) Differential indirect taxes, high tax on luxury items and lower tax on necessities  
c) poverty alleviation programmes  
d) Regressive direct tax system

28 Which of the following is a recognition lag?

a) Delay in recognizing the need for a policy change  
b) Delay in making a decision on the most appropriate policy  
c) Delay in bringing in legislation and implementing them on account of bureaucracy  
d) When outcomes of a policy are not visible for some time

**Answer Key – Chapter 7 New MCQs (Unit – 4)**

1	D	6	A	11	B	16	B	21	D	26	B
2	A	7	C	12	C	17	B	22	B	27	D
3	A	8	D	13	D	18	A	23	C	28	A
4	C	9	D	14	C	19	B	24	C		
5	C	10	C	15	C	20	C	25	D		

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CA Foundation – New Syllabus  
Business Economics

Chapter 7  
**PUBLIC FINANCE**

**ICAI Extra MCQs**

MCQ Compiler by MVSIR



**ICAI Extra MCQs**

**1** Contractionary fiscal policy can involve:

- a) Increasing consumption and investment and taxes.
- b) Decreasing government spending and increasing taxes.
- c) Increasing government spending and increasing taxes.
- d) None of the above

**2** Objective of Fiscal policies are:

- a) Increase Export of the country
- b) Make currency of the country stronger
- c) Reduce interest rate
- d) Maintenance of price stability

**3** Simplifying assumptions for money multiplier are:

- a) Banks never hold excess reserves
- b) Individuals and non bank corporation never
- c) Both a and b
- d) None of these

**8** FEMA stands for:

- a) Foreign exchange Management Act.
- b) Founds exchange management Act.
- c) Finance Enhancement Monetary Act.
- d) Future Exchange Management Act.

**6** Market Failure is situation:

- a) Free market leads to misallocation of society's scarce resources
- b) Overproduction or underproduction of particular goods and service
- c) Less than optimal outcome
- d) All of the above

**7** Social Cost =

- a) Private cost
- b) External cost
- c) Private cost + external cost
- d) Private cost and external cost

**4** Tragedy of the commons was first described by:

- a) Garrett Hardin
- b) John Keynesian
- c) Adam Smith
- d) Alfrad Marshal

**5** Which of the following is not a feature of public good?

- a) Rivalry in consumption
- b) Non excludable
- c) Free Rider
- d) Indivisibility of good

**9** Mr. Amit, a stock market trader through inside information, comes to know that share price of X Ltd is likely to go up in future, so he purchases the shares to make a gain by selling them later at higher price. It is a case of:

- a) Moral Hazard
- b) Asymmetric information
- c) Free Riding
- d) None of the above

**10** Which of the following steps are taken by Govt. to correct market failure?

- a) Issuing a fixed number of permits, to limit the total level of pollution than can be legally emitted during each period.
- b) Subsidizing the production of merit goods
- c) Making it mandatory to have accurate labelling and disclosures by producers.
- d) All of these

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11	Which of the following can be said to be true about merit Goods?
a) Socially desirable b) Likely to be under-produced/under-consumed c) Requires Govt. support d) All of the above	
12	MPC is required to meet at least:
a) Two times b) Six times c) For times d) Three times	
13	Which of the following steps under the fiscal policy is an example of stabilizing the economy?
a) Making payments towards pensions for retired military personnel. b) Making payments towards unemployment insurance benefits. c) Allocating more capital for spending on the construction of national highways. d) Decreasing the supply of money within the economy.	
14	As per Tobin's theory demand for money as a store of wealth depends negatively on:
a) Inflation rate b) Exchange rate c) Interest rate d) None of the above	

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15	Which of the following is not true regarding the minimum support price (MSP) mechanism in India?
a) MSP works on the principle of price ceiling b) MSP works on the principle of price flooring c) At the price fixed, there exists excess supply d) Govt. procures the excess supply of farmers.	
16	Recently, in this year's budget the Government increased the Tax on Cigaretter. This is an example of which function of public finance?
a) Allocation Function b) Redistribution Function c) Normative Function d) Stabilization Function	
17	Which of the following is not a type of externality?
a) Positive Externality b) Reciprocal Externality c) Unidirectional Externality d) Partial externality	
18	The Government adopting Progressive taxation System to tax people on the level of their income is an example of which function of public finance?
a) Redistribution Function b) Allocation Function c) Normative Function d) Stabilization	
19	What are functions of Government in economy?
a) Allocation Function b) Redistribution Function c) Stabilization Function d) All of the above	

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20	What are arguments against pollution tax?
	<ul style="list-style-type: none"> <li>a) It is difficult to determine</li> <li>b) It have an insignificant effect in reducing demand</li> <li>c) This does not provide any genuine solution</li> <li>d) All of the above</li> </ul>
21	What is the terminology used by economists to describe a situation where rivalrous but non excludable goods are overused to the disadvantage of the entire world.
	<ul style="list-style-type: none"> <li>a) Greenhouse Gas Effect</li> <li>b) Land Erosion</li> <li>c) Tragedy of the Commons</li> <li>d) Degradation of Soil</li> </ul>
22	Deposit multiplier and money multiplier are not identical because:
	<ul style="list-style-type: none"> <li>a) Banks do not lend out all of their available money</li> <li>b) All borrowers do not spend every rupee</li> <li>c) Both a and b</li> <li>d) None of the above</li> </ul>
23	Scope of public finance includes:
	<ul style="list-style-type: none"> <li>a) Public revenue</li> <li>b) Public debt</li> <li>c) Public expenditure</li> <li>d) All of these</li> </ul>
24	A situation in which the economy is experiencing unemployment and inflation at the same time is known as?
	<ul style="list-style-type: none"> <li>a) Contagion</li> <li>b) Deflation</li> <li>c) Stagflation</li> <li>d) None of the above</li> </ul>

25	Inflation occurs whenever
	<ul style="list-style-type: none"> <li>a) Aggregate demand rises</li> <li>b) The price of any given commodity rises</li> <li>c) The average price of most goods and services rises</li> <li>d) The tax rate is lower than the government spending rate</li> </ul>
26	Which of the following is a measure of fiscal policy?
	<ul style="list-style-type: none"> <li>a) Public expenditure</li> <li>b) D.R.R.</li> <li>c) S.L.R</li> <li>d) Bank rate</li> </ul>
27	Education is an example of:
	<ul style="list-style-type: none"> <li>a) Public good</li> <li>b) Merit good</li> <li>c) Social good</li> <li>d) Club good</li> </ul>
28	Who is the father of Public Finance:
	<ul style="list-style-type: none"> <li>a) Dalton</li> <li>b) Pigou</li> <li>c) Smith</li> <li>d) Musgrave</li> </ul>
29	An expansionary fiscal policy is used for:
	<ul style="list-style-type: none"> <li>a) Reduction in inflation</li> <li>b) Increase in exports</li> <li>c) Appreciation of currency</li> <li>d) Close recessionary gap</li> </ul>
30	Which lag involves delays in bringing in legislation and implementing them?
	<ul style="list-style-type: none"> <li>a) Decision lag</li> <li>b) Impact lag</li> <li>c) Implementation lag</li> <li>d) Recognition lag</li> </ul>



31	What was the main objective of the Fiscal Responsibility and Budget Management Act, of 2003?
a) Achieve Fiscal Surplus b) Stop Money Laundering c) Eliminate Fiscal Deficit d) Eliminate Revenue deficit	
32	Which of the main objective of a tax?
a) Increase in consumption b) Increase in production c) Raising public revenue d) Reduction in capital formation	
33	The per capita income in country Y increased from INR 50,000 to INR 65,000 while the per capita consumption increased from INR 37,500 to INR 48,750. calculate the spending multiplier for this economy?
a) 5 b) 4 c) 2.5 d) 8	
34	When expenditure exceeds total tax revenue it is called:
a) Surplus budget b) Deficit budget c) Balance budget d) None of these	
35	Among the following canons of taxation which one has been given by Adam Smith?
a) Canon of Uniformity b) Canon of productivity c) Cannon of diversity d) Cannon of equity	

36	An increase in tax rate when the tax base expands represents
a) Progressive taxation b) Regressive taxation c) Proportional taxation d) None of these	
37	Which of the following act of government constitutes a Discretionary Fiscal Policy?
a) Unemployment Compensation b) Progressive taxation c) Change in slab rate of Income Tax d) Reduction in spending	
38	Positive economics means
a) Does not depend on market interactions b) Only looks at the best parts of the economy c) Examines how the economy works(as opposed to how it should work) d) Is very subjective	
39	Incidence of tax means
a) Direct money burden b) Indirect money burden c) Actual tax burden d) None of these	
40	Which concept involves a one-shot injection of government expenditure into a depressed economy with the aim of boosting business confidence and encouraging larger private investment?
a) Pump Priming b) Deficit Financing c) Compensatory spending d) Public Spending	

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41 The increase in cost of food, fuel and fertilizers in countries due to production of weapons in the war between Russia & Ukraine results in which type of externality?

- a) Positive Production Externality
- b) Negative Production Externality
- c) Positive consumption Externality
- d) Negative consumption Externality

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Answer Key – Ch 7 – ICAI Extra MCQs

1	B	11	D	21	C	31	C	41	B
2	D	12	C	22	C	32	C		
3	C	13	C	23	D	33	B		
4	A	14	C	24	C	34	B		
5	A	15	A	25	C	35	D		
6	D	16	A	26	A	36	A		
7	C	17	D	27	B	37	C		
8	A	18	A	28	D	38	C		
9	B	19	D	29	D	39	C		
10	D	20	D	30	C	40	A		

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CA Foundation – New Syllabus  
Business Economics

Chapter 7  
**PUBLIC FINANCE**

**ICAI SM MCQs**

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**UNIT 1**

**Basic**

ICAI SM

**1**     **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

ICAI SM

**2**     **Macroeconomic stabilization may be achieved through**

- a) Free market economy
- b) Fiscal policy
- c) Monetary policy
- d) (b) and (c) above

ICAI SM

**3**     **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

ICAI SM

**4**     **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.

ICAI SM

**5**     **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 in justice in distribution of income and wealth
- d) All the above



ICAI SM	
6	<p>Read the following statements:                      The market-generated allocation of resources is usually imperfect and leads to inefficient allocation of resources in the economy                      Market failures can at all times be corrected through government intervention                      Public goods will not be produced in sufficient quantities in a market economy                      Of the three statements above:</p>
<p>a) 1,2 and 3 are correct                      b) 1 and 3 are correct                      c) 2 and 3 are correct                      d) 3 alone is correct</p>	

ICAI SM	
7	<p>When a government offers unemployment benefits and also resorts to progressive taxation which function does it seem to fulfill?</p>
<p>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</p>	

ICAI SM	
8	<p>Government of Emeline Land decides to provide most modern road infrastructure throughout the nation. This can be classified as</p>
<p>a) Distribution function                      b) Allocation function                      c) Stabilization function                      d) None of the above</p>	

ICAI SM	
9	<p>Which function does the government perform when it provides transfer payments to offer support to the underprivileged</p>
<p>a) Allocation                      b) Efficiency                      c) Distribution                      d) None of the above</p>	

ICAI SM	
10	<p>Which of the following is true in respect of centre and state government finances?</p>
<p>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</p>	

ICAI SM	
11	<p>GST compensation is given to</p>
<p>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</p>	

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ICAI SM	
12	<p>Which of the following is true in respect of the role of Finance Commissions in India?                      The distribution between the union and the states of the net proceeds of taxes                      Allocation between the states of the respective shares of such proceeds.                      Make Recommendations on integrated GST on inter-state movement of goods and services                      To recommend expenditure decentralization among different states</p>
<p>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</p>	

ICAI SM	
13	<p>In a federal set up, the stabilization function can be effectively performed by</p>
<p>a) Respective state governments                      b) Ministry of taxes                      c) The government at the centre                      d) None of the above</p>	

ICAI SM	
14	<p>Which of the following is concerned with division of economic responsibilities between the central and state Government of India?</p>
<p>a) NITI Aayog                      b) central bank                      c) Finance Commission                      d) Parliament</p>	

ICAI SM	
15	<p>Fiscal Federalism refers to _____.</p>
<p>a) Organizing and implementing development plans                      b) Sharing of political power between centers and states                      c) The management of fiscal policy by a nation                      d) Division of economic functions and resources among different layers of the government</p>	

ICAI SM	
16	<p>Which one of the following taxes is levied by the state government only?</p>
<p>a) Corporation tax                      b) Wealth tax                      c) Income tax                      d) None of the above</p>	

ICAI SM	
17	<p>The percentage of share of states in central taxes for the period 2021-26 recommended by the Fifteenth Finance Commission is</p>
<p>a) 38 percent                      b) 41 percent                      c) 42 percent                      d) The commission has not submitted its report</p>	

ICAI SM	
18	<p>Which of the following is not a criterion for determining distribution of central taxes among states for 2021-26 period</p>
<p>a) Demographic performance                      b) Forest and ecology                      c) Infrastructure performance                      d) Tax and fiscal efforts</p>	



ICAI SM	
19	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	

ICAI SM	
20	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	

**Answer Key –Chapter 7 - ICAI SM MCQs (Unit – 1)**

1	B	6	B	11	C	16	D
2	D	7	B	12	A	17	B
3	B	8	B	13	C	18	C
4	C	9	C	14	C	19	B
5	D	10	B	15	D	20	B



**UNIT 2**

**Basic**

ICAI SM	
1	<b>'Market failure' is a situation which occurs when</b>
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	

ICAI SM	
2	<b>Which of the following is an example of market failure?</b>
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	

ICAI SM	
3	<b>Which of the following is an outcome of market power?</b>
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	

ICAI SM	
4	<b>Markets do not exist</b>
a) for goods which have positive externalities b) for pure public goods c) for goods which have negative externalities d) none of the above	

ICAI SM	
5	<b>Which of the following is the right argument for provision of public good by government?</b>
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	

ICAI SM	
6	<b>Adequate amount of a pure public good will not be provided by the private market because of</b>
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	



ICAI SM	
7	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

ICAI SM	
8	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

ICAI SM	
9	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

ICAI SM	
10	Smoking in public is a case of
	a) Negative consumption externality b) Negative production externality c) Internalising externality d) None of the above

ICAI SM	
11	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
	a) II and III are correct b) I only is correct c) II only is correct d) I and III are correct

ICAI SM	
12	Which of the following statements 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

ICAI SM	
13	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



ICAI SM	
14	<b>A Pigouvian subsidy</b>
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	

ICAI SM	
15	<b>If governments make it compulsory to avail insurance protection, it is because</b>
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	

ICAI SM	
16	<b>The Competition Act, 2002 aims to —</b>
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	

ICAI SM	
17	<b>Rules regarding product labelling</b>
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	

ICAI SM	
18	<b>Identify the incorrect statement</b>
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 internalized 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 minimized in the most cost-effective way.	

ICAI SM	
19	<b>The incentive to let other people pay for a good or service, the benefits of which are enjoyed by an individual</b>
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	



ICAI SM	
20	<b>A government subsidy</b>
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 the above	

ICAI SM	
21	<b>The production and consumption of demerit goods are</b>
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	

ICAI SM	
22	<b>The argument for education subsidy is based on</b>
a) Education is costly b) the ground that education is merit good c) education creates positive externalities d) b) and c) above	

ICAI SM	
23	<b>Read the following statements</b> 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 <b>Of the above</b>

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	
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ICAI SM	
24	<b>Government failure occurs when</b>
a) Government fails to implement its election promises on policies b) A government is unable to get reelected c) Government intervention is ineffective and produces fresh and more serious problems d) None of the above	

**Answer Key – Chapter 7 – ICAI SM MCQs (Unit – 2)**

1	C	6	A	11	D	16	B	21	D
2	B	7	C	12	C	17	C	22	D
3	C	8	A	13	C	18	C	23	B
4	B	9	B	14	D	19	C	24	C
5	C	10	A	15	C	20	D		

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**UNIT 3**

**Basic**

ICAI SM

1 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

Rs. Crores

Revenue receipts	20,000
Recovery of loans	1,500
Borrowing	15,000
Other Receipts	5,000
Expenditure on revenue account	24,500
Expenditure on capital account	26,000
Interest payments	2,000

ICAI SM

2 The revenue deficit for country A is

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

ICAI SM

3 Fiscal deficit of country A is

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

ICAI SM

4 Primary deficit of Country A is

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

ICAI SM

5 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

ICAI SM

6 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

ICAI SM

7 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



ICAI SM	
8	<b>The railway budget is</b>
	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

ICAI SM	
9	<b>Outcome budgeting</b>
	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

ICAI SM	
10	<b>Corporate tax</b>
	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

ICAI SM	
11	<b>Government borrowings from foreign governments and institutions</b>
	a) Capital receipt b) Revenue receipt c) Accounts for fiscal deficit d) Any of the above depending on the purpose of borrowing

**The following table relates to the revenue and expenditure figures of a hypothetical economy**  
In Rs. 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

ICAI SM	
12	<b>The capital receipts are</b>
	a) 23.5 b) 19.7 c) 11.3 d) None of the above

ICAI SM	
13	<b>Revenue deficit is</b>
	a) 23.6 b) 13.0 c) 7.0 d) 2.6



ICAI SM	
14	The non-debt capital receipts of this country is
a) 45.1 b) 16.7 c) 15.8 d) None of the above	

ICAI SM	
15	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 or budget deficit occurs d) All the above	

ICAI SM	
16	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	

ICAI SM	
17	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	

ICAI SM	
18	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	

ICAI SM	
19	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	

ICAI SM	
20	'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	

ICAI SM	
21	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	



ICAI SM	
22	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

ICAI SM	
23	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 creates any asset, nor reduces any liability of the government c) A capital expenditure because it increase the capital base of the states d) It is a grant and so does not come under revenue expenditure or capital expenditure.

ICAI SM	
24	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

**Answer Key - Chapter 7 - ICAI SM MCQs (Unit - 3)**

1	C	6	B	11	A	16	D	21	B
2	C	7	C	12	A	17	D	22	B
3	B	8	B	13	C	18	D	23	B
4	C	9	B	14	B	19	B	24	C
5	B	10	D	15	D	20	D		

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**UNIT 4**

**Basic**

ICAI SM	
1	Fiscal policy refers to the
<p>a) use of government spending, taxation and borrowing to influence the level of economic activity</p> <p>b) government activities related to use of government spending for supply of essential goods</p> <p>c) use of government spending, taxation and borrowing for reducing the fiscal deficits</p> <p>d) and (b) above</p>	

ICAI SM	
2	If real GDP is continuously declining and the rate of unemployment in the economy is increasing, the appropriate policy should be to
<p>a) Increase taxes and decrease government spending</p> <p>b) Decrease both taxes and government spending</p> <p>c) Decrease taxes and increase government spending</p> <p>d) Either (a) or (c)</p>	

ICAI SM	
3	Which of the following are likely to occur when an economy is in an expansionary phase of a business cycle?
<p>a) Rising unemployment rate</p> <p>b) Falling unemployment rate</p> <p>c) Rising inflation rate</p> <p>d) Deflation</p> <p>e) Falling or stagnant wage for workers</p> <p>f) Increasing tax revenue</p> <p>g) Falling tax revenue</p> <p>h) A, B and F are most likely to occur</p> <p>i) B, C and F are most likely to occur</p> <p>j) D, E and F are most likely to occur</p> <p>k) A, E and G are most likely to occur</p>	

ICAI SM	
4	During recession the fiscal policy of the government should be directed towards
<p>a) Increasing the taxes and reducing the aggregate demand</p> <p>b) Decreasing taxes to ensure higher disposable income</p> <p>c) Increasing government expenditure and increasing taxes</p> <p>d) None of the above</p>	

ICAI SM	
5	According to Keynesian economics, when we have inflation an effective fiscal policy should not include
<p>a) increase corporate taxes.</p> <p>b) decrease aggregate demand.</p> <p>c) Increase government purchases.</p> <p>d) None of the above is correct</p>	



ICAI SM	
6	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	

ICAI SM	
7	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	

ICAI SM	
8	A recession is characterized by
a) Declining prices and rising employment b) Declining unemployment and rising prices c) Declining real income and rising unemployment. d) Rising real income and rising prices	

ICAI SM	
9	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 the above	

ICAI SM	
10	Which of the following would illustrate a recognition lag?
a) The time required to identify the appropriate policy 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	

ICAI SM	
11	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	

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ICAI SM

12 Which statement (s) is (are) correct about crowding out?  
A decline in private spending may be partially or completely offset by the expansion of demand resulting from an increase in government expenditure.  
Crowding out effect is the negative effect fiscal policy may generate when money from the private sector is 'crowded out' to the public sector.  
When spending by government in an economy increases government spending would be crowded out.  
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

ICAI SM

13 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  
c) A tax cut along with increase in public expenditure  
d) All the above

ICAI SM

14 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.

15 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



ICAI SM	
16	<b>While resorting to expansionary fiscal policy</b>
<p>a) the government may possibly have a budget surplus as increased expenditure will bring more output and more tax revenue</p> <p>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</p> <p>c) it is important to have a balanced budget to avoid inflation and bring in stability</p> <p>d) None of the above will happen</p>	

ICAI SM	
17	<b>Contractionary fiscal policy</b>
<p>a) is resorted to when government expenditure is greater than tax revenues of any particular year</p> <p>b) increase the aggregate demand to sustain the economy</p> <p>c) to increase the disposable income of people through tax cuts and to enable greater demand</p> <p>d) is designed to restrain the levels of economic activity of the economy during an inflationary phase</p>	

ICAI SM	
18	<b>When government spending is deliberately reduced to bring in stability</b>
<p>a) the government is resorting to contractionary fiscal policy</p> <p>b) the government is resorting to expansionary fiscal policy</p> <p>c) trying to limit aggregate demand to sustainable levels</p> <p>d) (a) and c) above</p>	

ICAI SM	
19	<b>An increase in personal income taxes</b>
<p>a) reduces disposable incomes leading to fall in consumption spending and aggregate demand</p> <p>b) is desirable during inflation or when there is excessive levels of aggregate demand</p> <p>c) is to compensate the deficiency in effective demand by boosting aggregate spending</p> <p>d) both a) and b) are correct</p>	

ICAI SM	
20	<b>While the government resorts to deliberate fiscal policy it may not attempt to manipulate</b>
<p>a) Government expenditures on public works</p> <p>b) The rates of personal income taxes and corporate taxes</p> <p>c) Government expenditures on goods and services purchased by government</p> <p>d) The rate of interest prevailing in the economy</p>	

ICAI SM	
21	<b>Which of the following fiscal remedy would you advice when an economy is facing recession</b>
<p>a) the government may cut interest rates to encourage consumption and investment</p> <p>b) the government may cut taxes to increase aggregate demand</p> <p>c) the government may follow a policy of balanced the budget.</p> <p>d) None of the above will work</p>	



ICAI SM	
22	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.

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Answer Key - Chapter 7 - ICAI SM MCQs (Unit - 4)

1	A	6	D	11	A	16	B	21	B
2	C	7	A	12	C	17	D	22	D
3	B	8	C	13	D	18	D		
4	B	9	D	14	A	19	D		
5	C	10	C	15	B	20	D		

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CA Foundation – New Syllabus  
Business Economics

Chapter 7  
**PUBLIC FINANCE**

**MTP MCQs**

MCQ Compiler by MVSIR



<b>MTP Apr 24</b>	
<b>1</b>	<b>What was the main objective of the Management Act, of 2003? Responsibility and Budget</b>
a) Achieve fiscal surplus b) Stop Money laundering c) Eliminate fiscal deficit d) Eliminate revenue deficit	
<b>MTP Apr 24</b>	
<b>2</b>	<b>Contractionary fiscal policy can involve:</b>
a) Increasing consumption and investment and taxes. b) Decreasing government spending and increasing taxes. c) Increasing government spending and increasing taxes. d) None of the above	
<b>MTP Apr 24</b>	
<b>3</b>	<b>'who gave 'the Theory of Public Finance (1959)</b>
a) Adam smith b) Richard Musgrave c) A.C. Pigou d) Alfred marshall	
<b>MTP Apr 24</b>	
<b>4</b>	<b>The stabilization function is consumed with the performance of the aggregate economy in the term of-</b>
a) Overall output & income b) General price level c) Balance of international payments d) All of these	
<b>MTP Apr 24</b>	
<b>5</b>	<b>Which of the following is an example of market failure?</b>
a) Externalities b) Low prices c) Excess supply d) Excludable and rival goods.	

<b>MTP Apr 24</b>	
<b>6</b>	<b>Which of the following is NOT a conclusion about market allocations of commodities causing pollution externalities?</b>
a) The prices of products responsible for pollution are too high. b) The output of the commodity is too large. c) Recycling and reuse of the polluting substances are discouraged since release into the environment is so inefficiently cheap. d) Too much pollution is produced.	
<b>MTP Apr 24</b>	
<b>7</b>	<b>Which of the following is not an example of a policy designed to encourage competition?</b>
a) Deregulation b) Trade liberalization c) Reducing income tax d) Anti-monopoly regulations	
<b>MTP Apr 24</b>	
<b>8</b>	<b>Which of the following is an example of an automatic stabilizer in the budget?</b>
a) Discretionary spending b) Progressive taxation c) Infrastructure investment d) Unemployment benefits	
<b>MTP Apr 24</b>	
<b>9</b>	<b>Which of the following represents the total amount of money the government owes to external creditors and domestic lenders?</b>
a) National debt b) Budget surplus c) Fiscal deficit d) Revenue defircir	

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MTP Apr 24	
10	Which of the following is an example of an automatic stabilizer of in budget?
a) Discretionary spending b) Progressive taxation c) Infrastructure investment d) Unemployment benefits	

MTP Apr 24	
11	What is the primary goal of countercyclical fiscal policy in budgeting?
a) Maximizing government revenue. b) Stabilizing the economy during economic downturns. c) Minimizing government intervention. d) Reducing public debt.	

MTP Apr 24	
12	Public goods are characterized by:
a) Excludability and rivalry b) Excludability and non-rivalry c) Non-excludability and rivalry d) Non-excludability and non-rivalry	

MTP Apr 24	
13	Which of the following is a common solution to the problem of common resources being overused?
a) Government regulation b) Privatization c) Subsidies d) Free-market competition	

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**Answer Key - Chapter 7 - MTP MCQs**

1	C	6	A	11	B
2	B	7	C	12	D
3	B	8	D	13	A
4	D	9	A		
5	A	10	D		

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