CA Foundation

Part-II

Parctice Book

Paper-4: Business Economics

Part II: Macro Economics

Questions Book by-

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Chapter 6: Determination of National Income

1. **Question 1: What is one of the major limitations in the computation of national income in developing countries?**
   A) Overproduction of goods
   B) Presence of a non-monetised sector
   C) High inflation rates
   D) Lack of labor mobility
   Answer: B
   Solution: One major limitation in computing national income in developing countries is the presence of a non-monetised sector, which makes accurate data collection difficult.
2. **Question 2: Which of the following is NOT included in the GDP as per national income computation?**
   A) Transfer payments
   B) Government expenditure
   C) Private investment
   D) Net exports
   Answer: A
   Solution: Transfer payments are excluded from GDP because they are not payments for goods and services currently produced.
3. **Question 3: What does NDP stand for in national income computation?**
   A) National Development Plan
   B) Net Domestic Product
   C) Nominal Domestic Price
   D) National Debt Payment
   Answer: B
   Solution: NDP stands for Net Domestic Product, which is GDP minus depreciation.
4. **Question 4: What does the GDP deflator measure?**
   A) Changes in consumption patterns
   B) Current level of prices relative to the base year
   C) The rate of investment in the economy
   D) The amount of depreciation
   Answer: B
   Solution: The GDP deflator measures the current level of prices relative to the base year, helping to adjust nominal GDP to real GDP.
5. **Question 5: Which of the following is a component of national income but not part of personal income?**
   A) Salaries and wages
   B) Undistributed corporate profits
   C) Transfer payments
   D) Rental income
   Answer: B
   Solution: Undistributed corporate profits are part of national income but not personal income because they are retained by corporations.
6. **Question 6: What is the formula for Net National Product at Market Prices (NNPMP)?**
   A) NNPMP = GNPMP - Depreciation
   B) NNPMP = GDPMP + Depreciation
   C) NNPMP = GDPMP - Taxes

D) NNPMP = GNPMP + Taxes
Answer: A
Solution: NNPMP is calculated by subtracting depreciation from the Gross National Product at Market Prices (GNPMP).

7. Question 7: Which economic indicator measures the value of all final goods and services produced within a country's borders?
A) GNP
B) NNP
C) GDP
D) NDP
Answer: C
Solution: GDP (Gross Domestic Product) measures the value of all final goods and services produced within a country's borders.
8. Question 8: Which of these is an example of a positive externality?
A) Pollution from a factory
B) Traffic congestion
C) Vaccination programs
D) Crime rates
Answer: C
Solution: Vaccination programs are a positive externality because they benefit individuals beyond those directly vaccinated.
9. Question 9: What term refers to the income per person in a country?
A) Gross Domestic Product
B) Disposable Income
C) Per Capita Income
D) Personal Income
Answer: C
Solution: Per Capita Income refers to the average income per person in a country.
10. Question 10: Which function represents the relationship between aggregate consumption and aggregate disposable income?
A) Investment Function
B) Supply Function
C) Consumption Function
D) Multiplier Function
Answer: C
Solution: The Consumption Function represents the relationship between aggregate consumption and aggregate disposable income.
11. Question 11: What does the marginal propensity to consume (MPC) measure?
A) The total income in an economy
B) The proportion of income saved
C) The increase in consumption per unit increase in disposable income
D) The relationship between GDP and inflation
Answer: C
Solution: MPC measures the increase in consumption that occurs with an increase in disposable income.
12. Question 12: How is Gross National Product (GNP) calculated?
A) GNP = GDP + Net Factor Income from Abroad
B) GNP = NDP + Depreciation
C) GNP = GDP - Depreciation

D) GNP = NNP + Taxes
Answer: A
Solution: GNP is obtained by adding Net Factor Income from Abroad (NFIA) to GDP.

13. Question 13: Which of the following is excluded from GDP at market prices?
A) Government spending on defense
B) Salaries of public sector employees
C) Transfer payments
D) Investments in infrastructure
Answer: C
Solution: Transfer payments are excluded because they do not reflect payment for current goods and services.
14. Question 14: What is the relationship between Gross and Net Domestic Product?
A) Gross = Net + Depreciation
B) Gross = Net - Depreciation
C) Net = Gross + Depreciation
D) Net = Gross × Depreciation
Answer: A
Solution: Gross Domestic Product (GDP) is equal to Net Domestic Product (NDP) plus depreciation.
15. Question 15: What does the term "GDP at factor cost" refer to?
A) GDP at market prices minus depreciation
B) GDP at market prices minus net indirect taxes
C) GDP plus transfer payments
D) GDP minus salaries and wages
Answer: B
Solution: GDP at factor cost is calculated by subtracting net indirect taxes from GDP at market prices.
16. Question 16: Which economist is known for pioneering National Income Accounting?
A) John Maynard Keynes
B) Simon Kuznets
C) Adam Smith
D) Richard Musgrave
Answer: B
Solution: Simon Kuznets is known for pioneering National Income Accounting.
17. Question 17: What is the GDP deflator used for?
A) To calculate disposable income
B) To convert nominal GDP to real GDP
C) To measure aggregate demand
D) To assess the fiscal deficit
Answer: B
Solution: The GDP deflator is a price index used to convert nominal GDP to real GDP.
18. Question 18: Which of the following is a limitation of using GDP to measure welfare?
A) It includes transfer payments

B) It accounts for inflation accurately
C) It does not measure income distribution
D) It includes non-monetised sectors
Answer: C
Solution: GDP does not reflect how income is distributed among the population, which limits its use in measuring welfare.

19. Question 19: What is the formula for Disposable Personal Income (DI)?
A) DI = PI + Taxes
B) DI = PI - Personal Income Taxes
C) DI = GDP - Depreciation
D) DI = GNP + Net Factor Income
Answer: B
Solution: Disposable Personal Income is calculated as Personal Income (PI) minus personal income taxes.
20. Question 20: In the context of national income, what does "NFIA" stand for?
A) National Fiscal Investment Amount
B) Net Factor Income from Abroad
C) Nominal Fiscal Income Analysis
D) Net Financial Investment Analysis
Answer: B
Solution: NFIA stands for Net Factor Income from Abroad.
21. Question 21: If GDP at market price is ₹10,000 crore and depreciation is ₹500 crore, what is the Net Domestic Product (NDP)?
A) ₹9,000 crore
B) ₹9,500 crore
C) ₹10,500 crore
D) ₹10,000 crore
Answer: B
Solution: NDP = GDP - Depreciation = ₹10,000 crore - ₹500 crore = ₹9,500 crore.
22. Question 22: What is the formula for Net National Product at Factor Cost (NNPFC)?
A) NNPFC = NNPMP + Net Indirect Taxes
B) NNPFC = NDPFC + NFIA
C) NNPFC = GNPFC + Depreciation
D) NNPFC = GDPMP - Depreciation
Answer: B
Solution: NNPFC = NDPFC + Net Factor Income from Abroad (NFIA).
23. Question 23: If GNP at market prices is ₹12,000 crore and depreciation is ₹1,000 crore, what is the Net National Product at Market Prices (NNPMP)?
A) ₹11,000 crore
B) ₹13,000 crore
C) ₹12,000 crore
D) ₹10,000 crore
Answer: A
Solution: NNPMP = GNPMP - Depreciation = ₹12,000 crore - ₹1,000 crore = ₹11,000 crore.
24. Question 24: What is the significance of the consumption function C=a+bYC = a + bYC=a+bY?

A) It shows the relationship between total investment and output
B) It represents the relationship between consumption and disposable income
C) It measures aggregate supply in an economy
D) It calculates the fiscal deficit
Answer: B
Solution: The consumption function shows how consumption changes with disposable income.

25. Question 25: If the marginal propensity to consume (MPC) is 0.8, what is the marginal propensity to save (MPS)?
A) 0.2
B) 0.8
C) 1.0
D) 0.5
Answer: A
Solution: MPS = 1 - MPC = 1 - 0.8 = 0.2.
26. Question 26: If the investment multiplier is 4, what is the MPC?
A) 0.25
B) 0.5
C) 0.75
D) 1.0
Answer: C
Solution: Multiplier k=11−MPCk = \frac{1}{1 - MPC}k=1−MPC1; 4=11−MPC4 = \frac{1}{1 - MPC}4=1−MPC1; 1−MPC=0.251 - MPC = 0.251−MPC=0.25; MPC = 0.75.
27. Question 27: What happens to national income if planned savings exceed planned investment?
A) National income rises
B) National income falls
C) National income remains constant
D) National income doubles
Answer: B
Solution: When planned savings exceed planned investment, it leads to a reduction in national income due to lower demand.
28. Question 28: What does the term "leakages" refer to in the circular flow of income?
A) Increases in consumer spending
B) Withdrawals from the income flow
C) Increase in government expenditure
D) Increase in exports
Answer: B
Solution: Leakages refer to withdrawals from the income flow, such as savings, taxes, and imports.
29. Question 29: If national income (Y) is ₹5,000 crore, consumption (C) is ₹4,000 crore, what is the level of saving (S)?
A) ₹1,000 crore
B) ₹2,000 crore
C) ₹4,000 crore
D) ₹5,000 crore

Answer: A
Solution: Saving (S) = Y - C = ₹5,000 crore - ₹4,000 crore = ₹1,000 crore.

30. Question 30: What is the formula for the investment multiplier?
    A) k=1MPSk = \frac{1}{MPS}k=MPS1
    B) k=1MPCk = \frac{1}{MPC}k=MPC1
    C) k=11+MPCk = \frac{1}{1 + MPC}k=1+MPC1
    D) k=1MPC−MPSk = \frac{1}{MPC - MPS}k=MPC−MPS1
    Answer: A
    Solution: The investment multiplier kkk is calculated as k=1MPSk = \frac{1}{MPS}k=MPS1.
31. Question 31: If Net Factor Income from Abroad (NFIA) is ₹300 crore and GDPMP is ₹12,000 crore, what is the GNPMP?
    A) ₹11,700 crore
    B) ₹12,300 crore
    C) ₹12,000 crore
    D) ₹11,500 crore
    Answer: B
    Solution: GNPMP = GDPMP + NFIA = ₹12,000 crore + ₹300 crore = ₹12,300 crore.
32. Question 32: If Gross Domestic Product at Factor Cost (GDPFC) is ₹9,500 crore and Net Indirect Taxes are ₹500 crore, what is GDPMP?
    A) ₹9,000 crore
    B) ₹10,000 crore
    C) ₹9,500 crore
    D) ₹10,500 crore
    Answer: B
    Solution: GDPMP = GDPFC + Net Indirect Taxes = ₹9,500 crore + ₹500 crore = ₹10,000 crore.
33. Question 33: What does the aggregate demand function represent?
    A) Total planned expenditure in an economy
    B) Total supply of goods in an economy
    C) Total savings in an economy
    D) Total tax revenue collected
    Answer: A
    Solution: Aggregate demand represents the total planned expenditure on goods and services in an economy.
34. Question 34: If NDPFC is ₹8,000 crore and NFIA is ₹200 crore, what is the NNPFC?
    A) ₹7,800 crore
    B) ₹8,200 crore
    C) ₹8,000 crore
    D) ₹8,500 crore
    Answer: B
    Solution: NNPFC = NDPFC + NFIA = ₹8,000 crore + ₹200 crore = ₹8,200 crore.
35. Question 35: What does a deflationary gap indicate?
    A) Excess demand in the economy
    B) Deficient demand in the economy
    C) Rising inflation

D) Increase in exports
Answer: B
Solution: A deflationary gap occurs when aggregate demand is less than the full employment level of output, indicating deficient demand.

36. Question 36: If consumption (C) is given by C=200+0.8YC = 200 + 0.8YC=200+0.8Y and income (Y) is ₹2,000 crore, what is the consumption level?
A) ₹1,800 crore
B) ₹2,000 crore
C) ₹1,600 crore
D) ₹2,200 crore
Answer: A
Solution: C=200+0.8×2000=200+1600=₹1,800croreC = 200 + 0.8 \times 2000 = 200 + 1600 = ₹1,800 croreC=200+0.8×2000=200+1600=₹1,800crore.
37. Question 37: What does the term "autonomous consumption" refer to?
A) Consumption that depends on income
B) Consumption when income is zero
C) Total consumption expenditure
D) Planned investment
Answer: B
Solution: Autonomous consumption is the consumption expenditure that occurs even when income is zero.
38. Question 38: If the investment multiplier is 5, what is the MPS?
A) 0.2
B) 0.5
C) 0.8
D) 0.25
Answer: A
Solution: Multiplier k=1MPSk = \frac{1}{MPS}k=MPS1; 5=1MPS5 = \frac{1}{MPS}5=MPS1; MPS=0.2MPS = 0.2MPS=0.2.
39. Question 39: If disposable income increases by ₹1,000 crore and consumption increases by ₹750 crore, what is the MPC?
A) 0.25
B) 0.5
C) 0.75
D) 1.0
Answer: C
Solution: MPC = ΔCΔY\frac{\Delta C}{\Delta Y}ΔYΔC = 7501000\frac{750}{1000}1000750 = 0.75.
40. Question 40: What is the Keynesian multiplier formula?
A) k=11+MPCk = \frac{1}{1 + MPC}k=1+MPC1
B) k=11−MPCk = \frac{1}{1 - MPC}k=1−MPC1
C) k=1MPCk = \frac{1}{MPC}k=MPC1
D) k=MPC×MPSk = MPC \times MPSk=MPC×MPS
Answer: B
Solution: The Keynesian multiplier is k=11−MPCk = \frac{1}{1 - MPC}k=1−MPC1.
41. Question 41: What is Net Domestic Product (NDP) at Factor Cost?
A) NDPMP + Net Indirect Taxes
B) NDPMP - Net Indirect Taxes

C) GDPFC - Depreciation
D) GDPMP + Depreciation
Answer: B
Solution: NDPFC = NDPMP - Net Indirect Taxes.

42. Question 42: What does the 45-degree line in the Keynesian model represent?
    A) Aggregate demand exceeds aggregate supply
    B) Points where aggregate demand equals national income
    C) Consumption exceeds income
    D) Equilibrium investment level
    Answer: B
    Solution: The 45-degree line represents points where planned aggregate expenditure equals national income.
43. Question 43: If real GDP is ₹5,000 crore and the GDP deflator is 125, what is the nominal GDP?
    A) ₹4,000 crore
    B) ₹5,000 crore
    C) ₹6,250 crore
    D) ₹3,750 crore
    Answer: C
    Solution: Nominal GDP = Real GDP × (GDP Deflator / 100) = ₹5,000 crore × 1.25 = ₹6,250 crore.
44. Question 44: Which of the following represents injections in the circular flow of income?
    A) Taxes
    B) Imports
    C) Investments
    D) Savings
    Answer: C
    Solution: Injections are additions to the circular flow, such as investments, government spending, and exports.
45. Question 45: If GDPMP is ₹10,000 crore and NFIA is -₹500 crore, what is GNPMP?
    A) ₹9,500 crore
    B) ₹10,500 crore
    C) ₹10,000 crore
    D) ₹11,000 crore
    Answer: A
    Solution: GNPMP = GDPMP + NFIA = ₹10,000 crore - ₹500 crore = ₹9,500 crore.
46. Question 46: What is the significance of the GDP deflator?
    A) Measures fiscal deficit
    B) Measures changes in the price level
    C) Measures total national income
    D) Measures trade surplus
    Answer: B
    Solution: The GDP deflator measures changes in the overall price level.
47. Question 47: What is an example of a leakage in the economy?
    A) Investment
    B) Consumption

C) Savings
D) Government spending
Answer: C
Solution: Leakages include savings, taxes, and imports.

48. Question 48: If the MPC is 0.6, what is the multiplier?
A) 2.5
B) 1.6
C) 4
D) 1.4
Answer: A
Solution: Multiplier k=11−MPC=11−0.6=2.5k = \frac{1}{1 - MPC} = \frac{1}{1 - 0.6} = 2.5k=1−MPC1=1−0.61=2.5.

49. Question 49: What is the impact of a deflationary gap?
A) Rising prices
B) Falling demand and output
C) Increase in exports
D) Increase in national income
Answer: B
Solution: A deflationary gap leads to falling demand and lower output.

50. Question 50: What does Net National Disposable Income (NNDI) include?
A) Net National Income + Depreciation
B) Net National Income + Net Current Transfers from Abroad
C) GDP + Depreciation
D) GNP + Depreciation
Answer: B
Solution: NNDI = Net National Income + Net Current Transfers from Abroad.

51. Question 51: If investment is ₹500 crore and the multiplier is 4, what is the increase in income?
A) ₹2,000 crore
B) ₹1,000 crore
C) ₹500 crore
D) ₹250 crore
Answer: A
Solution: Increase in income = Investment × Multiplier = ₹500 crore × 4 = ₹2,000 crore.

52. Question 52: What is the circular flow of income in a two-sector model?
A) Households and government
B) Households and firms
C) Firms and foreign sector
D) Government and foreign sector
Answer: B
Solution: The two-sector model includes households and firms.

53. Question 53: What does autonomous investment refer to?
A) Investment that depends on income
B) Investment when savings are zero
C) Investment independent of income level
D) Government investment only
Answer: C

Solution: Autonomous investment is not influenced by changes in national income.

54. Question 54: What is the slope of the consumption function?
    A) MPC
    B) MPS
    C) Multiplier
    D) NFIA
    Answer: A
    Solution: The slope of the consumption function is the Marginal Propensity to Consume (MPC).
55. Question 55: If national income is ₹8,000 crore and consumption is ₹6,500 crore, what is saving?
    A) ₹1,500 crore
    B) ₹2,500 crore
    C) ₹6,000 crore
    D) ₹8,000 crore
    Answer: A
    Solution: Saving = National Income - Consumption = ₹8,000 crore - ₹6,500 crore = ₹1,500 crore.
56. Question 56: What does Net Factor Income from Abroad (NFIA) represent?
    A) The sum of domestic consumption
    B) The difference between income earned by nationals abroad and foreigners domestically
    C) The depreciation of capital goods
    D) Government taxes and subsidies
    Answer: B
    Solution: NFIA is the difference between income earned by nationals abroad and income earned by foreigners domestically.
57. Question 57: If GDPMP is ₹15,000 crore and net indirect taxes are ₹1,000 crore, what is GDPFC?
    A) ₹16,000 crore
    B) ₹15,000 crore
    C) ₹14,000 crore
    D) ₹13,000 crore
    Answer: C
    Solution: GDPFC = GDPMP - Net Indirect Taxes = ₹15,000 crore - ₹1,000 crore = ₹14,000 crore.
58. Question 58: What is the Keynesian assumption about MPC?
    A) MPC is always equal to 1
    B) 0 < MPC < 1
    C) MPC is always greater than 1
    D) MPC is negative
    Answer: B
    Solution: According to Keynes, MPC lies between 0 and 1.
59. Question 59: What is the formula for Gross National Disposable Income (GNDI)?
    A) GNPMP + Depreciation
    B) GDP + NFIA

C) GNI + Net Current Transfers from Abroad
D) NNPMP - Depreciation
Answer: C
Solution: GNDI = GNI + Net Current Transfers from Abroad.

60. Question 60: If GNPMP is ₹12,500 crore and depreciation is ₹1,500 crore, what is NNPMP?
A) ₹11,000 crore
B) ₹14,000 crore
C) ₹12,000 crore
D) ₹11,500 crore
Answer: D
Solution: NNPMP = GNPMP - Depreciation = ₹12,500 crore - ₹1,500 crore = ₹11,500 crore.
61. Question 61: What is the main purpose of the circular flow model?
A) To calculate tax rates
B) To illustrate how money flows between sectors in an economy
C) To measure government expenditure
D) To compute depreciation
Answer: B
Solution: The circular flow model shows how money flows between households, firms, and other sectors.
62. Question 62: In the two-sector model, what does the equilibrium condition state?
A) S = T
B) I = S
C) C = I
D) T = G
Answer: B
Solution: In the two-sector model, equilibrium occurs when planned savings (S) equals planned investment (I).
63. Question 63: If MPC is 0.9, what is the investment multiplier?
A) 10
B) 5
C) 9
D) 1.1
Answer: A
Solution: Multiplier k=11−MPC=11−0.9=10k = \frac{1}{1 - MPC} = \frac{1}{1 - 0.9} = 10k=1−MPC1=1−0.91=10.
64. Question 64: What happens when aggregate demand exceeds aggregate supply?
A) Deflationary gap
B) Recession
C) Inflationary gap
D) Balance of trade
Answer: C
Solution: An inflationary gap occurs when aggregate demand exceeds aggregate supply.

65. Question 65: What is the formula for Net Domestic Product at Factor Cost (NDPFC)?
    A) NDPMP + Net Indirect Taxes
    B) NDPMP - Net Indirect Taxes
    C) GDPMP - Depreciation
    D) GNPMP - NFIA
    Answer: B
    Solution: NDPFC = NDPMP - Net Indirect Taxes.
66. Question 66: If national income (Y) is ₹7,000 crore and savings (S) are ₹1,500 crore, what is consumption (C)?
    A) ₹8,500 crore
    B) ₹5,500 crore
    C) ₹7,000 crore
    D) ₹1,500 crore
    Answer: B
    Solution: C = Y - S = ₹7,000 crore - ₹1,500 crore = ₹5,500 crore.
67. Question 67: What does the investment function describe?
    A) Relationship between consumption and income
    B) Relationship between investment and interest rates
    C) Relationship between savings and consumption
    D) Relationship between taxes and government spending
    Answer: B
    Solution: The investment function describes the relationship between investment and interest rates.
68. Question 68: If the aggregate demand curve is below the 45-degree line, what does it indicate?
    A) Excess demand
    B) Deficient demand
    C) Inflationary gap
    D) Full employment
    Answer: B
    Solution: When aggregate demand is below the 45-degree line, it indicates deficient demand.
69. Question 69: What does GDP at basic price exclude?
    A) Indirect taxes
    B) Depreciation
    C) Transfer payments
    D) Subsidies
    Answer: A
    Solution: GDP at basic price excludes indirect taxes but includes production taxes.
70. Question 70: What is the formula for the average propensity to save (APS)?
    A) APS = CY\frac{C}{Y}YC
    B) APS = SY\frac{S}{Y}YS
    C) APS = IY\frac{I}{Y}YI
    D) APS = YS\frac{Y}{S}SY
    Answer: B
    Solution: APS = SY\frac{S}{Y}YS, where S is saving and Y is income.

71. Question 71: If disposable income (Yd) is ₹10,000 crore and the average propensity to consume (APC) is 0.8, what is the consumption (C)?
    A) ₹8,000 crore
    B) ₹2,000 crore
    C) ₹12,000 crore
    D) ₹10,800 crore
    Answer: A
    Solution: C=APC×Yd=0.8×10,000=₹8,000C = APC \times Yd = 0.8 \times 10,000 = ₹8,000C=APC×Yd=0.8×10,000=₹8,000 crore.
72. Question 72: What is the shape of the saving function?
    A) Downward sloping
    B) Horizontal
    C) Upward sloping
    D) Vertical
    Answer: C
    Solution: The saving function is upward sloping because saving increases with income.
73. Question 73: If GDPFC is ₹14,000 crore and depreciation is ₹2,000 crore, what is NDPFC?
    A) ₹12,000 crore
    B) ₹16,000 crore
    C) ₹14,000 crore
    D) ₹10,000 crore
    Answer: A
    Solution: NDPFC = GDPFC - Depreciation = ₹14,000 crore - ₹2,000 crore = ₹12,000 crore.
74. Question 74: What does the marginal propensity to save (MPS) measure?
    A) Total savings in an economy
    B) Increase in savings per unit increase in income
    C) Ratio of consumption to income
    D) Ratio of investment to GDP
    Answer: B
    Solution: MPS measures the increase in savings that occurs with an increase in disposable income.
75. Question 75: If consumption (C) is ₹4,500 crore and income (Y) is ₹6,000 crore, what is the APC?
    A) 0.25
    B) 0.5
    C) 0.75
    D) 1.5
    Answer: C
    Solution: APC = CY=4,5006,000=0.75\frac{C}{Y} = \frac{4,500}{6,000} = 0.75YC=6,0004,500=0.75.
76. Question 76: What does an inflationary gap cause?
    A) Increase in unemployment
    B) Deflation
    C) Demand-pull inflation
    D) Decrease in consumption

Answer: C
Solution: An inflationary gap leads to demand-pull inflation due to excessive demand.

77. **Question 77: What is the relationship between MPC and MPS?**
A) MPC + MPS = 0
B) MPC + MPS = 1
C) MPC - MPS = 1
D) MPC × MPS = 1
Answer: B
Solution: MPC + MPS = 1, since total income is either consumed or saved.
78. **Question 78: If investment increases by ₹500 crore and the multiplier is 3, what is the total increase in national income?**
A) ₹1,000 crore
B) ₹1,500 crore
C) ₹2,000 crore
D) ₹500 crore
Answer: B
Solution: Increase in income = Investment × Multiplier = ₹500 crore × 3 = ₹1,500 crore.
79. **Question 79: Which of the following best represents aggregate supply in a two-sector economy?**
A) C + I
B) C + S
C) S + T
D) C + G
Answer: B
Solution: In a two-sector economy, aggregate supply (AS) is represented by C + S.
80. **Question 80: What happens when planned investment equals planned saving?**
A) Economic growth stops
B) The economy is in equilibrium
C) Inflation increases
D) Exports fall
Answer: B
Solution: When planned investment equals planned saving, the economy is in equilibrium.
81. **Question 81: What is the primary focus of Keynesian theory?**
A) Supply-side economics
B) Fiscal policies for managing aggregate demand
C) Balance of trade
D) Monetary policy
Answer: B
Solution: Keynesian theory focuses on using fiscal policies to manage aggregate demand.
82. **Question 82: If MPC is 0.85, what is MPS?**
A) 0.25
B) 0.15
C) 0.85

D) 1.00
Answer: B
Solution: MPS = 1 - MPC = 1 - 0.85 = 0.15.

83. Question 83: What is the formula for personal income (PI)?
A) NI + Transfer Payments - Corporate Taxes
B) NI - Transfer Payments + Corporate Taxes
C) NI + Depreciation
D) NI + Indirect Taxes
Answer: A
Solution: PI = National Income (NI) + Transfer Payments - Corporate Taxes.
84. Question 84: What does a negative NFIA indicate?
A) Domestic income is higher than foreign income
B) Foreigners earned more domestically than nationals earned abroad
C) There is no depreciation
D) Exports are greater than imports
Answer: B
Solution: A negative NFIA means foreigners earned more in the domestic economy than nationals earned abroad.
85. Question 85: What is derived by subtracting depreciation from GDPMP?
A) GNPMP
B) NDPMP
C) NNPMP
D) NDPFC
Answer: B
Solution: NDPMP = GDPMP - Depreciation.
86. Question 86: What is the term for income generated within a country's borders, including foreign firms operating domestically?
A) Gross National Product (GNP)
B) Gross Domestic Product (GDP)
C) Net National Product (NNP)
D) Net Domestic Product (NDP)
Answer: B
Solution: GDP includes all income generated within a country's borders, regardless of the nationality of the producers.
87. Question 87: If GDPFC is ₹20,000 crore and Net Indirect Taxes are ₹2,000 crore, what is GDPMP?
A) ₹22,000 crore
B) ₹18,000 crore
C) ₹20,000 crore
D) ₹2,000 crore
Answer: A
Solution: GDPMP = GDPFC + Net Indirect Taxes = ₹20,000 crore + ₹2,000 crore = ₹22,000 crore.
88. Question 88: What does the "Paradox of Thrift" state?
A) Higher savings lead to higher investment
B) Increased savings can reduce total output
C) Increased consumption reduces investment
D) More savings increase national income

Answer: B
Solution: The Paradox of Thrift suggests that if everyone saves more, overall demand falls, reducing output and income.

89. Question 89: In the circular flow model, which sector is responsible for capital formation?
    A) Household sector
    B) Government sector
    C) Business sector
    D) Foreign sector
    Answer: C
    Solution: The business sector is responsible for capital formation through investment.
90. Question 90: What is the relationship between national income and per capita income?
    A) Per capita income = National Income × Population
    B) Per capita income = National Income / Population
    C) Per capita income = National Income - Population
    D) Per capita income = National Income + Population
    Answer: B
    Solution: Per capita income is calculated as National Income divided by the population.
91. Question 91: What is the main limitation of GDP as a measure of economic welfare?
    A) It includes illegal activities
    B) It does not account for environmental degradation
    C) It excludes production of goods
    D) It measures government deficit
    Answer: B
    Solution: GDP does not consider the negative effects of environmental degradation on welfare.
92. Question 92: If government expenditure is ₹4,000 crore, consumption is ₹10,000 crore, and investment is ₹3,000 crore, what is the aggregate demand?
    A) ₹13,000 crore
    B) ₹17,000 crore
    C) ₹7,000 crore
    D) ₹10,000 crore
    Answer: B
    Solution: Aggregate Demand = C + I + G = ₹10,000 crore + ₹3,000 crore + ₹4,000 crore = ₹17,000 crore.
93. Question 93: Which component of aggregate demand includes household spending on goods and services?
    A) Investment
    B) Consumption
    C) Government Spending
    D) Net Exports
    Answer: B
    Solution: Consumption includes household spending on goods and services.

94. Question 94: What does the term "double counting" refer to in national income accounting?
A) Counting imports twice
B) Counting the same output more than once
C) Counting transfer payments
D) Counting government spending twice
Answer: B
Solution: Double counting refers to including the same output multiple times, inflating GDP.
95. Question 95: What is the formula for calculating Real GDP?
A) Nominal GDP × Inflation Rate
B) Nominal GDP / GDP Deflator × 100
C) Nominal GDP + Depreciation
D) Nominal GDP × Net Factor Income
Answer: B
Solution: Real GDP = Nominal GDP / GDP Deflator × 100.
96. Question 96: What does autonomous consumption represent?
A) Consumption related to income changes
B) Consumption when income is zero
C) Total consumption expenditure
D) Future consumption
Answer: B
Solution: Autonomous consumption is the baseline level of consumption when income is zero.
97. Question 97: Which sector is included in a four-sector economy model?
A) Household, Business, Government, and Foreign Sector
B) Household, Agriculture, Business, and Government
C) Business, Government, Retail, and Export
D) Household, Business, Services, and Government
Answer: A
Solution: The four-sector model includes households, businesses, government, and the foreign sector.
98. Question 98: What happens to national income when there is a balanced budget multiplier effect?
A) National income decreases
B) National income remains unchanged
C) National income increases by the same amount as government spending
D) National income doubles
Answer: C
Solution: The balanced budget multiplier means national income increases by the amount of government spending.
99. Question 99: Which of the following is not part of national income?
A) Salaries and wages
B) Corporate profits
C) Transfer payments
D) Rental income
Answer: C

Solution: Transfer payments are not part of national income since they are not payments for productive services.

100. **Question 100: What does the term "inventory investment" refer to?**

A) Investment in fixed assets
B) Change in the stock of unsold goods
C) Government infrastructure spending
D) Household savings
Answer: B
Solution: Inventory investment refers to the change in the stock of unsold goods held by businesses.

Chapter 7: Public Finance

1. **Question 1: What are the three main macroeconomic goals for any nation?**
   A) Taxation, Employment, Inflation Control
   B) Economic Growth, Price Stability, Full Employment
   C) Exports, Imports, Government Spending
   D) Budget Surplus, Deficit Financing, Trade Balance
   Answer: B
   Solution: The three main macroeconomic goals are Economic Growth, Price Stability, and Full Employment.
2. **Question 2: What is the primary role of public finance in an economy?**
   A) Increase private investments
   B) Manage government expenditure and revenue
   C) Increase foreign trade
   D) Control monetary supply
   Answer: B
   Solution: Public finance deals with the management of government expenditure, revenue, and debt.
3. **Question 3: What is fiscal policy?**
   A) Policy related to money supply
   B) Policy related to government spending and taxation
   C) Policy related to interest rates
   D) Policy related to trade restrictions
   Answer: B
   Solution: Fiscal policy involves government spending and taxation to influence the economy.
4. **Question 4: Which of the following is a tool of fiscal policy?**
   A) Open market operations
   B) Taxation
   C) Foreign exchange rates
   D) Reserve requirements
   Answer: B
   Solution: Taxation is a key tool used in fiscal policy to manage economic activity.
5. **Question 5: What is a budget deficit?**
   A) When government spending equals government revenue
   B) When government revenue exceeds government spending
   C) When government spending exceeds government revenue
   D) When tax rates are reduced
   Answer: C

Solution: A budget deficit occurs when government spending exceeds its revenue.

6. Question 6: What is the primary objective of a progressive tax system?
   A) To increase indirect taxes
   B) To reduce tax rates for everyone
   C) To ensure higher-income individuals pay a higher tax rate
   D) To promote inflation
   Answer: C
   Solution: A progressive tax system imposes higher tax rates on higher-income earners.
7. Question 7: Which of the following is a direct tax?
   A) Sales tax
   B) Excise duty
   C) Income tax
   D) Customs duty
   Answer: C
   Solution: Income tax is a direct tax levied directly on individuals' income.
8. Question 8: What is the term for government revenue collected from taxes on goods and services?
   A) Direct taxes
   B) Indirect taxes
   C) Capital gains tax
   D) Corporate tax
   Answer: B
   Solution: Indirect taxes are levied on goods and services, such as sales tax and VAT.
9. Question 9: What does a balanced budget imply?
   A) Expenditure exceeds revenue
   B) Revenue exceeds expenditure
   C) Revenue equals expenditure
   D) No government spending
   Answer: C
   Solution: A balanced budget occurs when government revenue equals government expenditure.
10. Question 10: What is the purpose of deficit financing?
    A) To decrease government spending
    B) To finance public projects during economic downturns
    C) To reduce inflation
    D) To increase tax revenue
    Answer: B
    Solution: Deficit financing is used to stimulate the economy by funding public projects during downturns.
11. Question 11: What is the primary source of revenue for the central government in India?
    A) Corporate tax
    B) Property tax
    C) Import duties
    D) Sales tax

Answer: A
Solution: Corporate tax is a major source of revenue for the central government.

12. Question 12: Which type of tax is levied on the production of goods within a country?
A) Import duty
B) Excise duty
C) Income tax
D) Capital gains tax
Answer: B
Solution: Excise duty is a tax on the production of goods within the country.
13. Question 13: What is the fiscal deficit?
A) Total revenue minus total expenditure
B) The difference between government expenditure and total revenue excluding borrowings
C) Total expenditure minus borrowings
D) Total revenue plus borrowings
Answer: B
Solution: Fiscal deficit is the difference between government expenditure and total revenue excluding borrowings.
14. Question 14: What is public debt?
A) Debt owed by private companies
B) The total amount of money borrowed by the government
C) Revenue collected by the government
D) Income earned by citizens abroad
Answer: B
Solution: Public debt refers to the total amount borrowed by the government to meet its expenditures.
15. Question 15: Which of the following is a feature of a regressive tax system?
A) Higher rates for higher incomes
B) Equal tax rates for all income levels
C) Higher rates for lower incomes
D) No tax on capital gains
Answer: C
Solution: In a regressive tax system, lower-income individuals pay a higher proportion of their income in taxes.
16. Question 16: What is the Goods and Services Tax (GST) in India?
A) A direct tax on income
B) An indirect tax levied on the sale of goods and services
C) A tax on imports
D) A tax on corporate profits
Answer: B
Solution: GST is an indirect tax applied to the sale of goods and services.
17. Question 17: What is a capital expenditure?
A) Day-to-day operational spending
B) Expenditure on salaries
C) Spending on infrastructure and asset creation
D) Spending on public welfare schemes

Answer: C
Solution: Capital expenditure refers to spending on infrastructure and long-term asset creation.

18. Question 18: What is the primary goal of public expenditure?
    A) Increase inflation
    B) Provide public goods and services
    C) Reduce exports
    D) Increase private sector profits
    Answer: B
    Solution: Public expenditure aims to provide essential public goods and services.
19. Question 19: What is the consequence of excessive fiscal deficit?
    A) Decrease in public spending
    B) Increase in national debt
    C) Increase in private investments
    D) Decrease in tax revenue
    Answer: B
    Solution: Excessive fiscal deficits lead to increased national debt.
20. Question 20: Which type of expenditure is related to the routine functioning of the government?
    A) Capital expenditure
    B) Development expenditure
    C) Revenue expenditure
    D) Deficit financing
    Answer: C
    Solution: Revenue expenditure covers the routine functioning of the government.
21. Question 21: If total government expenditure is ₹5,000 crore and total revenue is ₹3,500 crore, what is the fiscal deficit?
    A) ₹1,000 crore
    B) ₹1,500 crore
    C) ₹2,500 crore
    D) ₹5,000 crore
    Answer: B
    Solution: Fiscal deficit = Government expenditure - Total revenue = ₹5,000 crore - ₹3,500 crore = ₹1,500 crore.
22. Question 22: What is the main objective of deficit financing?
    A) To control inflation
    B) To stimulate economic growth during a recession
    C) To reduce public debt
    D) To increase direct taxes
    Answer: B
    Solution: Deficit financing is used to boost economic growth during a recession by increasing government spending.
23. Question 23: What is the difference between capital receipts and revenue receipts?
    A) Capital receipts are short-term; revenue receipts are long-term
    B) Capital receipts are from taxes; revenue receipts are from loans

C) Capital receipts create liabilities; revenue receipts do not
D) Revenue receipts are always higher than capital receipts
Answer: C
Solution: Capital receipts create liabilities or reduce assets, while revenue receipts do not.

24. Question 24: Which of the following is an example of revenue expenditure?
A) Construction of highways
B) Salaries of government employees
C) Purchase of new machinery
D) Investment in public sector enterprises
Answer: B
Solution: Revenue expenditure includes recurring expenses like salaries of government employees.
25. Question 25: If direct tax revenue is ₹2,000 crore and indirect tax revenue is ₹1,500 crore, what is the total tax revenue?
A) ₹3,500 crore
B) ₹500 crore
C) ₹1,500 crore
D) ₹2,000 crore
Answer: A
Solution: Total tax revenue = Direct tax + Indirect tax = ₹2,000 crore + ₹1,500 crore = ₹3,500 crore.
26. Question 26: What does a primary deficit indicate?
A) Fiscal deficit minus interest payments
B) Total revenue minus expenditure
C) Total debt minus borrowings
D) Fiscal deficit plus interest payments
Answer: A
Solution: Primary deficit = Fiscal deficit - Interest payments.
27. Question 27: What is the role of the Finance Commission in India?
A) Manage monetary policy
B) Recommend distribution of taxes between Centre and States
C) Control inflation
D) Regulate stock markets
Answer: B
Solution: The Finance Commission recommends the distribution of taxes between the Centre and the States.
28. Question 28: What is the objective of a counter-cyclical fiscal policy?
A) To increase inflation
B) To stabilize economic fluctuations
C) To reduce public spending
D) To boost exports
Answer: B
Solution: A counter-cyclical fiscal policy aims to stabilize economic fluctuations by increasing spending during recessions and reducing it during booms.
29. Question 29: What is the full form of FRBM Act?
A) Fiscal Revenue and Borrowing Management Act

B) Fiscal Responsibility and Budget Management Act
C) Financial Regulation and Borrowing Management Act
D) Fiscal Regulation and Budget Monitoring Act
Answer: B
Solution: FRBM stands for Fiscal Responsibility and Budget Management Act.

30. Question 30: If government borrowing is ₹2,000 crore and interest payments are ₹500 crore, what is the primary deficit?
A) ₹1,500 crore
B) ₹2,500 crore
C) ₹500 crore
D) ₹2,000 crore
Answer: A
Solution: Primary deficit = Borrowing - Interest payments = ₹2,000 crore - ₹500 crore = ₹1,500 crore.
31. Question 31: Which of the following is NOT a component of public finance?
A) Government expenditure
B) Public revenue
C) Private sector investments
D) Public debt
Answer: C
Solution: Public finance deals with government expenditure, public revenue, and public debt, not private sector investments.
32. Question 32: What is the purpose of a public budget?
A) To reduce inflation
B) To estimate government income and expenditure
C) To measure national income
D) To control stock markets
Answer: B
Solution: A public budget is a financial statement estimating government income and expenditure for a specific period.
33. Question 33: What are transfer payments?
A) Payments for infrastructure projects
B) Payments made without receiving goods or services in return
C) Payments for export promotion
D) Payments for public employment schemes
Answer: B
Solution: Transfer payments are government payments where no goods or services are received in return, e.g., pensions, subsidies.
34. Question 34: If a government runs a budget surplus, what does it imply?
A) Expenditure equals revenue
B) Revenue exceeds expenditure
C) Expenditure exceeds revenue
D) Government borrowing increases
Answer: B
Solution: A budget surplus occurs when government revenue exceeds expenditure.
35. Question 35: Which of the following is an example of non-tax revenue?
A) Corporate tax

B) Excise duty
C) Interest on government loans
D) Income tax
Answer: C
Solution: Non-tax revenue includes sources like interest on loans, dividends, and fees.

36. Question 36: What is a proportional tax system?
A) Higher income, higher tax rate
B) Same tax rate for all income levels
C) Lower income, higher tax rate
D) No tax on capital gains
Answer: B
Solution: In a proportional tax system, all income levels are taxed at the same rate.
37. Question 37: What is the main aim of a contractionary fiscal policy?
A) Increase government spending
B) Increase inflation
C) Reduce aggregate demand
D) Boost exports
Answer: C
Solution: Contractionary fiscal policy aims to reduce aggregate demand by decreasing spending or increasing taxes.
38. Question 38: If government expenditure is ₹7,000 crore and total receipts are ₹5,000 crore, what is the budget deficit?
A) ₹2,000 crore
B) ₹12,000 crore
C) ₹5,000 crore
D) ₹7,000 crore
Answer: A
Solution: Budget deficit = Expenditure - Receipts = ₹7,000 crore - ₹5,000 crore = ₹2,000 crore.
39. Question 39: What is meant by "crowding out" in public finance?
A) Private investment increases due to public spending
B) Private investment decreases due to high public spending
C) Government borrowing reduces
D) Tax revenue increases
Answer: B
Solution: Crowding out occurs when high public spending reduces private investment by raising interest rates.
40. Question 40: What are the two components of the government's capital receipts?
A) Direct taxes and indirect taxes
B) Borrowings and disinvestment proceeds
C) Subsidies and interest payments
D) Transfer payments and fees
Answer: B
Solution: Capital receipts include borrowings and proceeds from disinvestment.

41. **Question 41: What is the meaning of public goods?**
A) Goods consumed by private individuals
B) Goods that are non-excludable and non-rivalrous
C) Goods for export only
D) Goods produced by private companies
Answer: B
Solution: Public goods are non-excludable and non-rivalrous, like national defense and street lighting.
42. **Question 42: What does the term "fiscal consolidation" refer to?**
A) Reducing the fiscal deficit and debt levels
B) Increasing government spending
C) Expanding public borrowing
D) Lowering tax rates
Answer: A
Solution: Fiscal consolidation aims to reduce fiscal deficits and debt levels over time.
43. **Question 43: What is the primary purpose of public borrowing?**
A) To increase foreign investments
B) To meet the shortfall in government expenditure
C) To reduce inflation
D) To promote exports
Answer: B
Solution: Public borrowing helps the government finance deficits and meet expenditure needs.
44. **Question 44: What is the term for government spending designed to boost economic activity during a recession?**
A) Contractionary policy
B) Expansionary fiscal policy
C) Monetary policy
D) Trade policy
Answer: B
Solution: Expansionary fiscal policy increases government spending to boost economic activity.
45. **Question 45: What is a zero-based budget?**
A) Budgeting with zero deficits
B) Preparing a budget from scratch each year
C) Budgeting only for capital expenditure
D) Budget with no taxes
Answer: B
Solution: Zero-based budgeting involves preparing a budget from scratch, evaluating all expenses each year.
46. **Question 46: If the primary deficit is ₹3,000 crore and interest payments are ₹1,000 crore, what is the fiscal deficit?**
A) ₹2,000 crore
B) ₹4,000 crore
C) ₹1,000 crore
D) ₹3,000 crore
Answer: B

Solution: Fiscal deficit = Primary deficit + Interest payments = ₹3,000 crore + ₹1,000 crore = ₹4,000 crore.

47. Question 47: What is the impact of increasing direct taxes on consumption?
A) Consumption increases
B) Consumption decreases
C) No impact on consumption
D) Consumption doubles
Answer: B
Solution: Increasing direct taxes reduces disposable income, thereby decreasing consumption.
48. Question 48: What is the function of a budgetary policy?
A) To manage the money supply
B) To allocate resources and manage government finances
C) To control inflation through interest rates
D) To regulate stock markets
Answer: B
Solution: Budgetary policy involves the allocation of resources and managing government finances.
49. Question 49: What is "deflationary fiscal policy"?
A) Policy to reduce inflation
B) Policy to increase government borrowing
C) Policy to reduce public spending and increase taxes
D) Policy to reduce exports
Answer: C
Solution: Deflationary fiscal policy reduces public spending and increases taxes to curb inflation.
50. Question 50: Which type of deficit excludes interest payments?
A) Budget deficit
B) Revenue deficit
C) Primary deficit
D) Fiscal deficit
Answer: C
Solution: The primary deficit is the fiscal deficit excluding interest payments.
51. Question 51: If a government borrows ₹4,000 crore and repays ₹1,000 crore of old debt, what is the net borrowing?
A) ₹3,000 crore
B) ₹4,000 crore
C) ₹5,000 crore
D) ₹1,000 crore
Answer: A
Solution: Net borrowing = New borrowing - Debt repayment = ₹4,000 crore - ₹1,000 crore = ₹3,000 crore.
52. Question 52: What is the main purpose of a stabilisation policy?
A) Achieve a budget surplus
B) Maintain economic stability by reducing fluctuations
C) Increase public debt
D) Promote exports
Answer: B

Solution: Stabilisation policy aims to reduce economic fluctuations and maintain stability.

53. **Question 53: What does revenue deficit indicate?**
    A) Excess of capital expenditure over revenue receipts
    B) Excess of revenue expenditure over revenue receipts
    C) Excess of borrowings over tax revenue
    D) Excess of imports over exports
    Answer: B
    Solution: Revenue deficit occurs when revenue expenditure exceeds revenue receipts.
54. **Question 54: What is an example of a merit good?**
    A) Luxury car
    B) Public park
    C) Education
    D) Cigarettes
    Answer: C
    Solution: Merit goods, like education, provide benefits to society and are often subsidized by the government.
55. **Question 55: What is the main purpose of a supplementary budget?**
    A) To present the main budget
    B) To provide additional funds when the initial budget is insufficient
    C) To reduce fiscal deficit
    D) To finance exports
    Answer: B
    Solution: A supplementary budget allocates additional funds when the original budget allocation is insufficient.
56. **Question 56: If the revenue deficit is ₹2,000 crore and fiscal deficit is ₹5,000 crore, what is the capital deficit?**
    A) ₹3,000 crore
    B) ₹7,000 crore
    C) ₹2,000 crore
    D) ₹5,000 crore
    Answer: A
    Solution: Capital deficit = Fiscal deficit - Revenue deficit = ₹5,000 crore - ₹2,000 crore = ₹3,000 crore.
57. **Question 57: Which type of tax discourages the consumption of harmful goods?**
    A) Corporate tax
    B) Excise duty
    C) Income tax
    D) Customs duty
    Answer: B
    Solution: Excise duty on harmful goods (like tobacco) discourages their consumption.
58. **Question 58: What does "fiscal drag" refer to?**
    A) Increase in government borrowing
    B) Reduction in tax revenue
    C) Inflation pushing taxpayers into higher tax brackets

D) Increase in public spending
Answer: C
Solution: Fiscal drag occurs when inflation pushes taxpayers into higher tax brackets, increasing tax burdens.

59. Question 59: What is the purpose of disinvestment?
A) To increase fiscal deficit
B) To reduce government ownership in public sector enterprises
C) To increase government spending
D) To control inflation
Answer: B
Solution: Disinvestment reduces government ownership in public sector enterprises by selling shares.
60. Question 60: If GDP is ₹20,000 crore and tax revenue is 10% of GDP, what is the tax revenue?
A) ₹1,000 crore
B) ₹2,000 crore
C) ₹4,000 crore
D) ₹5,000 crore
Answer: B
Solution: Tax revenue = 10% of ₹20,000 crore = ₹2,000 crore.
61. Question 61: What is the objective of a budgetary surplus?
A) Increase public spending
B) Reduce national debt
C) Increase fiscal deficit
D) Increase inflation
Answer: B
Solution: A budget surplus helps reduce national debt by saving excess revenue.
62. Question 62: Which of the following is an example of deficit financing?
A) Increasing taxes
B) Printing more currency to finance expenditure
C) Reducing government spending
D) Increasing exports
Answer: B
Solution: Deficit financing involves printing more currency or borrowing to finance expenditure.
63. Question 63: What is the term for taxes that are easy to collect and administer?
A) Direct taxes
B) Indirect taxes
C) Progressive taxes
D) Efficient taxes
Answer: B
Solution: Indirect taxes like GST are easier to collect and administer compared to direct taxes.
64. Question 64: What is the primary objective of public expenditure in a developing economy?
A) Control inflation
B) Promote economic growth and development

C) Reduce public debt
D) Increase imports
Answer: B
Solution: Public expenditure in a developing economy aims to promote growth and development.

65. Question 65: What is "deficit monetization"?
A) Financing deficit by printing money
B) Borrowing from international agencies
C) Increasing exports to reduce deficit
D) Reducing government spending
Answer: A
Solution: Deficit monetization is financing a deficit by printing new money.
66. Question 66: What is the primary function of the Comptroller and Auditor General (CAG)?
A) Formulate fiscal policy
B) Audit government receipts and expenditure
C) Collect taxes
D) Regulate stock markets
Answer: B
Solution: The CAG audits government receipts and expenditures to ensure accountability.
67. Question 67: Which type of fiscal policy is used to combat inflation?
A) Expansionary fiscal policy
B) Contractionary fiscal policy
C) Neutral fiscal policy
D) Counter-cyclical fiscal policy
Answer: B
Solution: Contractionary fiscal policy reduces spending or increases taxes to combat inflation.
68. Question 68: What is a "vote on account"?
A) Approval for long-term expenditure
B) Approval for government expenditure for a short period
C) Approval for tax increases
D) Approval for deficit financing
Answer: B
Solution: A vote on account approves government spending for a short period until the full budget is passed.
69. Question 69: What is the difference between gross fiscal deficit and net fiscal deficit?
A) Net fiscal deficit includes interest payments
B) Gross fiscal deficit excludes interest payments
C) Net fiscal deficit accounts for grants-in-aid
D) Gross fiscal deficit includes borrowings
Answer: C
Solution: Net fiscal deficit accounts for grants-in-aid, while gross fiscal deficit does not.
70. Question 70: What is the term for government policies that aim to reduce income inequality?

A) Contractionary policies
B) Redistributive policies
C) Expansionary policies
D) Monetary policies
Answer: B
Solution: Redistributive policies aim to reduce income inequality through taxation and welfare programs.

71. Question 71: What is the impact of a rise in public debt?
A) Reduction in national savings
B) Increase in private investments
C) Decrease in interest rates
D) Decrease in fiscal deficit
Answer: A
Solution: A rise in public debt reduces national savings because more resources are diverted to repay debt.
72. Question 72: If interest payments are ₹1,500 crore and the fiscal deficit is ₹6,000 crore, what is the primary deficit?
A) ₹7,500 crore
B) ₹4,500 crore
C) ₹6,000 crore
D) ₹1,500 crore
Answer: B
Solution: Primary deficit = Fiscal deficit - Interest payments = ₹6,000 crore - ₹1,500 crore = ₹4,500 crore.
73. Question 73: Which type of budget aims to reduce economic inequality?
A) Balanced budget
B) Surplus budget
C) Deficit budget
D) Welfare budget
Answer: D
Solution: A welfare budget allocates resources to reduce economic inequality through social programs.
74. Question 74: What does an increase in indirect taxes lead to?
A) Increase in disposable income
B) Decrease in prices
C) Increase in the cost of goods and services
D) Reduction in fiscal deficit
Answer: C
Solution: Indirect taxes increase the cost of goods and services, leading to higher prices.
75. Question 75: If government expenditure increases by ₹2,000 crore and the multiplier is 3, what is the total increase in national income?
A) ₹6,000 crore
B) ₹2,000 crore
C) ₹1,500 crore
D) ₹4,000 crore
Answer: A

Solution: Increase in national income = Government expenditure × Multiplier = ₹2,000 crore × 3 = ₹6,000 crore.

76. Question 76: What is "fiscal stimulus"?
    A) Reducing government spending
    B) Increasing taxes to control inflation
    C) Increasing public spending or reducing taxes to boost the economy
    D) Reducing interest rates
    Answer: C
    Solution: Fiscal stimulus involves increasing public spending or reducing taxes to stimulate economic growth.
77. Question 77: What is the difference between public goods and private goods?
    A) Public goods are excludable; private goods are non-excludable
    B) Public goods are non-excludable; private goods are excludable
    C) Both are excludable
    D) Both are non-excludable
    Answer: B
    Solution: Public goods are non-excludable and non-rivalrous, while private goods are excludable and rivalrous.
78. Question 78: What is meant by "automatic stabilizers" in fiscal policy?
    A) Tools that require legislative approval
    B) Policies that automatically adjust to economic changes
    C) Fixed government spending programs
    D) Tax policies that increase deficits
    Answer: B
    Solution: Automatic stabilizers are policies like taxes and unemployment benefits that automatically respond to economic changes.
79. Question 79: What is the formula for calculating the debt-to-GDP ratio?
    A) (Total Debt / Total Revenue) × 100
    B) (Total Debt / GDP) × 100
    C) (GDP / Total Debt) × 100
    D) (Total Revenue / GDP) × 100
    Answer: B
    Solution: Debt-to-GDP ratio = (Total Debt / GDP) × 100.
80. Question 80: If the government reduces subsidies, what is the likely impact on the fiscal deficit?
    A) Fiscal deficit increases
    B) Fiscal deficit decreases
    C) No change in fiscal deficit
    D) Fiscal deficit becomes zero
    Answer: B
    Solution: Reducing subsidies lowers government expenditure, which helps decrease the fiscal deficit.
81. Question 81: What is "deficit financing" commonly used for in developing economies?
    A) Reducing imports
    B) Financing infrastructure projects
    C) Increasing public savings
    D) Controlling inflation

Answer: B
Solution: Deficit financing is used to fund infrastructure projects and stimulate economic growth.

82. **Question 82: What is a major disadvantage of high public debt?**
    A) Increase in government revenue
    B) Increase in future tax burdens
    C) Decrease in interest payments
    D) Increase in national savings
    Answer: B
    Solution: High public debt leads to higher future tax burdens to repay the debt and interest.
83. **Question 83: What is the primary role of taxation in public finance?**
    A) To reduce government expenditure
    B) To generate revenue for public services
    C) To increase imports
    D) To promote private investment
    Answer: B
    Solution: Taxation generates revenue to fund public services and government operations.
84. **Question 84: Which tax is levied on the profits of companies?**
    A) Excise duty
    B) Corporate tax
    C) Income tax
    D) Property tax
    Answer: B
    Solution: Corporate tax is levied on the profits of companies.
85. **Question 85: What is a "budget estimate"?**
    A) Actual government expenditure
    B) Forecast of government revenue and expenditure
    C) Total national income
    D) Total public debt
    Answer: B
    Solution: A budget estimate is a forecast of government revenue and expenditure for the upcoming year.
86. **Question 86: What happens to national income when the government increases capital expenditure?**
    A) National income decreases
    B) National income increases
    C) No change in national income
    D) National income becomes negative
    Answer: B
    Solution: Increasing capital expenditure boosts economic activity, leading to higher national income.
87. **Question 87: Which of the following is a non-development expenditure?**
    A) Infrastructure projects
    B) Education spending
    C) Defense spending
    D) Health services

Answer: C
Solution: Non-development expenditure includes defense and administrative costs.

88. Question 88: What does the term "fiscal space" mean?
A) Room to increase public spending without affecting fiscal stability
B) Increase in budget deficits
C) Reduction in tax revenues
D) Increase in national debt
Answer: A
Solution: Fiscal space refers to the government's capacity to increase spending without risking fiscal stability.
89. Question 89: What is the main source of revenue for state governments in India?
A) Income tax
B) GST and state excise duty
C) Import duties
D) Corporate tax
Answer: B
Solution: State governments primarily earn revenue from GST, state excise duty, and property tax.
90. Question 90: What does "budget transparency" refer to?
A) Concealing budget deficits
B) Disclosing government budget details to the public
C) Reducing public debt
D) Increasing fiscal deficits
Answer: B
Solution: Budget transparency involves making budget details available to the public to ensure accountability.
91. Question 91: What is the purpose of a finance bill?
A) Regulate monetary policy
B) Implement taxation proposals
C) Control public borrowing
D) Reduce fiscal deficit
Answer: B
Solution: A finance bill implements the government's taxation proposals.
92. Question 92: What is a contingency fund?
A) Fund for routine government expenses
B) Emergency fund for unforeseen expenditures
C) Fund for defense spending
D) Fund for infrastructure projects
Answer: B
Solution: A contingency fund is used for unforeseen emergencies.
93. Question 93: What is the primary aim of fiscal policy in a recession?
A) Reduce public spending
B) Increase taxes
C) Stimulate economic growth through spending
D) Increase interest rates
Answer: C

Solution: Fiscal policy aims to stimulate growth by increasing spending or reducing taxes during a recession.

94. Question 94: What is the effect of high fiscal deficit on inflation?
A) Increases inflation
B) Reduces inflation
C) No impact on inflation
D) Reduces interest rates
Answer: A
Solution: High fiscal deficits can increase inflation by raising demand.
95. Question 95: What is "fiscal prudence"?
A) Excessive borrowing
B) Managing public finances responsibly
C) Increasing public debt
D) Reducing tax rates
Answer: B
Solution: Fiscal prudence means managing public finances in a responsible and sustainable manner.
96. Question 96: What is the impact of a primary surplus on fiscal health?
A) Worsens fiscal health
B) Improves fiscal health
C) No impact on fiscal health
D) Increases fiscal deficit
Answer: B
Solution: A primary surplus (when revenue exceeds expenditure before interest payments) indicates improved fiscal health.
97. Question 97: Which of the following represents a capital receipt for the government?
A) Income tax revenue
B) Dividends from public sector enterprises
C) Borrowings from the public
D) Excise duty collection
Answer: C
Solution: Capital receipts include borrowings and disinvestment proceeds, not regular tax revenue.
98. Question 98: What is the primary goal of expansionary fiscal policy?
A) Reduce inflation
B) Stimulate economic growth
C) Increase public debt
D) Decrease exports
Answer: B
Solution: Expansionary fiscal policy aims to boost economic growth through increased public spending or tax cuts.
99. Question 99: What does "fiscal federalism" refer to?
A) Central government controlling all finances
B) Division of financial powers between central and state governments
C) State governments controlling all finances
D) Private sector managing public funds
Answer: B

Solution: Fiscal federalism is the division of financial powers and responsibilities between central and state governments.

100. **Question 100: What is the effect of deficit financing on interest rates?**

A) Interest rates decrease
B) Interest rates increase
C) No change in interest rates
D) Interest rates become zero
Answer: B
Solution: Deficit financing can increase interest rates due to higher borrowing by the government.

Chapter 8: Money Market

1. Question 1: What is the primary objective of fiscal policy?
   A) Control inflation and unemployment
   B) Regulate stock markets
   C) Increase interest rates
   D) Control the money supply
   Answer: A
   Solution: Fiscal policy aims to control inflation, reduce unemployment, and promote economic growth.
2. Question 2: How does government spending on infrastructure affect the economy?
   A) Reduces human capital
   B) Increases long-run economic growth
   C) Reduces national debt
   D) Reduces private investment
   Answer: B
   Solution: Infrastructure spending supports long-term economic growth by improving productivity.
3. Question 3: What is the effect of increasing corporate taxes on investment?
   A) Increases investment
   B) Reduces investment incentives
   C) No impact on investment
   D) Doubles investment
   Answer: B
   Solution: Higher corporate taxes reduce the incentives for firms to invest.
4. Question 4: Which of the following is an example of a positive externality?
   A) Pollution from factories
   B) Subsidized education
   C) Traffic congestion
   D) Budget deficit
   Answer: B
   Solution: Subsidized education benefits society beyond the individual receiving it.
5. Question 5: If government spending is ₹10,000 crore and tax revenue is ₹8,000 crore, what is the budget deficit?
   A) ₹2,000 crore
   B) ₹18,000 crore
   C) ₹10,000 crore
   D) ₹8,000 crore

Answer: A
Solution: Budget deficit = Government spending - Tax revenue = ₹10,000 crore - ₹8,000 crore = ₹2,000 crore.

6. **Question 6: What does a budget surplus indicate?**
   A) Spending exceeds revenue
   B) Revenue exceeds spending
   C) Increase in fiscal deficit
   D) Increase in public debt
   Answer: B
   Solution: A budget surplus occurs when government revenue exceeds spending.
7. **Question 7: How do subsidies for farmers impact agricultural output?**
   A) Decrease output
   B) Increase output
   C) No impact on output
   D) Reduce productivity
   Answer: B
   Solution: Subsidies lower costs for farmers, encouraging higher output.
8. **Question 8: What is the main reason for imposing environmental taxes?**
   A) Increase corporate profits
   B) Reduce negative externalities like pollution
   C) Promote budget deficits
   D) Reduce government spending
   Answer: B
   Solution: Environmental taxes aim to reduce harmful activities by increasing their costs.
9. **Question 9: If a country's tax revenue is ₹12,000 crore and government spending is ₹15,000 crore, what is the budget deficit?**
   A) ₹3,000 crore
   B) ₹15,000 crore
   C) ₹12,000 crore
   D) ₹27,000 crore
   Answer: A
   Solution: Budget deficit = Government spending - Tax revenue = ₹15,000 crore - ₹12,000 crore = ₹3,000 crore.
10. **Question 10: What role does human capital formation play in economic growth?**
    A) Reduces productivity
    B) Makes physical capital more productive
    C) Increases fiscal deficit
    D) Decreases national income
    Answer: B
    Solution: Human capital formation enhances the productivity of physical capital, boosting economic growth.
11. **Question 11: What is the primary goal of increasing government spending on education?**
    A) Increase fiscal deficit
    B) Promote human capital formation

C) Increase inflation
D) Reduce national debt
Answer: B
Solution: Investing in education improves human capital, which boosts productivity and long-term economic growth.

12. **Question 12: How does a reduction in subsidies impact the fiscal deficit?**
A) Increases the fiscal deficit
B) Decreases the fiscal deficit
C) No impact on the fiscal deficit
D) Doubles the fiscal deficit
Answer: B
Solution: Reducing subsidies lowers government expenditure, thus decreasing the fiscal deficit.
13. **Question 13: What is the main purpose of a tax on luxury goods?**
A) Encourage savings
B) Reduce consumption of non-essential items
C) Increase budget deficit
D) Promote exports
Answer: B
Solution: Taxes on luxury goods aim to reduce the consumption of non-essential items and increase government revenue.
14. **Question 14: If the government introduces a new tax on pollution, what is this an example of?**
A) Fiscal deficit policy
B) Positive externality
C) Corrective (Pigouvian) tax
D) Transfer payment
Answer: C
Solution: A corrective (Pigouvian) tax is imposed to reduce negative externalities like pollution.
15. **Question 15: How does infrastructure spending affect private sector investment?**
A) Reduces private investment
B) Increases private investment by providing necessary facilities
C) Has no impact on private investment
D) Reduces national income
Answer: B
Solution: Infrastructure spending improves facilities, encouraging private sector investment.
16. **Question 16: What is a key feature of a well-designed tax system?**
A) It discourages innovation
B) It promotes equity and efficiency
C) It increases public debt
D) It reduces government revenue
Answer: B
Solution: A well-designed tax system promotes equity (fairness) and efficiency (minimal distortions).

17. Question 17: If government spending is ₹20,000 crore and leakages are ₹5,000 crore, what is the net injection into the economy?
    A) ₹25,000 crore
    B) ₹15,000 crore
    C) ₹5,000 crore
    D) ₹20,000 crore
    Answer: B
    Solution: Net injection = Government spending - Leakages = ₹20,000 crore - ₹5,000 crore = ₹15,000 crore.
18. Question 18: How do subsidies on fertilizers affect farmers?
    A) Increase the cost of production
    B) Reduce the cost of production
    C) Increase the fiscal deficit
    D) Reduce crop yields
    Answer: B
    Solution: Fertilizer subsidies reduce the cost of production for farmers, encouraging higher agricultural output.
19. Question 19: What is the effect of high public debt on future generations?
    A) Reduces tax burden
    B) Increases future tax burden
    C) Increases national savings
    D) Reduces government spending
    Answer: B
    Solution: High public debt increases the tax burden on future generations to repay the debt.
20. Question 20: What is the term for deliberate government intervention to reduce market failures?
    A) Fiscal drag
    B) Market regulation
    C) Fiscal consolidation
    D) Deflationary policy
    Answer: B
    Solution: Market regulation involves government intervention to correct market failures and improve efficiency.
21. Question 21: What happens to aggregate demand when government spending increases?
    A) Aggregate demand decreases
    B) Aggregate demand increases
    C) No impact on aggregate demand
    D) Aggregate demand becomes zero
    Answer: B
    Solution: Increased government spending boosts aggregate demand by injecting more money into the economy.
22. Question 22: How does a budget deficit affect national debt?
    A) Reduces national debt
    B) Increases national debt
    C) Has no impact on national debt
    D) Doubles national debt

Answer: B
Solution: A budget deficit increases national debt as the government borrows to cover the shortfall.

23. **Question 23: What is the impact of higher taxes on disposable income?**
    A) Increases disposable income
    B) Reduces disposable income
    C) No impact on disposable income
    D) Increases national debt
    Answer: B
    Solution: Higher taxes reduce disposable income, lowering the money available for consumption.
24. **Question 24: What is a consequence of government failure in policy intervention?**
    A) Efficient allocation of resources
    B) Misallocation of scarce resources
    C) Reduction in fiscal deficit
    D) Increase in national savings
    Answer: B
    Solution: Government failure occurs when intervention leads to inefficient allocation of resources.
25. **Question 25: If a subsidy reduces the price of a product from ₹100 to ₹80, what is the amount of the subsidy?**
    A) ₹20
    B) ₹80
    C) ₹100
    D) ₹120
    Answer: A
    Solution: The subsidy amount = ₹100 - ₹80 = ₹20.
26. **Question 26: What is the primary purpose of government spending on healthcare?**
    A) Increase fiscal deficit
    B) Improve human capital
    C) Increase public debt
    D) Reduce infrastructure
    Answer: B
    Solution: Government spending on healthcare improves human capital, enhancing productivity and economic growth.
27. **Question 27: What effect does an increase in subsidies have on the fiscal deficit?**
    A) Reduces fiscal deficit
    B) Increases fiscal deficit
    C) No impact on fiscal deficit
    D) Balances the budget
    Answer: B
    Solution: Increasing subsidies raises government expenditure, leading to a higher fiscal deficit.
28. **Question 28: If the fiscal deficit is ₹8,000 crore and interest payments are ₹2,000 crore, what is the primary deficit?**

A) ₹6,000 crore
B) ₹10,000 crore
C) ₹2,000 crore
D) ₹8,000 crore
Answer: A
Solution: Primary deficit = Fiscal deficit - Interest payments = ₹8,000 crore - ₹2,000 crore = ₹6,000 crore.

29. Question 29: What is the main goal of a contractionary fiscal policy?
A) Increase inflation
B) Reduce aggregate demand
C) Increase public spending
D) Reduce public debt
Answer: B
Solution: Contractionary fiscal policy reduces aggregate demand to control inflation.
30. Question 30: Which of the following is an example of capital expenditure?
A) Salaries of government employees
B) Payment of subsidies
C) Building highways
D) Pension payments
Answer: C
Solution: Capital expenditure includes spending on infrastructure and asset creation, like building highways.
31. Question 31: How does deficit financing affect inflation?
A) Increases inflation
B) Reduces inflation
C) No impact on inflation
D) Reduces aggregate demand
Answer: A
Solution: Deficit financing increases the money supply, which can lead to inflation.
32. Question 32: What is the consequence of an increase in public debt?
A) Decrease in interest payments
B) Increase in future tax burden
C) Reduction in fiscal deficit
D) Increase in national savings
Answer: B
Solution: Higher public debt leads to increased interest payments, raising the future tax burden.
33. Question 33: What does the term “crowding out” refer to?
A) Increase in private investment
B) Reduction in private investment due to high public borrowing
C) Increase in exports
D) Reduction in fiscal deficit
Answer: B
Solution: Crowding out occurs when government borrowing raises interest rates, reducing private investment.

34. Question 34: How does an increase in tax rates affect consumption?
    A) Increases consumption
    B) Reduces consumption
    C) No impact on consumption
    D) Doubles consumption
    Answer: B
    Solution: Higher tax rates reduce disposable income, leading to lower consumption.
35. Question 35: What is the formula for calculating the fiscal deficit?
    A) Total expenditure - Total revenue
    B) Total revenue - Total expenditure
    C) Total revenue + Borrowings
    D) Total expenditure - Interest payments
    Answer: A
    Solution: Fiscal deficit = Total expenditure - Total revenue (excluding borrowings).
36. Question 36: What is the impact of higher infrastructure spending on employment?
    A) Increases employment
    B) Reduces employment
    C) No impact on employment
    D) Reduces wages
    Answer: A
    Solution: Higher infrastructure spending creates jobs and boosts employment.
37. Question 37: What is a transfer payment?
    A) Payment for goods and services
    B) Payment made without any goods or services in return
    C) Investment in infrastructure
    D) Government borrowing
    Answer: B
    Solution: Transfer payments are payments like pensions and subsidies made without receiving goods or services.
38. Question 38: How do higher environmental taxes affect firms?
    A) Increase production costs
    B) Reduce production costs
    C) No impact on costs
    D) Increase subsidies
    Answer: A
    Solution: Environmental taxes increase firms' costs, encouraging them to reduce pollution.
39. Question 39: What does a high debt-to-GDP ratio indicate?
    A) Low public debt
    B) High public debt relative to the economy’s size
    C) Balanced budget
    D) Increase in savings
    Answer: B
    Solution: A high debt-to-GDP ratio indicates high public debt compared to the country's GDP.

40. Question 40: If government spending increases by ₹5,000 crore and the multiplier is 2, what is the total increase in national income?
A) ₹5,000 crore
B) ₹10,000 crore
C) ₹2,500 crore
D) ₹7,500 crore
Answer: B
Solution: Total increase in income = Government spending × Multiplier = ₹5,000 crore × 2 = ₹10,000 crore.
41. Question 41: What does a fiscal surplus signify?
A) Expenditure exceeds revenue
B) Revenue exceeds expenditure
C) Increase in public debt
D) Increase in fiscal deficit
Answer: B
Solution: A fiscal surplus occurs when government revenue exceeds expenditure.
42. Question 42: What is the primary purpose of imposing a carbon tax?
A) Increase government spending
B) Reduce greenhouse gas emissions
C) Increase public debt
D) Promote fiscal deficit
Answer: B
Solution: A carbon tax aims to reduce greenhouse gas emissions by making pollution costly.
43. Question 43: How does a budget deficit affect national savings?
A) Increases national savings
B) Reduces national savings
C) No impact on savings
D) Doubles national savings
Answer: B
Solution: A budget deficit reduces national savings because more funds are used to finance the deficit.
44. Question 44: What is the relationship between fiscal deficit and inflation?
A) Fiscal deficit reduces inflation
B) Fiscal deficit increases inflation
C) No relationship
D) Fiscal deficit controls inflation
Answer: B
Solution: Fiscal deficits can increase inflation by raising aggregate demand and the money supply.
45. Question 45: What is the role of fiscal policy during a recession?
A) Increase taxes
B) Decrease government spending
C) Increase government spending to boost demand
D) Reduce fiscal deficit
Answer: C

Solution: Fiscal policy during a recession increases spending or cuts taxes to boost demand.

46. Question 46: What is an example of a public good?
    A) Private car
    B) National defense
    C) Luxury watch
    D) Mobile phone
    Answer: B
    Solution: Public goods like national defense are non-excludable and non-rivalrous.
47. Question 47: What happens to fiscal deficit if tax revenue increases and spending remains constant?
    A) Fiscal deficit increases
    B) Fiscal deficit decreases
    C) No impact on fiscal deficit
    D) Fiscal deficit doubles
    Answer: B
    Solution: Increasing tax revenue reduces the fiscal deficit if spending remains constant.
48. Question 48: How do subsidies on essential goods affect low-income groups?
    A) Increase their cost of living
    B) Reduce their cost of living
    C) No impact on living costs
    D) Increase taxes
    Answer: B
    Solution: Subsidies lower the cost of essential goods, benefiting low-income groups.
49. Question 49: What is the effect of a well-designed fiscal policy on economic growth?
    A) Reduces economic growth
    B) Promotes sustainable economic growth
    C) Increases fiscal deficit
    D) Reduces public investment
    Answer: B
    Solution: A well-designed fiscal policy promotes sustainable growth by balancing spending and taxation.
50. Question 50: What happens to aggregate demand when taxes are reduced?
    A) Aggregate demand decreases
    B) Aggregate demand increases
    C) No impact on aggregate demand
    D) Aggregate demand becomes negative
    Answer: B
    Solution: Tax cuts increase disposable income, boosting aggregate demand.
51. Question 51: What happens to national debt when a country runs a continuous budget deficit?
    A) National debt decreases
    B) National debt increases
    C) National debt remains constant

D) National debt is eliminated
Answer: B
Solution: Continuous budget deficits increase national debt as the government borrows to cover the shortfall.

52. Question 52: If the GDP of a country is ₹50,000 crore and the fiscal deficit is ₹5,000 crore, what is the fiscal deficit-to-GDP ratio?
A) 5%
B) 10%
C) 15%
D) 1%
Answer: A
Solution: Fiscal deficit-to-GDP ratio = (Fiscal Deficit / GDP) × 100 = (₹5,000 crore / ₹50,000 crore) × 100 = 5%.
53. Question 53: What is the effect of a reduction in corporate taxes on businesses?
A) Reduces investment
B) Increases investment
C) No impact on investment
D) Reduces production
Answer: B
Solution: Lower corporate taxes increase after-tax profits, encouraging businesses to invest more.
54. Question 54: Which type of fiscal policy aims to reduce inflation?
A) Expansionary fiscal policy
B) Contractionary fiscal policy
C) Neutral fiscal policy
D) Counter-cyclical fiscal policy
Answer: B
Solution: Contractionary fiscal policy reduces inflation by decreasing government spending or increasing taxes.
55. Question 55: What is the term for borrowing by the government to finance a deficit?
A) Public investment
B) Public debt
C) Transfer payment
D) Direct tax
Answer: B
Solution: Public debt refers to borrowing by the government to finance its deficits.
56. Question 56: How do subsidies affect market prices?
A) Increase market prices
B) Decrease market prices
C) No impact on prices
D) Eliminate prices
Answer: B
Solution: Subsidies lower production costs, reducing market prices for goods.
57. Question 57: If the primary deficit is ₹3,000 crore and interest payments are ₹2,000 crore, what is the fiscal deficit?

A) ₹1,000 crore
B) ₹5,000 crore
C) ₹2,000 crore
D) ₹3,000 crore
Answer: B
Solution: Fiscal deficit = Primary deficit + Interest payments = ₹3,000 crore + ₹2,000 crore = ₹5,000 crore.

58. Question 58: What is the effect of a budget surplus on national debt?
A) Increases national debt
B) Reduces national debt
C) No impact on national debt
D) Doubles national debt
Answer: B
Solution: A budget surplus reduces national debt by using excess revenue to repay debt.
59. Question 59: What is the main goal of redistributive fiscal policy?
A) Increase economic inequality
B) Reduce economic inequality
C) Increase public debt
D) Promote exports
Answer: B
Solution: Redistributive fiscal policy aims to reduce economic inequality through taxation and welfare programs.
60. Question 60: How does a decrease in government spending affect aggregate demand?
A) Increases aggregate demand
B) Reduces aggregate demand
C) No impact on aggregate demand
D) Doubles aggregate demand
Answer: B
Solution: Decreasing government spending reduces aggregate demand by lowering total expenditure.
61. Question 61: What is the relationship between fiscal policy and economic stability?
A) Fiscal policy destabilizes the economy
B) Fiscal policy helps achieve economic stability
C) Fiscal policy only increases inflation
D) Fiscal policy reduces government spending
Answer: B
Solution: Fiscal policy helps achieve economic stability by managing spending and taxation.
62. Question 62: If government revenue is ₹7,000 crore and expenditure is ₹10,000 crore, what is the budget deficit?
A) ₹3,000 crore
B) ₹10,000 crore
C) ₹7,000 crore
D) ₹17,000 crore
Answer: A

Solution: Budget deficit = Expenditure - Revenue = ₹10,000 crore - ₹7,000 crore = ₹3,000 crore.

63. Question 63: What is a fiscal year?
    A) Calendar year
    B) Financial year used for budgeting and taxation
    C) Year for government elections
    D) Year for inflation measurement
    Answer: B
    Solution: A fiscal year is the financial year used by governments for budgeting and taxation purposes.
64. Question 64: How does public investment in infrastructure benefit the economy?
    A) Reduces productivity
    B) Increases productivity and growth
    C) Increases fiscal deficit
    D) Reduces national income
    Answer: B
    Solution: Public investment in infrastructure improves productivity, leading to economic growth.
65. Question 65: What is the effect of an increase in government borrowing on interest rates?
    A) Reduces interest rates
    B) Increases interest rates
    C) No impact on interest rates
    D) Doubles interest rates
    Answer: B
    Solution: Higher government borrowing increases demand for funds, raising interest rates.
66. Question 66: What does "fiscal prudence" imply?
    A) Excessive borrowing
    B) Responsible management of public finances
    C) Reducing tax rates
    D) Increasing subsidies
    Answer: B
    Solution: Fiscal prudence involves managing public finances responsibly to avoid excessive debt.
67. Question 67: What happens to disposable income when direct taxes are reduced?
    A) Disposable income decreases
    B) Disposable income increases
    C) No impact on disposable income
    D) Disposable income becomes negative
    Answer: B
    Solution: Reducing direct taxes increases disposable income by lowering tax deductions.
68. Question 68: What is an automatic stabilizer in fiscal policy?
    A) Requires government intervention
    B) Automatically adjusts to economic changes

C) Reduces inflation directly
D) Increases public debt
Answer: B
Solution: Automatic stabilizers, like unemployment benefits, automatically adjust to stabilize the economy.

69. Question 69: What is the main purpose of progressive taxation?
A) Increase economic inequality
B) Ensure higher-income groups pay higher taxes
C) Reduce government revenue
D) Increase inflation
Answer: B
Solution: Progressive taxation aims to make higher-income groups pay a higher percentage of taxes.
70. Question 70: What happens to aggregate demand when fiscal policy is expansionary?
A) Aggregate demand decreases
B) Aggregate demand increases
C) No impact on aggregate demand
D) Aggregate demand becomes negative
Answer: B
Solution: Expansionary fiscal policy increases aggregate demand by boosting spending or reducing taxes.
71. Question 71: What is the primary objective of supply-side fiscal policy?
A) Increase aggregate demand
B) Increase productive capacity of the economy
C) Increase public debt
D) Decrease interest rates
Answer: B
Solution: Supply-side fiscal policy aims to increase the economy's productive capacity by incentivizing production and investment.
72. Question 72: If the government reduces income tax rates, what is the likely short-term effect on consumption?
A) Consumption decreases
B) Consumption increases
C) No change in consumption
D) Consumption becomes negative
Answer: B
Solution: Lower income tax rates increase disposable income, leading to higher consumption.
73. Question 73: What is meant by "automatic fiscal stabilizers"?
A) Policies that require government approval
B) Tools that automatically adjust to economic conditions
C) Policies that increase fiscal deficit
D) Policies that decrease investment
Answer: B
Solution: Automatic stabilizers, such as unemployment benefits, automatically adjust to stabilize the economy during fluctuations.

74. Question 74: If government spending increases by ₹4,000 crore and the fiscal multiplier is 2.5, what is the total increase in GDP?
A) ₹10,000 crore
B) ₹4,000 crore
C) ₹2,500 crore
D) ₹6,000 crore
Answer: A
Solution: Total increase in GDP = Government spending × Multiplier = ₹4,000 crore × 2.5 = ₹10,000 crore.
75. Question 75: What is the term for the difference between the actual deficit and the primary deficit?
A) Capital deficit
B) Fiscal deficit
C) Revenue deficit
D) Interest payments
Answer: D
Solution: The difference between the fiscal deficit and the primary deficit is the interest payments on the existing debt.
76. Question 76: How does an increase in government borrowing affect future generations?
A) Reduces their tax burden
B) Increases their tax burden
C) Has no effect on them
D) Eliminates public debt
Answer: B
Solution: Increased government borrowing today leads to higher debt servicing costs, increasing the tax burden on future generations.
77. Question 77: What happens to inflation when the government adopts an expansionary fiscal policy?
A) Inflation decreases
B) Inflation increases
C) Inflation becomes zero
D) Inflation remains unchanged
Answer: B
Solution: Expansionary fiscal policy increases aggregate demand, which can lead to higher inflation.
78. Question 78: What is the consequence of excessive public debt?
A) Increased fiscal space
B) Higher interest payments
C) Reduced interest payments
D) Higher national savings
Answer: B
Solution: Excessive public debt results in higher interest payments, which can strain government finances.
79. Question 79: If tax revenue is ₹15,000 crore and government expenditure is ₹20,000 crore, what is the fiscal deficit?
A) ₹5,000 crore
B) ₹35,000 crore

C) ₹15,000 crore
D) ₹20,000 crore
Answer: A
Solution: Fiscal deficit = Expenditure - Revenue = ₹20,000 crore - ₹15,000 crore = ₹5,000 crore.

80. Question 80: What is the purpose of counter-cyclical fiscal policy?
A) Worsen economic fluctuations
B) Stabilize economic fluctuations
C) Increase economic inequality
D) Increase public debt
Answer: B
Solution: Counter-cyclical fiscal policy aims to stabilize the economy by increasing spending during recessions and reducing it during booms.

81. Question 81: What type of expenditure is a government grant for building schools?
A) Revenue expenditure
B) Capital expenditure
C) Transfer payment
D) Consumption expenditure
Answer: B
Solution: Building schools is a capital expenditure because it creates long-term assets.

82. Question 82: How does a reduction in government spending affect unemployment?
A) Unemployment decreases
B) Unemployment increases
C) No impact on unemployment
D) Wages increase
Answer: B
Solution: Reduced government spending lowers aggregate demand, which can lead to higher unemployment.

83. Question 83: What is fiscal consolidation?
A) Reducing fiscal deficit and public debt
B) Increasing fiscal deficit
C) Expanding public debt
D) Increasing public spending
Answer: A
Solution: Fiscal consolidation refers to policies aimed at reducing the fiscal deficit and public debt.

84. Question 84: What happens when there is a fiscal surplus?
A) Government borrows more
B) Government repays debt
C) Fiscal deficit increases
D) Inflation rises
Answer: B
Solution: A fiscal surplus allows the government to repay existing debt.

85. Question 85: What is the impact of subsidies on market equilibrium?
A) Increase in prices

B) Reduction in prices
C) No change in prices
D) Increase in fiscal deficit
Answer: B
Solution: Subsidies reduce the cost of production, lowering market prices.

86. Question 86: What is the effect of higher taxes on aggregate demand?
A) Increases aggregate demand
B) Reduces aggregate demand
C) No impact on aggregate demand
D) Doubles aggregate demand
Answer: B
Solution: Higher taxes reduce disposable income, lowering aggregate demand.
87. Question 87: What is the primary aim of public investment in research and development (R&D)?
A) Reduce public debt
B) Promote innovation and economic growth
C) Increase fiscal deficit
D) Reduce inflation
Answer: B
Solution: Public investment in R&D promotes innovation and long-term economic growth.
88. Question 88: What is meant by "public goods"?
A) Goods provided by private companies
B) Non-excludable and non-rivalrous goods
C) Goods for export only
D) Luxury goods
Answer: B
Solution: Public goods are non-excludable and non-rivalrous, like street lighting and national defense.
89. Question 89: What is the impact of deficit financing on inflation?
A) Reduces inflation
B) Increases inflation
C) No impact on inflation
D) Eliminates inflation
Answer: B
Solution: Deficit financing increases the money supply, leading to higher inflation.
90. Question 90: What does an increase in fiscal deficit indicate?
A) Higher government revenue
B) Higher government borrowing
C) Lower public spending
D) Reduced interest payments
Answer: B
Solution: A higher fiscal deficit indicates increased government borrowing to cover expenditure.
91. Question 91: What type of tax is GST (Goods and Services Tax)?
A) Direct tax
B) Indirect tax

C) Progressive tax
D) Regressive tax
Answer: B
Solution: GST is an indirect tax levied on the sale of goods and services.

92. Question 92: What happens to interest rates if public borrowing increases significantly?
A) Interest rates decrease
B) Interest rates increase
C) Interest rates remain unchanged
D) Interest rates become zero
Answer: B
Solution: Higher public borrowing increases the demand for funds, raising interest rates.
93. Question 93: How does a fiscal deficit affect a country's credit rating?
A) Improves credit rating
B) Worsens credit rating
C) No impact on credit rating
D) Increases tax rates
Answer: B
Solution: A high fiscal deficit can worsen a country's credit rating due to concerns over debt sustainability.
94. Question 94: What is the effect of government spending on social programs?
A) Reduces inequality
B) Increases fiscal deficit
C) No impact on inequality
D) Decreases inflation
Answer: A
Solution: Government spending on social programs helps reduce income inequality.
95. Question 95: What is the main source of non-tax revenue for the government?
A) Income tax
B) Dividends from public sector enterprises
C) GST
D) Corporate tax
Answer: B
Solution: Non-tax revenue includes dividends from public sector enterprises, fees, and fines.
96. Question 96: What does a high fiscal deficit lead to in the long run?
A) Lower public debt
B) Higher public debt
C) Higher savings
D) Lower inflation
Answer: B
Solution: A high fiscal deficit leads to increased public debt over time.
97. Question 97: What is the main objective of a budget?
A) Reduce public spending
B) Plan government revenue and expenditure
C) Increase fiscal deficit

D) Promote inflation
Answer: B
Solution: A budget is a financial plan that outlines government revenue and expenditure for a specific period.

98. Question 98: What is the impact of an increase in fiscal deficit on the economy's borrowing cost?
A) Borrowing cost decreases
B) Borrowing cost increases
C) No impact on borrowing cost
D) Borrowing cost becomes zero
Answer: B
Solution: An increase in fiscal deficit raises government borrowing, leading to higher borrowing costs due to increased demand for funds.

99. Question 99: If a government implements higher taxes and reduces spending, what kind of fiscal policy is it following?
A) Expansionary fiscal policy
B) Contractionary fiscal policy
C) Neutral fiscal policy
D) Supply-side policy
Answer: B
Solution: Higher taxes and reduced spending are measures of contractionary fiscal policy aimed at reducing inflation.

100. Question 100: What is the effect of fiscal policy on economic growth in the long run?
A) No effect on growth
B) Reduces productivity
C) Can promote or hinder growth depending on policy
D) Always increases public debt
Answer: C
Solution: Fiscal policy can promote growth through investments in infrastructure and education or hinder it if deficits and debt become unsustainable.

Chapter 9: International Trade

1. Question 1: What is the formula for M1 in the measurement of money supply?
   A) Currency notes + Demand deposits + Other deposits of RBI
   B) Currency notes + Net time deposits
   C) Currency notes + Savings deposits + Post office deposits
   D) Currency notes + Demand deposits + Net time deposits
   Answer: A
   Solution: M1 = Currency notes and coins with the public + Demand deposits of banks + Other deposits of RBI.
2. Question 2: Which of the following is included in M2?
   A) M1 + Savings deposits with post office savings bank
   B) M1 + Net time deposits
   C) M1 + Total deposits with post office (excluding NSC)
   D) M1 + Fixed deposits
   Answer: A
   Solution: M2 = M1 + Savings deposits with the post office savings bank.
3. Question 3: What does M3 consist of?
   A) M1 + Net time deposits with the banking system
   B) M1 + Savings deposits with post office
   C) M1 + Other deposits of RBI
   D) M2 + Fixed deposits
   Answer: A
   Solution: M3 = M1 + Net time deposits with the banking system.
4. Question 4: Which component is included in M4 but not in M3?
   A) Demand deposits
   B) Other deposits of RBI
   C) Total deposits with post offices (excluding NSC)
   D) Net time deposits
   Answer: C
   Solution: M4 = M3 + Total deposits with post offices (excluding National Savings Certificates).
5. Question 5: What is the money multiplier?
   A) Ratio of monetary base to money supply
   B) Ratio of money supply to monetary base
   C) Ratio of net time deposits to demand deposits
   D) Ratio of currency to deposits
   Answer: B

Solution: The money multiplier is the ratio of money supply to the monetary base.

6. Question 6: What does high-powered money refer to?
A) Total deposits in the banking system
B) Currency in circulation + Bank reserves
C) Total money supply
D) Demand deposits only
Answer: B
Solution: High-powered money includes currency in circulation plus bank reserves held by the central bank.
7. Question 7: What is the main function of the Reserve Bank of India (RBI) regarding money supply?
A) Collect taxes
B) Control the supply of money in the economy
C) Issue bonds
D) Approve government budgets
Answer: B
Solution: The RBI regulates and controls the supply of money in the economy.
8. Question 8: Which theory states that the money supply is determined exogenously by the central bank?
A) Quantity Theory of Money
B) First view of Money Supply
C) Endogenous Money Theory
D) Keynesian Theory
Answer: B
Solution: The first view states that money supply is determined exogenously by the central bank.
9. Question 9: What does the endogenous money theory propose?
A) Money supply is fixed by the central bank
B) Money supply is determined by economic activities
C) Money supply has no relationship with the economy
D) Money supply is solely controlled by the government
Answer: B
Solution: Endogenous money theory suggests that money supply is determined by the needs of the economy, such as currency holding and interest rates.
10. Question 10: If the monetary base increases by ₹1,000 crore and the money multiplier is 5, what is the total increase in the money supply?
A) ₹1,000 crore
B) ₹5,000 crore
C) ₹500 crore
D) ₹10,000 crore
Answer: B
Solution: Total increase in money supply = Monetary base × Money multiplier = ₹1,000 crore × 5 = ₹5,000 crore.
11. Question 11: What does demand deposit refer to?
A) Deposits that can be withdrawn on demand
B) Fixed deposits with a lock-in period

C) Savings deposits with interest
D) Deposits in foreign banks
Answer: A
Solution: Demand deposits are deposits in banks that can be withdrawn at any time without notice.

12. Question 12: Which of the following is NOT part of high-powered money?
A) Currency in circulation
B) Bank reserves
C) Time deposits
D) Coins held by the public
Answer: C
Solution: High-powered money includes currency in circulation and bank reserves, but not time deposits.
13. Question 13: What is the role of the money multiplier in the economy?
A) It increases public debt
B) It amplifies the effect of the monetary base on the money supply
C) It decreases inflation
D) It reduces aggregate demand
Answer: B
Solution: The money multiplier shows how changes in the monetary base affect the total money supply.
14. Question 14: If the reserve ratio is 10%, what is the value of the money multiplier?
A) 5
B) 10
C) 15
D) 20
Answer: B
Solution: Money multiplier = 1 / Reserve ratio = 1 / 0.10 = 10.
15. Question 15: What is the primary function of monetary policy?
A) Manage government spending
B) Control the supply of money and interest rates
C) Collect taxes
D) Regulate fiscal deficit
Answer: B
Solution: Monetary policy involves managing the money supply and interest rates to achieve economic stability.
16. Question 16: What is the Cash Reserve Ratio (CRR)?
A) Ratio of cash held by the public to total deposits
B) Percentage of bank deposits that must be kept with the central bank
C) Ratio of loans to deposits
D) Percentage of foreign reserves held by banks
Answer: B
Solution: CRR is the percentage of a bank's deposits that must be held in reserve with the central bank.
17. Question 17: What happens when the central bank reduces the CRR?
A) Money supply decreases
B) Money supply increases

C) Inflation decreases
D) Interest rates rise
Answer: B
Solution: Reducing the CRR allows banks to lend more, increasing the money supply.

18. Question 18: If the money supply is ₹50,000 crore and the monetary base is ₹10,000 crore, what is the money multiplier?
A) 4
B) 5
C) 6
D) 10
Answer: B
Solution: Money multiplier = Money supply / Monetary base = ₹50,000 crore / ₹10,000 crore = 5.
19. Question 19: What does open market operations involve?
A) Tax collection by the government
B) Buying and selling government securities by the central bank
C) Issuing currency notes
D) Fixing the fiscal deficit
Answer: B
Solution: Open market operations involve the central bank buying or selling government securities to regulate the money supply.
20. Question 20: What is the effect of the central bank selling government securities in the open market?
A) Money supply increases
B) Money supply decreases
C) Inflation rises
D) Aggregate demand increases
Answer: B
Solution: Selling government securities reduces liquidity in the market, decreasing the money supply.
21. Question 21: What is the Statutory Liquidity Ratio (SLR)?
A) Ratio of cash reserves to loans
B) Percentage of a bank’s net demand and time liabilities held in liquid assets
C) Ratio of demand deposits to savings deposits
D) Ratio of foreign reserves to total reserves
Answer: B
Solution: SLR is the percentage of a bank's net demand and time liabilities that must be held in liquid assets like government bonds.
22. Question 22: If the SLR is increased, what happens to the money supply?
A) Money supply increases
B) Money supply decreases
C) No effect on money supply
D) Inflation rises
Answer: B
Solution: Increasing the SLR reduces the funds available for lending, decreasing the money supply.

23. **Question 23: What is the relationship between the money multiplier and the reserve ratio?**
    A) Directly proportional
    B) Inversely proportional
    C) No relationship
    D) Equal to each other
    Answer: B
    Solution: The money multiplier is inversely proportional to the reserve ratio (Multiplier = 1 / Reserve Ratio).
24. **Question 24: What is meant by monetary base?**
    A) Total deposits in the banking system
    B) Currency in circulation + Bank reserves
    C) Total money supply
    D) Demand deposits only
    Answer: B
    Solution: The monetary base includes currency in circulation and bank reserves held at the central bank.
25. **Question 25: How does the central bank use the repo rate to control the money supply?**
    A) By increasing fiscal deficit
    B) By increasing or decreasing the interest rate at which it lends to commercial banks
    C) By collecting taxes
    D) By increasing government spending
    Answer: B
    Solution: The repo rate is the rate at which the central bank lends to commercial banks, influencing the money supply.
26. **Question 26: What happens when the central bank increases the repo rate?**
    A) Money supply increases
    B) Money supply decreases
    C) Inflation rises
    D) Lending by banks increases
    Answer: B
    Solution: Increasing the repo rate makes borrowing costlier for banks, reducing the money supply.
27. **Question 27: If the reserve requirement is 5%, what is the theoretical money multiplier?**
    A) 10
    B) 20
    C) 5
    D) 2
    Answer: B
    Solution: Money multiplier = 1 / Reserve requirement = 1 / 0.05 = 20.
28. **Question 28: Which tool of monetary policy directly affects the money supply by altering bank reserves?**
    A) Open market operations
    B) Taxation policy
    C) Government spending

D) Fiscal deficit
Answer: A
Solution: Open market operations influence bank reserves by buying or selling government securities.

29. **Question 29: What is the primary objective of monetary policy during inflation?**
    A) Increase money supply
    B) Control money supply and reduce inflation
    C) Increase fiscal deficit
    D) Reduce public debt
    Answer: B
    Solution: During inflation, monetary policy aims to reduce the money supply to control rising prices.
30. **Question 30: What is the effect of quantitative easing on the money supply?**
    A) Decreases money supply
    B) Increases money supply
    C) No impact on money supply
    D) Reduces inflation
    Answer: B
    Solution: Quantitative easing involves buying financial assets to inject liquidity, increasing the money supply.
31. **Question 31: What is the impact of reducing the reverse repo rate?**
    A) Banks deposit more money with the central bank
    B) Banks deposit less money with the central bank
    C) Money supply decreases
    D) Inflation decreases
    Answer: B
    Solution: Reducing the reverse repo rate makes it less attractive for banks to deposit with the central bank, increasing the money supply.
32. **Question 32: What does the term liquidity trap mean?**
    A) Excess liquidity in the market
    B) Interest rates are so low that monetary policy becomes ineffective
    C) No liquidity in the market
    D) High inflation due to excessive liquidity
    Answer: B
    Solution: In a liquidity trap, low interest rates fail to stimulate borrowing and investment.
33. **Question 33: Which of the following is a qualitative tool of monetary policy?**
    A) Repo rate
    B) Credit rationing
    C) Open market operations
    D) Cash Reserve Ratio
    Answer: B
    Solution: Qualitative tools like credit rationing target specific sectors to control credit distribution.
34. **Question 34: If the money supply is ₹1,00,000 crore and the reserve ratio is 10%, what is the monetary base?**
    A) ₹10,000 crore
    B) ₹1,00,000 crore

C) ₹5,000 crore
D) ₹20,000 crore
Answer: A
Solution: Monetary base = Money supply × Reserve ratio = ₹1,00,000 crore × 0.10 = ₹10,000 crore.

35. Question 35: What is the role of the Monetary Policy Committee (MPC) in India?
A) Regulates fiscal policy
B) Sets the repo rate to control inflation
C) Manages government spending
D) Collects taxes
Answer: B
Solution: The MPC sets the repo rate to achieve the inflation target set by the RBI.
36. Question 36: What does broad money include?
A) Only currency in circulation
B) Currency + Demand deposits + Time deposits
C) Only demand deposits
D) Only time deposits
Answer: B
Solution: Broad money includes currency, demand deposits, and time deposits (M3).
37. Question 37: How does a higher Cash Reserve Ratio (CRR) affect bank lending?
A) Increases bank lending
B) Reduces bank lending
C) No impact on lending
D) Reduces interest rates
Answer: B
Solution: Higher CRR means banks must keep more reserves with the central bank, reducing the funds available for lending.
38. Question 38: What is the effect of a decrease in SLR on the money supply?
A) Money supply increases
B) Money supply decreases
C) Inflation decreases
D) No impact on money supply
Answer: A
Solution: Reducing the SLR increases the funds available for lending, boosting the money supply.
39. Question 39: What is the primary aim of inflation targeting in monetary policy?
A) Increase fiscal deficit
B) Maintain price stability
C) Increase public spending
D) Reduce public debt
Answer: B
Solution: Inflation targeting aims to maintain price stability by controlling inflation within a specified range.
40. Question 40: If the reserve ratio is 20%, what is the maximum potential increase in the money supply from a ₹1,000 crore increase in reserves?

A) ₹5,000 crore
B) ₹2,000 crore
C) ₹4,000 crore
D) ₹10,000 crore
Answer: B
Solution: Money multiplier = 1 / 0.20 = 5. Increase in money supply = ₹1,000 crore × 5 = ₹5,000 crore.

41. Question 41: What does the term fiat money mean?
A) Money backed by gold
B) Money that has intrinsic value
C) Money declared legal tender by the government
D) Digital currency
Answer: C
Solution: Fiat money is declared legal tender by the government and has no intrinsic value.
42. Question 42: What happens to inflation when the central bank adopts tight monetary policy?
A) Inflation decreases
B) Inflation increases
C) No impact on inflation
D) Inflation doubles
Answer: A
Solution: Tight monetary policy reduces the money supply, lowering inflation.
43. Question 43: What is the effect of quantitative tightening on the economy?
A) Increases money supply
B) Reduces money supply
C) Increases inflation
D) Promotes economic growth
Answer: B
Solution: Quantitative tightening reduces the money supply by selling financial assets.
44. Question 44: What does velocity of money measure?
A) How fast money circulates in the economy
B) The total amount of money in the economy
C) The interest rate on loans
D) The reserve ratio
Answer: A
Solution: The velocity of money measures the rate at which money changes hands in the economy.
45. Question 45: If the money supply is ₹80,000 crore and the velocity of money is 4, what is the nominal GDP?
A) ₹20,000 crore
B) ₹3,20,000 crore
C) ₹40,000 crore
D) ₹2,00,000 crore
Answer: B
Solution: Nominal GDP = Money supply × Velocity = ₹80,000 crore × 4 = ₹3,20,000 crore.

46. Question 46: What happens to the money supply when the central bank buys government securities in the open market?
    A) Money supply decreases
    B) Money supply increases
    C) Money supply remains unchanged
    D) Inflation decreases
    Answer: B
    Solution: Buying government securities injects money into the economy, increasing the money supply.
47. Question 47: What is the Fisher Equation in the context of the Quantity Theory of Money?
    A) M × V = P × T
    B) P × T = M / V
    C) M × T = V × P
    D) M + V = P × T
    Answer: A
    Solution: The Fisher Equation states M × V = P × T, where M is the money supply, V is velocity, P is price level, and T is the volume of transactions.
48. Question 48: What is the term for the interest rate charged by the central bank on loans to commercial banks?
    A) Reverse repo rate
    B) Repo rate
    C) Bank rate
    D) Prime lending rate
    Answer: B
    Solution: The repo rate is the rate at which the central bank lends short-term funds to commercial banks.
49. Question 49: If the central bank wants to reduce liquidity in the economy, which action will it take?
    A) Increase the CRR
    B) Decrease the repo rate
    C) Buy government securities
    D) Reduce the SLR
    Answer: A
    Solution: Increasing the CRR reduces the funds available for lending, thus reducing liquidity.
50. Question 50: What is broad money commonly referred to in India?
    A) M1
    B) M2
    C) M3
    D) M4
    Answer: C
    Solution: In India, M3 is commonly referred to as broad money.
51. Question 51: Which monetary aggregate is the most liquid form of money?
    A) M1
    B) M2
    C) M3
    D) M4

Answer: A
Solution: M1, which includes currency and demand deposits, is the most liquid form of money.

52. Question 52: What is the purpose of the reverse repo rate?
A) To increase bank lending
B) To reduce inflation
C) To absorb excess liquidity from banks
D) To fund government expenditure
Answer: C
Solution: The reverse repo rate is used by the central bank to absorb excess liquidity from the banking system.
53. Question 53: If a bank has ₹1,00,000 in deposits and the CRR is 10%, how much must the bank keep as reserves with the central bank?
A) ₹1,000
B) ₹10,000
C) ₹90,000
D) ₹1,10,000
Answer: B
Solution: Required reserves = Deposits × CRR = ₹1,00,000 × 10% = ₹10,000.
54. Question 54: What is the effect of increasing the SLR on inflation?
A) Inflation decreases
B) Inflation increases
C) No effect on inflation
D) Deflation occurs
Answer: A
Solution: Increasing the SLR reduces the money supply, helping to control inflation.
55. Question 55: What is monetary transmission?
A) Process of setting fiscal policies
B) Process by which monetary policy decisions affect the economy
C) Transfer of government funds
D) Exchange of foreign currency
Answer: B
Solution: Monetary transmission refers to how changes in monetary policy affect the economy, especially interest rates and inflation.
56. Question 56: What happens when the central bank reduces the bank rate?
A) Loans become costlier
B) Loans become cheaper
C) Money supply decreases
D) Inflation decreases
Answer: B
Solution: A lower bank rate reduces borrowing costs for banks, encouraging lending and increasing the money supply.
57. Question 57: Which component is excluded from M1?
A) Demand deposits
B) Time deposits
C) Currency in circulation
D) Other deposits of RBI

Answer: B
Solution: M1 includes demand deposits, but not time deposits.

58. **Question 58: What does velocity of circulation refer to in monetary economics?**
    A) Speed at which the government spends money
    B) Number of times money changes hands in a given period
    C) Rate at which banks lend money
    D) Inflation rate
    Answer: B
    Solution: The velocity of circulation is the rate at which money changes hands within the economy.
59. **Question 59: Which monetary aggregate is the widest measure of money supply?**
    A) M1
    B) M2
    C) M3
    D) M4
    Answer: D
    Solution: M4 is the widest measure, including M3 plus total deposits with post offices (excluding NSC).
60. **Question 60: How does an increase in the reserve ratio impact the money multiplier?**
    A) Increases the money multiplier
    B) Decreases the money multiplier
    C) No effect on the money multiplier
    D) Doubles the money multiplier
    Answer: B
    Solution: Increasing the reserve ratio reduces the money multiplier since fewer funds are available for lending.
61. **Question 61: If the money supply is ₹1,50,000 crore and the reserve ratio is 15%, what is the monetary base?**
    A) ₹22,500 crore
    B) ₹1,50,000 crore
    C) ₹15,000 crore
    D) ₹1,00,000 crore
    Answer: A
    Solution: Monetary base = Money supply × Reserve ratio = ₹1,50,000 crore × 0.15 = ₹22,500 crore.
62. **Question 62: Which of the following is an example of contractionary monetary policy?**
    A) Decreasing the repo rate
    B) Increasing the Cash Reserve Ratio (CRR)
    C) Buying government securities
    D) Reducing the Statutory Liquidity Ratio (SLR)
    Answer: B
    Solution: Increasing the CRR reduces the money supply, making it a contractionary measure.
63. **Question 63: What does the Cambridge Equation of money demand emphasize?**

A) Money supply determines prices
B) Money demand is proportional to income
C) Money demand depends on interest rates
D) Money demand has no relation to income
Answer: B
Solution: The Cambridge Equation (Md = k × PY) emphasizes that money demand is proportional to income.

64. Question 64: If the money multiplier is 4 and the monetary base is ₹20,000 crore, what is the total money supply?
A) ₹80,000 crore
B) ₹5,000 crore
C) ₹40,000 crore
D) ₹60,000 crore
Answer: A
Solution: Money supply = Monetary base × Money multiplier = ₹20,000 crore × 4 = ₹80,000 crore.

65. Question 65: What is the effect of raising the repo rate on inflation?
A) Increases inflation
B) Reduces inflation
C) No impact on inflation
D) Doubles inflation
Answer: B
Solution: Raising the repo rate makes borrowing costlier, reducing money supply and inflation.

66. Question 66: What is the narrowest measure of money supply?
A) M3
B) M2
C) M1
D) M4
Answer: C
Solution: M1 is the narrowest measure, including only the most liquid forms of money.

67. Question 67: What does Monetary Policy Rate refer to?
A) The fiscal deficit target
B) The rate at which the central bank lends to commercial banks
C) The inflation rate
D) The rate of foreign exchange
Answer: B
Solution: The monetary policy rate refers to the rate at which the central bank lends to commercial banks.

68. Question 68: What is the term for a decrease in the general price level?
A) Inflation
B) Deflation
C) Stagflation
D) Hyperinflation
Answer: B
Solution: Deflation is a decrease in the general price level of goods and services.

69. **Question 69: What happens when the central bank adopts a loose monetary policy?**
    A) Money supply decreases
    B) Money supply increases
    C) Inflation decreases
    D) Interest rates rise
    Answer: B
    Solution: Loose monetary policy increases the money supply by lowering interest rates.
70. **Question 70: In the Quantity Theory of Money, if the velocity of money and output remain constant, what happens when the money supply increases?**
    A) Prices decrease
    B) Prices increase
    C) Inflation decreases
    D) Interest rates rise
    Answer: B
    Solution: According to the Quantity Theory of Money ($MV = PY$), if V and Y are constant, an increase in M leads to an increase in P (prices).
71. **Question 71: What is the impact of open market sales of government securities?**
    A) Increases money supply
    B) Reduces money supply
    C) Increases fiscal deficit
    D) Reduces government debt
    Answer: B
    Solution: Selling government securities reduces liquidity, thereby decreasing the money supply.
72. **Question 72: What is the bank rate?**
    A) Rate charged by banks on loans to customers
    B) Rate at which the central bank lends to commercial banks
    C) Rate of return on savings deposits
    D) Rate of return on government bonds
    Answer: B
    Solution: The bank rate is the interest rate at which the central bank lends to commercial banks without collateral.
73. **Question 73: What does a low velocity of money indicate?**
    A) Money circulates quickly
    B) Money circulates slowly
    C) High inflation
    D) Low interest rates
    Answer: B
    Solution: Low velocity indicates that money circulates slowly, typically during economic slowdowns.
74. **Question 74: If the reserve ratio is 25%, what is the theoretical money multiplier?**
    A) 2
    B) 3
    C) 4

D) 5
Answer: C
Solution: Money multiplier = 1 / Reserve ratio = 1 / 0.25 = 4.

75. Question 75: Which of the following is an example of fiat money?
A) Gold coins
B) Cryptocurrency
C) Paper currency
D) Silver coins
Answer: C
Solution: Fiat money is paper currency that has no intrinsic value but is declared legal tender by the government.
76. Question 76: What happens to the money supply when the central bank lowers the repo rate?
A) Money supply decreases
B) Money supply increases
C) Inflation decreases
D) Interest rates increase
Answer: B
Solution: Lowering the repo rate makes borrowing cheaper for banks, increasing the money supply.
77. Question 77: What does the term "near money" refer to?
A) Currency notes
B) Gold reserves
C) Highly liquid assets easily converted to cash
D) Foreign currency
Answer: C
Solution: Near money refers to assets like savings deposits that can be quickly converted into cash.
78. Question 78: How does a higher reverse repo rate affect the money supply?
A) Increases money supply
B) Decreases money supply
C) No impact on money supply
D) Reduces interest rates
Answer: B
Solution: A higher reverse repo rate encourages banks to deposit more with the central bank, reducing the money supply.
79. Question 79: What is the primary objective of monetary policy?
A) Reduce public debt
B) Maintain price stability and economic growth
C) Increase fiscal deficit
D) Collect taxes
Answer: B
Solution: The primary objective of monetary policy is to maintain price stability and support economic growth.
80. Question 80: What is the impact of an increase in bank reserves on lending capacity?
A) Increases lending capacity
B) Reduces lending capacity

C) No impact on lending capacity
D) Reduces money supply
Answer: A
Solution: More bank reserves increase the funds available for lending, expanding lending capacity.

81. Question 81: If the reserve requirement is 8%, what is the money multiplier?
A) 10
B) 12.5
C) 8
D) 15
Answer: B
Solution: Money multiplier = 1 / Reserve requirement = 1 / 0.08 = 12.5.
82. Question 82: What is the impact of a tight monetary policy on interest rates?
A) Interest rates decrease
B) Interest rates increase
C) No change in interest rates
D) Inflation rises
Answer: B
Solution: Tight monetary policy reduces money supply, leading to higher interest rates.
83. Question 83: What is the effect of reducing the Statutory Liquidity Ratio (SLR) on bank lending?
A) Increases lending
B) Reduces lending
C) No impact on lending
D) Increases reserves
Answer: A
Solution: Reducing the SLR allows banks to use more funds for lending, increasing credit availability.
84. Question 84: What is seigniorage?
A) Cost of printing money
B) Profit earned by the government from issuing currency
C) Tax on foreign transactions
D) Interest paid on public debt
Answer: B
Solution: Seigniorage is the profit the government earns from issuing currency, calculated as the difference between the face value and the production cost.
85. Question 85: If the monetary base is ₹50,000 crore and the money multiplier is 6, what is the total money supply?
A) ₹3,00,000 crore
B) ₹30,000 crore
C) ₹60,000 crore
D) ₹10,000 crore
Answer: A
Solution: Money supply = Monetary base × Money multiplier = ₹50,000 crore × 6 = ₹3,00,000 crore.
86. Question 86: What is the primary goal of quantitative easing?
A) Reduce inflation

B) Increase liquidity and stimulate the economy
C) Control fiscal deficit
D) Increase taxes
Answer: B
Solution: Quantitative easing aims to increase liquidity in the financial system and boost economic activity.

87. Question 87: What happens to the money supply when the central bank sells government bonds?
A) Money supply increases
B) Money supply decreases
C) Inflation rises
D) Lending increases
Answer: B
Solution: Selling government bonds withdraws liquidity from the system, reducing the money supply.

88. Question 88: What is the relationship between inflation and money supply according to the Quantity Theory of Money?
A) Directly proportional
B) Inversely proportional
C) No relationship
D) Constant
Answer: A
Solution: The Quantity Theory of Money suggests that an increase in money supply leads to higher inflation, assuming velocity and output remain constant.

89. Question 89: If the central bank decreases the reverse repo rate, what is the effect on liquidity?
A) Liquidity decreases
B) Liquidity increases
C) Inflation decreases
D) Interest rates rise
Answer: B
Solution: Lowering the reverse repo rate makes it less attractive for banks to deposit with the central bank, increasing liquidity.

90. Question 90: What does the term "high-powered money" include?
A) Only currency in circulation
B) Currency in circulation + Bank reserves
C) Only bank deposits
D) Government bonds
Answer: B
Solution: High-powered money (monetary base) includes currency in circulation and bank reserves held with the central bank.

91. Question 91: What is the primary tool used by the central bank to control short-term interest rates?
A) Repo rate
B) SLR
C) CRR
D) Fiscal policy

Answer: A
Solution: The repo rate is the key tool for controlling short-term interest rates.

92. **Question 92: What does a higher velocity of money indicate?**
    A) Slower economic activity
    B) Faster circulation of money
    C) Higher inflation
    D) Lower interest rates
    Answer: B
    Solution: A higher velocity of money indicates that money is circulating faster, reflecting increased economic activity.
93. **Question 93: Which component of money supply is the least liquid?**
    A) Currency in circulation
    B) Demand deposits
    C) Time deposits
    D) Bank reserves
    Answer: C
    Solution: Time deposits are less liquid compared to currency and demand deposits.
94. **Question 94: What is the effect of a decrease in the reserve ratio on the money supply?**
    A) Increases the money supply
    B) Decreases the money supply
    C) No effect on the money supply
    D) Increases interest rates
    Answer: A
    Solution: Lowering the reserve ratio allows banks to lend more, increasing the money supply.
95. **Question 95: What is the purpose of moral suasion in monetary policy?**
    A) Legal enforcement of monetary rules
    B) Persuading banks to follow central bank guidelines
    C) Increasing fiscal deficit
    D) Reducing taxes
    Answer: B
    Solution: Moral suasion involves the central bank persuading banks to follow policy guidelines without legal mandates.
96. **Question 96: How does inflation targeting help the economy?**
    A) Increases inflation
    B) Provides price stability and predictability
    C) Reduces economic growth
    D) Increases fiscal deficit
    Answer: B
    Solution: Inflation targeting aims to maintain stable prices, which promotes economic predictability and growth.
97. **Question 97: What happens to bank lending when the CRR is reduced?**
    A) Bank lending decreases
    B) Bank lending increases
    C) No effect on bank lending
    D) Interest rates rise

Answer: B
Solution: Reducing the CRR frees up more funds for banks to lend, increasing lending capacity.

98. **Question 98: What is the effect of a decrease in the repo rate on borrowing costs?**
A) Borrowing costs increase
B) Borrowing costs decrease
C) No effect on borrowing costs
D) Lending stops
Answer: B
Solution: A lower repo rate reduces borrowing costs for banks, encouraging more lending.
99. **Question 99: What is the purpose of selective credit control?**
A) To control the overall money supply
B) To direct credit to specific sectors
C) To increase fiscal deficit
D) To regulate tax collection
Answer: B
Solution: Selective credit control targets specific sectors to manage credit distribution effectively.
100. **Question 100: How does open market purchase of securities affect interest rates?**
A) Increases interest rates
B) Decreases interest rates
C) No impact on interest rates
D) Doubles interest rates
Answer: B
Solution: Open market purchases inject liquidity into the system, reducing interest rates.

Chapter 10: Indian Economy

Question 1: Which ancient Indian text is considered a significant treatise on statecraft and economic philosophy?
A) Arthashastra
B) Manusmriti
C) Rigveda
D) Mahabharata
Answer: A

Question 2: Who is the author of the Arthashastra?
A) Ashoka
B) Chanakya (Kautilya)
C) Chandragupta Maurya
D) Harsha
Answer: B

Question 3: What was the primary occupation in pre-independence India?
A) Trade
B) Manufacturing
C) Agriculture
D) Mining
Answer: C

Question 4: During British rule, India shifted from exporting manufactured goods to exporting what?
A) Finished goods
B) Raw materials
C) Textiles
D) Machinery
Answer: B

Question 5: What system of land tenure created a class that supported British rule?
A) Ryotwari System
B) Zamindari System
C) Mahalwari System
D) Ryotwari and Mahalwari System
Answer: B

Question 6: Which period marked the East India Company's rule in India?
A) 1600 to 1857
B) 1757 to 1858
C) 1858 to 1947
D) 1800 to 1900
Answer: B

Question 7: What was a significant consequence of the Zamindari system?
A) Increased agricultural productivity
B) Reduced land fragmentation
C) Increased indebtedness of farmers
D) Industrial growth
Answer: C

Question 8: The Industrial Policy Resolution of 1948 granted the state a monopoly in which sector?
A) Consumer goods
B) Atomic energy
C) Textiles
D) Agriculture
Answer: B

Question 9: Who was the first Prime Minister of independent India who supported a socialistic society?
A) Sardar Patel
B) Indira Gandhi
C) Jawaharlal Nehru
D) Rajendra Prasad
Answer: C

Question 10: What was the primary focus of the Second Five-Year Plan?
A) Agriculture
B) Heavy industry
C) Services
D) Trade
Answer: B

Question 11: What major event led to the introduction of the Green Revolution in India?
A) World War II
B) Independence in 1947
C) Droughts of 1966-67
D) Oil Crisis of 1973
Answer: C

Question 12: Which crop was most associated with the Green Revolution?
A) Jute
B) Wheat
C) Cotton

D) Tea
Answer: B

Question 13: What does the term 'License Raj' refer to?
A) British colonial rule
B) System of industrial licensing
C) Agricultural reforms
D) Export policies
Answer: B

Question 14: In which year were 14 major banks nationalized in India?
A) 1955
B) 1969
C) 1975
D) 1980
Answer: B

Question 15: What does the term 'Hindu Growth Rate' refer to?
A) High growth rate in the 1980s
B) 3.5% annual GDP growth in the post-independence era
C) Growth rate during the Mughal era
D) Growth rate of agriculture
Answer: B

Question 16: The Monopolies and Restrictive Trade Practices (MRTP) Act was enacted in which year?
A) 1956
B) 1969
C) 1975
D) 1980
Answer: B

Question 17: What was the primary goal of the MRTP Act?
A) Promote monopolies
B) Regulate large firms' market power
C) Increase foreign trade
D) Boost small industries
Answer: B

Question 18: What economic reforms were introduced in 1991?
A) Green Revolution
B) License Raj
C) Liberalization, Privatization, Globalization (LPG)
D) Nationalization of banks
Answer: C

Question 19: Who was the Prime Minister when the 1991 economic reforms were introduced?
A) Indira Gandhi

B) Rajiv Gandhi
C) P.V. Narasimha Rao
D) Manmohan Singh
Answer: C

Question 20: What does 'Privatization' mean in the context of the 1991 reforms?
A) Government ownership of industries
B) Transfer of ownership from public to private sector
C) Nationalization of banks
D) Increase in public sector enterprises
Answer: B

Question 21: Who was the Finance Minister during the 1991 economic reforms?
A) Yashwant Sinha
B) Manmohan Singh
C) P. Chidambaram
D) N.K. Singh
Answer: B
Solution: Manmohan Singh was the Finance Minister who implemented the 1991 economic reforms.

Question 22: The New Economic Policy (NEP) of 1991 focused on which three pillars?
A) Agriculture, Industry, Services
B) Liberalization, Privatization, Globalization
C) Taxation, Subsidies, Trade
D) Education, Health, Infrastructure
Answer: B
Solution: NEP focused on Liberalization, Privatization, and Globalization (LPG).

Question 23: What major challenge led to the 1991 economic reforms?
A) Agricultural surplus
B) Balance of payments crisis
C) Technological boom
D) Industrial stagnation
Answer: B
Solution: India faced a severe balance of payments crisis, prompting the 1991 reforms.

Question 24: Which sector was given significant importance in the First Five-Year Plan?
A) Heavy industry
B) Services
C) Agriculture
D) Trade
Answer: C
Solution: The First Five-Year Plan focused on agriculture and irrigation.

Question 25: What is the role of the Planning Commission?
A) Conduct elections

B) Formulate and oversee five-year plans
C) Collect taxes
D) Implement foreign policy
Answer: B
Solution: The Planning Commission was responsible for formulating and overseeing five-year plans.

Question 26: In which year was the Planning Commission replaced by the NITI Aayog?
A) 2012
B) 2014
C) 2015
D) 2016
Answer: C
Solution: The NITI Aayog replaced the Planning Commission in 2015.

Question 27: What does NITI stand for in NITI Aayog?
A) National Institution for Transforming India
B) National Innovation for Trade and Industry
C) National Institute for Technology and Infrastructure
D) National Industrial and Trade Initiative
Answer: A
Solution: NITI stands for National Institution for Transforming India.

Question 28: The Green Revolution primarily benefited which regions in India?
A) Northeast India
B) Southern states
C) Punjab, Haryana, and Western Uttar Pradesh
D) Eastern states
Answer: C
Solution: The Green Revolution was most successful in Punjab, Haryana, and Western Uttar Pradesh.

Question 29: Who was known as the father of the Green Revolution in India?
A) Dr. Verghese Kurien
B) M.S. Swaminathan
C) P.C. Mahalanobis
D) C. Subramaniam
Answer: B
Solution: M.S. Swaminathan is known as the father of the Green Revolution in India.

Question 30: What was the main objective of the Fifth Five-Year Plan?
A) Industrial development
B) Self-reliance and poverty eradication
C) Technological advancement
D) Infrastructure development
Answer: B
Solution: The Fifth Plan aimed at achieving self-reliance and eradicating poverty.

Question 31: Which major event led to the introduction of the Emergency in India?
A) Oil crisis of 1973
B) Indo-Pak War of 1965
C) Political instability in 1975
D) Green Revolution
Answer: C
Solution: The Emergency was declared in 1975 due to political instability.

Question 32: Operation Flood was associated with which sector?
A) Agriculture
B) Textile
C) Dairy
D) Fisheries
Answer: C
Solution: Operation Flood was aimed at increasing milk production.

Question 33: Who is known as the father of the White Revolution in India?
A) M.S. Swaminathan
B) Dr. Verghese Kurien
C) Lal Bahadur Shastri
D) C. Subramaniam
Answer: B
Solution: Dr. Verghese Kurien is credited with the success of the White Revolution.

Question 34: What was the primary objective of the Industrial Policy of 1991?
A) Promote public sector dominance
B) Liberalize the industrial sector
C) Increase agricultural output
D) Enhance trade restrictions
Answer: B
Solution: The Industrial Policy of 1991 aimed to liberalize and open up the industrial sector.

Question 35: Which sector contributes the most to India's Gross Domestic Product (GDP) in recent years?
A) Agriculture
B) Manufacturing
C) Services
D) Mining
Answer: C
Solution: The services sector is the largest contributor to India's GDP.

Question 36: Which of the following is a major agricultural export of India?
A) Automobiles
B) Textiles
C) Basmati rice
D) Electronics

Answer: C
Solution: Basmati rice is a key agricultural export of India.

Question 37: What was the goal of the Swachh Bharat Abhiyan?
A) Increase rural employment
B) Improve sanitation and hygiene
C) Boost industrial growth
D) Expand digital infrastructure
Answer: B
Solution: Swachh Bharat Abhiyan aimed to improve sanitation and hygiene across India.

Question 38: What does the term “Make in India” refer to?
A) Promoting agricultural exports
B) Encouraging domestic manufacturing
C) Expanding the IT sector
D) Improving tourism
Answer: B
Solution: “Make in India” is an initiative to boost domestic manufacturing.

Question 39: In which year was the Goods and Services Tax (GST) implemented in India?
A) 2014
B) 2016
C) 2017
D) 2018
Answer: C
Solution: GST was implemented on July 1, 2017.

Question 40: What does GST aim to achieve?
A) Increase direct taxes
B) Create a unified indirect tax system
C) Increase foreign investment
D) Reduce fiscal deficit
Answer: B
Solution: GST aims to create a unified tax structure for goods and services across India.

41. Question 41: What was the primary objective of the Pradhan Mantri Jan Dhan Yojana (PMJDY)?
    A) Boost agricultural production
    B) Achieve financial inclusion
    C) Increase industrial growth
    D) Improve urban infrastructure
    Answer: B
    Solution: PMJDY aimed to provide financial services to the unbanked population.

42. Question 42: The Demonetization of ₹500 and ₹1000 notes occurred in which year?
    A) 2014
    B) 2015
    C) 2016
    D) 2017
    Answer: C
    Solution: Demonetization was announced on November 8, 2016.
43. Question 43: What was the main goal of demonetization in 2016?
    A) Promote tourism
    B) Curb black money and counterfeit currency
    C) Increase exports
    D) Boost manufacturing
    Answer: B
    Solution: Demonetization aimed to eliminate black money and counterfeit currency.
44. Question 44: Which sector employs the highest percentage of the Indian workforce?
    A) Manufacturing
    B) Agriculture
    C) Services
    D) Mining
    Answer: B
    Solution: Agriculture employs the largest share of India's workforce.
45. Question 45: What was the focus of the Sixth Five-Year Plan?
    A) Poverty eradication
    B) Technological advancement
    C) Infrastructure development
    D) Industrial growth
    Answer: A
    Solution: The Sixth Five-Year Plan aimed at poverty eradication and economic self-reliance.
46. Question 46: When was the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) enacted?
    A) 2004
    B) 2005
    C) 2006
    D) 2007
    Answer: B
    Solution: MGNREGA was enacted in 2005 to provide rural employment.
47. Question 47: What does the RERA Act, 2016 aim to regulate?
    A) Agricultural practices
    B) Real estate sector
    C) Banking sector
    D) Stock market
    Answer: B
    Solution: The RERA Act regulates the real estate sector to protect home buyers.

48. Question 48: Which body replaced the Planning Commission?
    A) Finance Commission
    B) NITI Aayog
    C) RBI
    D) SEBI
    Answer: B
    Solution: NITI Aayog replaced the Planning Commission in 2015.
49. Question 49: What is the main objective of the Skill India Mission?
    A) Increase financial inclusion
    B) Provide skill development to youth
    C) Boost agricultural production
    D) Promote tourism
    Answer: B
    Solution: The Skill India Mission focuses on equipping youth with employable skills.
50. Question 50: Which Indian state was the first to launch the Goods and Services Tax (GST)?
    A) Maharashtra
    B) Gujarat
    C) Assam
    D) Tamil Nadu
    Answer: C
    Solution: Assam was the first state to ratify and implement GST.
51. Question 51: What does FDI stand for?
    A) Foreign Domestic Investment
    B) Foreign Direct Investment
    C) Fiscal Deficit Index
    D) Fixed Deposit Investment
    Answer: B
    Solution: FDI stands for Foreign Direct Investment.
52. Question 52: In which year did India liberalize its economy and open it up for FDI?
    A) 1985
    B) 1991
    C) 1997
    D) 2000
    Answer: B
    Solution: India liberalized its economy and welcomed FDI in 1991.
53. Question 53: What does the FRBM Act stand for?
    A) Fiscal Responsibility and Budget Management Act
    B) Financial Regulation and Banking Management Act
    C) Federal Reserve and Banking Management Act
    D) Fiscal Reforms and Budgetary Measures Act
    Answer: A
    Solution: FRBM Act stands for Fiscal Responsibility and Budget Management Act.
54. Question 54: The FRBM Act was enacted in which year?
    A) 1999

B) 2001
C) 2003
D) 2005
Answer: C
Solution: The FRBM Act was enacted in 2003 to maintain fiscal discipline.

55. Question 55: What is the primary aim of fiscal policy?
A) Control inflation
B) Regulate money supply
C) Manage government revenue and expenditure
D) Stabilize foreign exchange
Answer: C
Solution: Fiscal policy focuses on managing government revenue and expenditure.

56. Question 56: Which organization regulates the banking sector in India?
A) SEBI
B) RBI
C) IRDAI
D) NITI Aayog
Answer: B
Solution: The Reserve Bank of India (RBI) regulates the banking sector.

57. Question 57: Disinvestment refers to:
A) Increasing government investment in PSUs
B) Selling government stakes in PSUs
C) Nationalizing private companies
D) Reducing fiscal deficit
Answer: B
Solution: Disinvestment involves the sale of government stakes in public sector units.

58. Question 58: What does SEBI regulate?
A) Banking sector
B) Insurance sector
C) Stock markets
D) Real estate
Answer: C
Solution: SEBI (Securities and Exchange Board of India) regulates stock markets.

59. Question 59: Which of the following is a direct tax?
A) Goods and Services Tax (GST)
B) Corporate tax
C) Excise duty
D) Customs duty
Answer: B
Solution: Corporate tax is a direct tax levied on company profits.

60. Question 60: What is the role of the Finance Commission?
A) Regulate stock markets
B) Recommend distribution of taxes between the Centre and States
C) Oversee monetary policy
D) Manage public sector enterprises

Answer: B
Solution: The Finance Commission recommends the distribution of taxes between the Centre and States.

Question 61: What does GDP stand for?
A) Gross Domestic Product
B) Government Domestic Policy
C) General Development Plan
D) Gross Demand for Products
Answer: A
Solution: GDP stands for Gross Domestic Product, which measures the total value of goods and services produced in a country.

Question 62: Which sector is referred to as the primary sector of the Indian economy?
A) Services
B) Manufacturing
C) Agriculture
D) Construction
Answer: C
Solution: The primary sector consists of agriculture, forestry, fishing, and mining.

Question 63: What is the role of the RBI's Monetary Policy Committee (MPC)?
A) Formulate fiscal policy
B) Set interest rates to control inflation
C) Distribute taxes between states
D) Regulate stock markets
Answer: B
Solution: The MPC sets interest rates to achieve inflation targets.

Question 64: The Goods and Services Tax (GST) is an example of which type of tax?
A) Direct tax
B) Indirect tax
C) Corporate tax
D) Income tax
Answer: B
Solution: GST is an indirect tax applied to the sale of goods and services.

Question 65: What does NABARD stand for?
A) National Bank for Agricultural and Rural Development
B) National Authority for Banking and Rural Development
C) National Agency for Business and Rural Development
D) National Bank for Agriculture and Resource Development
Answer: A
Solution: NABARD stands for National Bank for Agricultural and Rural Development.

Question 66: What is the minimum support price (MSP)?
A) Price at which farmers sell crops to private markets
B) Price set by the government to protect farmers from market fluctuations
C) Price determined by global markets

D) Price set by traders
Answer: B
Solution: MSP is the price at which the government buys crops from farmers to ensure fair income.

Question 67: What does the term 'Balance of Payments (BoP)' refer to?
A) Balance of government revenue and expenditure
B) Record of all economic transactions between a country and the rest of the world
C) Balance of imports and exports
D) Balance of domestic trade
Answer: B
Solution: BoP is a record of all economic transactions between a country and the rest of the world.

Question 68: Inflation refers to:
A) Decrease in the general price level
B) Increase in the general price level
C) Stability in prices
D) Increase in production
Answer: B
Solution: Inflation is the rise in the general price level of goods and services.

Question 69: What does 'Deflation' mean?
A) Increase in prices
B) Decrease in prices
C) Increase in demand
D) Increase in supply
Answer: B
Solution: Deflation is a decrease in the general price level of goods and services.

Question 70: What is the main aim of the Pradhan Mantri Garib Kalyan Yojana (PMGKY)?
A) Promote tourism
B) Provide financial support to the poor
C) Increase industrial growth
D) Improve digital literacy
Answer: B
Solution: PMGKY aims to provide financial and food security support to the poor.

Question 71: Which ministry implements the Make in India initiative?
A) Ministry of Agriculture
B) Ministry of Finance
C) Ministry of Commerce and Industry
D) Ministry of Rural Development
Answer: C
Solution: The Ministry of Commerce and Industry implements the Make in India initiative.

Question 72: What is the Human Development Index (HDI) based on?
A) GDP, population, and inflation
B) Income, education, and life expectancy
C) Exports, imports, and trade balance
D) Employment rate and wages
Answer: B
Solution: HDI measures human development using income, education, and life expectancy.

Question 73: What does the Fiscal Deficit represent?
A) Total government revenue
B) Excess of government spending over revenue
C) Balance of exports and imports
D) Public debt
Answer: B
Solution: Fiscal deficit is the excess of government spending over its revenue.

Question 74: What is the aim of the Startup India initiative?
A) Increase agricultural productivity
B) Promote entrepreneurship and innovation
C) Develop rural infrastructure
D) Increase foreign trade
Answer: B
Solution: Startup India aims to promote entrepreneurship and innovation.

Question 75: The Industrial Disputes Act was enacted in which year?
A) 1947
B) 1956
C) 1961
D) 1972
Answer: A
Solution: The Industrial Disputes Act was enacted in 1947.

Question 76: What does the Gini Coefficient measure?
A) Inflation rate
B) Income inequality
C) Employment rate
D) Trade balance
Answer: B
Solution: The Gini Coefficient measures income inequality within a population.

Question 77: Which Five-Year Plan was focused on the growth of agriculture and self-sufficiency?
A) First Five-Year Plan
B) Second Five-Year Plan
C) Fourth Five-Year Plan
D) Seventh Five-Year Plan

Answer: A
Solution: The First Five-Year Plan focused on agriculture and self-sufficiency.

Question 78: What does the term 'demographic dividend' refer to?
A) Aging population
B) Economic growth due to a large working-age population
C) Increase in agricultural productivity
D) Decrease in population growth
Answer: B
Solution: Demographic dividend refers to economic growth resulting from a large working-age population.

Question 79: Disguised unemployment is most commonly found in which sector?
A) Manufacturing
B) Services
C) Agriculture
D) IT
Answer: C
Solution: Disguised unemployment is common in agriculture, where more people are employed than necessary.

Question 80: Which organization publishes the annual Economic Survey of India?
A) RBI
B) NITI Aayog
C) Ministry of Finance
D) SEBI
Answer: C
Solution: The Ministry of Finance publishes the annual Economic Survey.

81. Question 81: What is the Repo Rate?
    A) Rate at which the RBI lends to the government
    B) Rate at which RBI lends to commercial banks
    C) Rate at which banks lend to the public
    D) Rate of direct taxation
    Answer: B
    Solution: The Repo Rate is the rate at which the RBI lends money to commercial banks.
82. Question 82: What is Reverse Repo Rate?
    A) Rate at which banks borrow from the public
    B) Rate at which RBI borrows from commercial banks
    C) Rate for inter-bank lending
    D) Rate of return on government bonds
    Answer: B
    Solution: Reverse Repo Rate is the rate at which the RBI borrows funds from commercial banks.
83. Question 83: MSME stands for:
    A) Micro, Small, and Medium Enterprises
    B) Medium, Small, and Manufacturing Enterprises

C) Micro, State, and Major Enterprises
D) Macro, Small, and Medium Enterprises
Answer: A
Solution: MSME stands for Micro, Small, and Medium Enterprises.

84. Question 84: What is the main goal of the Pradhan Mantri Awas Yojana (PMAY)?
A) Provide employment opportunities
B) Provide affordable housing
C) Improve agricultural productivity
D) Develop infrastructure in cities
Answer: B
Solution: PMAY aims to provide affordable housing to urban and rural poor.

85. Question 85: Which year marked the launch of the Digital India initiative?
A) 2012
B) 2014
C) 2015
D) 2016
Answer: C
Solution: Digital India was launched in 2015 to improve digital infrastructure.

86. Question 86: What is the primary aim of the National Rural Health Mission (NRHM)?
A) Boost rural employment
B) Improve healthcare services in rural areas
C) Develop rural infrastructure
D) Provide housing for the poor
Answer: B
Solution: NRHM aims to improve healthcare facilities in rural areas.

87. Question 87: What is the main objective of the Atmanirbhar Bharat Abhiyan?
A) Reduce exports
B) Promote self-reliance in the economy
C) Increase foreign investments
D) Develop tourism infrastructure
Answer: B
Solution: Atmanirbhar Bharat Abhiyan aims to make India self-reliant in key sectors.

88. Question 88: The first Industrial Policy of Independent India was announced in:
A) 1947
B) 1948
C) 1951
D) 1956
Answer: B
Solution: The first Industrial Policy was announced in 1948.

89. Question 89: What is the main purpose of the Golden Quadrilateral Project?
A) Improve rail connectivity
B) Connect major cities through highways
C) Promote rural employment
D) Develop ports and harbors
Answer: B

Solution: The Golden Quadrilateral Project connects major Indian cities through a network of highways.

90. Question 90: Which organization publishes the Wholesale Price Index (WPI) in India?
    A) Reserve Bank of India (RBI)
    B) Ministry of Finance
    C) Office of the Economic Advisor
    D) NITI Aayog
    Answer: C
    Solution: The Office of the Economic Advisor publishes the WPI.
91. Question 91: What does 'financial inclusion' aim to achieve?
    A) Increase tax collection
    B) Provide banking services to all sections of society
    C) Boost industrial growth
    D) Increase exports
    Answer: B
    Solution: Financial inclusion ensures access to financial services for all sections of society.
92. Question 92: What does the term 'non-performing asset (NPA)' refer to?
    A) Profitable bank loans
    B) Loans on which interest or principal is overdue for 90 days
    C) Government bonds
    D) High-performing loans
    Answer: B
    Solution: An NPA is a loan where the principal or interest is overdue for more than 90 days.
93. Question 93: What is the purpose of the MUDRA scheme?
    A) Provide housing loans
    B) Support micro and small enterprises with loans
    C) Increase foreign trade
    D) Promote large industries
    Answer: B
    Solution: MUDRA scheme provides loans to micro and small enterprises.
94. Question 94: The Rural Infrastructure Development Fund (RIDF) is managed by:
    A) RBI
    B) NABARD
    C) SEBI
    D) NITI Aayog
    Answer: B
    Solution: NABARD manages the RIDF to finance rural infrastructure projects.
95. Question 95: What is the aim of the Beti Bachao Beti Padhao scheme?
    A) Increase rural employment
    B) Promote gender equality and girl child education
    C) Boost agricultural productivity
    D) Improve healthcare services
    Answer: B

Solution: The scheme aims to address gender inequality and promote education for girls.

96. Question 96: The Smart Cities Mission was launched in:
    A) 2013
    B) 2014
    C) 2015
    D) 2016
    Answer: C
    Solution: The Smart Cities Mission was launched in 2015 to promote sustainable urban development.
97. Question 97: What is the main objective of the National Education Policy (NEP) 2020?
    A) Increase agricultural productivity
    B) Reform the education system
    C) Promote financial inclusion
    D) Develop infrastructure
    Answer: B
    Solution: NEP 2020 aims to reform the Indian education system.
98. Question 98: The Headquarters of the Reserve Bank of India (RBI) is located in:
    A) New Delhi
    B) Mumbai
    C) Chennai
    D) Kolkata
    Answer: B
    Solution: The RBI headquarters is located in Mumbai.
99. Question 99: What does 'Minimum Wage' ensure for workers?
    A) Fixed working hours
    B) Basic minimum pay for work done
    C) Employment benefits
    D) Maximum pay limits
    Answer: B
    Solution: Minimum wage ensures a basic pay for workers to cover their living expenses.
100. Question 100: What is the purpose of the Digital India initiative?
    A) Promote agricultural growth
    B) Improve digital infrastructure and literacy
    C) Boost tourism
    D) Regulate banking services
    Answer: B
    Solution: Digital India aims to improve digital infrastructure, increase internet connectivity, and promote digital literacy.


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