

CHAPTER 7 PUBLIC FINANCE

Unit 1: Introduction to Public Finance

1. Public finance deals with:
 - a) Private corporate accounts
 - b) Government revenue and expenditure
 - c) Foreign exchange management
 - d) Stock market analysis
2. The main objective of public finance is:
 - a) Maximizing profits of private firms
 - b) Ensuring economic stability and welfare
 - c) Increasing imports
 - d) Reducing population growth
3. "Maximum Social Advantage" principle was given by:
 - a) Adam Smith
 - b) Hugh Dalton
 - c) Alfred Marshall
 - d) John Keynes
4. Which is a direct tax?
 - a) GST
 - b) Customs Duty
 - c) Income Tax
 - d) Sales Tax
5. Fiscal policy is formulated by:
 - a) RBI
 - b) Ministry of Finance
 - c) SEBI
 - d) NITI Aayog
6. Public goods are characterized by:
 - a) Excludability and rivalry
 - b) Non-excludability and non-rivalry
 - c) Only excludability
 - d) Only rivalry
7. Which is **NOT** a source of public revenue?
 - a) Taxes
 - b) Fees
 - c) Corporate dividends
 - d) Private donations
8. The term 'fiscal federalism' refers to:

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- a) Division of financial powers between central and state governments
- b) Only central government taxation
- c) International trade policies
- d) Private sector investments

9. Which of the following is a merit good?

- a) Cigarettes
- b) Education
- c) Luxury cars
- d) Alcohol

10. The government's role in public finance includes:

- a) Only taxation
- b) Allocation, distribution, and stabilization
- c) Only defense spending
- d) Only printing currency

11. Which tax is **regressive** in nature?

- a) Income Tax
- b) GST on essential goods
- c) Corporate Tax
- d) Wealth Tax

12. The Laffer Curve is associated with:

- a) Inflation and unemployment
- b) Tax rates and revenue
- c) Demand and supply
- d) Imports and exports

13. Which is a transfer payment?

- a) Salary to government employees
- b) Pension to retirees
- c) Payment for infrastructure
- d) Interest on public debt

14. The main component of public finance is:

- a) Private savings
- b) Government budget
- c) Foreign aid
- d) Corporate profits

15. Which is NOT a function of public finance?

- a) Reducing inequality
- b) Price stability
- c) Maximizing shareholder wealth
- d) Economic growth

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16. The ability-to-pay principle in taxation states that:

- a) Everyone pays the same tax
- b) Taxes should be based on income levels
- c) Only businesses should pay taxes
- d) Taxes are voluntary

17. Which of the following is a fiscal tool?

- a) Interest rates
- b) Government spending
- c) Exchange rates
- d) CRR

18. Deficit financing leads to:

- a) Reduced money supply
- b) Inflationary pressure
- c) Lower government expenditure
- d) Decreased public debt

19. The Finance Commission in India recommends:

- a) Monetary policy
- b) Tax sharing between center and states
- c) FDI policies
- d) Stock market regulations

20. Which is a characteristic of a good tax system?

- a) Complexity
- b) Inequity
- c) Certainty
- d) Instability

Answer Key

Unit 1

- 1. b
- 2. b
- 3. b
- 4. c
- 5. b
- 6. b
- 7. d
- 8. a
- 9. b
- 10. b
- 11. b
- 12. b
- 13. b

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- 14. b
- 15. c
- 16. b
- 17. b
- 18. b
- 19. b
- 20. c

Unit 2: Public Revenue – MCQ Quiz

1. **Taxes are compulsory payments made to the government:**
 - a) With a direct benefit in return
 - b) Without any quid pro quo
 - c) Only by corporate entities
 - d) Only during emergencies
2. **Which of the following is a direct tax?**
 - a) GST
 - b) Customs Duty
 - c) Income Tax
 - d) Sales Tax
3. **A progressive tax system means:**
 - a) Higher income earners pay a lower percentage
 - b) Higher income earners pay a higher percentage
 - c) Everyone pays the same amount
 - d) Only businesses pay taxes
4. **Which tax is an example of an indirect tax?**
 - a) Wealth Tax
 - b) Corporate Tax
 - c) GST
 - d) Capital Gains Tax
5. **The principle of "Ability to Pay" in taxation refers to:**
 - a) Everyone paying the same tax
 - b) Taxes being proportional to income
 - c) Only the rich paying taxes
 - d) Taxes being voluntary
6. **Which of the following is NOT a canon of taxation as per Adam Smith?**
 - a) Economy
 - b) Certainty
 - c) Complexity
 - d) Convenience
7. **A regressive tax affects:**
 - a) The rich more than the poor
 - b) The poor more than the rich

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- c) Only businesses
 - d) Only salaried individuals
8. **Which of the following is a non-tax revenue source for the government?**
- a) Income Tax
 - b) GST
 - c) Fees and Fines
 - d) Customs Duty
9. **The GST in India is a:**
- a) Direct tax
 - b) Indirect tax
 - c) Proportional tax
 - d) Only applicable to exports
10. **Which tax was replaced by GST in India?**
- a) Income Tax
 - b) Wealth Tax
 - c) VAT, Excise, and Service Tax
 - d) Corporate Tax
11. **The term "fiscal drag" refers to:**
- a) Decrease in tax revenue due to inflation
 - b) Increase in tax revenue due to inflation pushing taxpayers into higher brackets
 - c) Reduction in government spending
 - d) Increase in corporate profits
12. **Which of the following is a feature of a good tax system?**
- a) High compliance cost
 - b) Inequity
 - c) Simplicity and transparency
 - d) Frequent changes in tax laws
13. **Double taxation occurs when:**
- a) Two different taxes are levied on the same income
 - b) Only direct taxes are imposed
 - c) Only indirect taxes are imposed
 - d) Taxes are paid voluntarily
14. **Which of the following is a progressive tax in India?**
- a) GST on essential goods
 - b) Income Tax
 - c) Sales Tax
 - d) Excise Duty
15. **The main objective of taxation is:**
- a) To maximize government profits
 - b) To redistribute income and fund public services
 - c) To discourage savings
 - d) To increase imports
16. **Which of the following is NOT a type of tax?**
- a) Proportional Tax

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- b) Regressive Tax
 - c) Voluntary Tax
 - d) Progressive Tax
17. **Tax evasion refers to:**
- a) Legal tax avoidance
 - b) Illegal non-payment of taxes
 - c) Paying extra taxes
 - d) Government reducing tax rates
18. **Which of the following is a direct tax in India?**
- a) GST
 - b) Customs Duty
 - c) Corporate Tax
 - d) Sales Tax
19. **The Laffer Curve illustrates the relationship between:**
- a) Inflation and unemployment
 - b) Tax rates and tax revenue
 - c) Demand and supply
 - d) Imports and exports
20. **Which tax is levied by local municipal bodies?**
- a) Income Tax
 - b) Property Tax
 - c) Corporate Tax
 - d) Customs Duty

Answer Key (Unit 2: Public Revenue)

- 1. **b** (Without any quid pro quo)
- 2. **c** (Income Tax)
- 3. **b** (Higher income earners pay a higher percentage)
- 4. **c** (GST)
- 5. **b** (Taxes being proportional to income)
- 6. **c** (Complexity)
- 7. **b** (The poor more than the rich)
- 8. **c** (Fees and Fines)
- 9. **b** (Indirect tax)
- 10. **c** (VAT, Excise, and Service Tax)
- 11. **b** (Increase in tax revenue due to inflation pushing taxpayers into higher brackets)
- 12. **c** (Simplicity and transparency)
- 13. **a** (Two different taxes are levied on the same income)
- 14. **b** (Income Tax)
- 15. **b** (To redistribute income and fund public services)
- 16. **c** (Voluntary Tax)
- 17. **b** (Illegal non-payment of taxes)
- 18. **c** (Corporate Tax)
- 19. **b** (Tax rates and tax revenue)
- 20. **b** (Property Tax)

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Unit 3: Public Expenditure – MCQ Practice Questions

1. **Public expenditure refers to:**
 - a) Spending by private corporations
 - b) Government spending on public goods and services
 - c) Household consumption expenditure
 - d) Foreign direct investment
2. **Which of the following is NOT a objective of public expenditure?**
 - a) Economic growth
 - b) Income redistribution
 - c) Maximizing corporate profits
 - d) Providing public goods
3. **Wagner's Law of Increasing State Activity states that:**
 - a) Public expenditure decreases as economy grows
 - b) Public expenditure grows faster than national income
 - c) Government should minimize its spending
 - d) Only defense expenditure should increase
4. **Which of the following is an example of revenue expenditure?**
 - a) Building a new highway
 - b) Salary payments to government employees
 - c) Construction of a dam
 - d) Purchase of military equipment
5. **The 'multiplier effect' of public expenditure refers to:**
 - a) Reduction in tax rates
 - b) The proportional increase in national income due to government spending
 - c) Decrease in money supply
 - d) Increase in imports
6. **Which type of public expenditure creates assets for the economy?**
 - a) Revenue expenditure
 - b) Capital expenditure
 - c) Transfer payments
 - d) Welfare expenditure
7. **Deficit financing means:**
 - a) Government spending less than its revenue
 - b) Government spending more than its revenue
 - c) Balanced budget
 - d) Zero public debt
8. **Which of the following is a transfer payment?**
 - a) Salary to government employees
 - b) Pension payments
 - c) Infrastructure development
 - d) Defense spending
9. **The 'crowding out' effect occurs when:**

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- a) Private investment increases due to government spending
 - b) Government borrowing reduces funds available for private sector
 - c) Exports replace domestic production
 - d) Taxes are reduced
10. **Which of the following is a merit good?**
- a) Cigarettes
 - b) Alcohol
 - c) Primary education
 - d) Luxury cars
11. **The principle of 'maximum social advantage' in public expenditure was propounded by:**
- a) Adam Smith
 - b) Hugh Dalton
 - c) J.M. Keynes
 - d) Alfred Marshall
12. **Which of the following is NOT a characteristic of public goods?**
- a) Non-excludability
 - b) Non-rivalry
 - c) Free market provision
 - d) Collective consumption
13. **The largest component of government expenditure in India is typically:**
- a) Defense
 - b) Interest payments
 - c) Education
 - d) Healthcare
14. **Which of the following is an example of developmental expenditure?**
- a) Pension payments
 - b) Defense spending
 - c) Infrastructure projects
 - d) Debt servicing
15. **The 'balanced budget multiplier' is equal to:**
- a) Zero
 - b) One
 - c) More than one
 - d) Less than one
16. **Which of the following factors does NOT influence public expenditure?**
- a) Population growth
 - b) Level of economic development
 - c) Corporate profits
 - d) Government policies
17. **The 'Pigou effect' relates public expenditure to:**
- a) Inflation
 - b) Employment
 - c) Consumption
 - d) Interest rates

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18. **Which of the following is a non-developmental expenditure?**
- a) Education
 - b) Healthcare
 - c) Defense
 - d) Agriculture
19. **The 'golden rule of public expenditure' suggests that:**
- a) Government should always balance its budget
 - b) Borrowing should only fund capital expenditure
 - c) Taxes should be minimized
 - d) Public debt should be eliminated
20. **Which of the following best describes 'fiscal policy'?**
- a) Government's taxation and spending policies
 - b) Central bank's monetary policies
 - c) Trade policies
 - d) Foreign exchange policies

Answer Key (Unit 3: Public Expenditure)

- 1. b
- 2. c
- 3. b
- 4. b
- 5. b
- 6. b
- 7. b
- 8. b
- 9. b
- 10. c
- 11. b
- 12. c
- 13. b
- 14. c
- 15. b
- 16. c
- 17. c
- 18. c
- 19. b
- 20. a

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Unit 4: Public Debt & Fiscal Policy - 20 MCQs

1. **Public debt refers to:**
- a) Household borrowings
 - b) Corporate loans
 - c) Government borrowings
 - d) Bank deposits
2. **Internal debt is denominated in:**

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- a) Foreign currency
 - b) Domestic currency
 - c) Gold reserves
 - d) SDRs
3. **Fiscal deficit occurs when:**
- a) Revenue > Expenditure
 - b) Expenditure > Revenue
 - c) Exports > Imports
 - d) Taxes > Spending
4. **Which is NOT a tool of fiscal policy?**
- a) Taxation
 - b) Government spending
 - c) Interest rates
 - d) Public borrowing
5. **The primary objective of fiscal policy is:**
- a) Maximizing profits
 - b) Economic stability
 - c) Increasing imports
 - d) Reducing population
6. **Debt servicing refers to:**
- a) Taking new loans
 - b) Repaying principal + interest
 - c) Printing money
 - d) Tax collection
7. **Which is a characteristic of good public debt?**
- a) High interest burden
 - b) Productive utilization
 - c) Short repayment period
 - d) Foreign currency only
8. **Open market operations are conducted by:**
- a) Finance Ministry
 - b) RBI
 - c) SEBI
 - d) Finance Commission
9. **A regressive tax system:**
- a) Charges higher rates to rich
 - b) Charges same rate to all
 - c) Charges higher % to poor
 - d) Exempts poor completely
10. **The FRBM Act aims to control:**
- a) Inflation
 - b) Fiscal deficit
 - c) Unemployment
 - d) Interest rates

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11. **Which is NOT a type of public debt?**
 - a) Productive debt
 - b) Unproductive debt
 - c) Voluntary debt
 - d) Private debt
12. **Crowding out effect occurs when:**
 - a) Govt spending increases private investment
 - b) Govt borrowing reduces private investment
 - c) Taxes decrease consumption
 - d) Imports replace domestic goods
13. **Primary deficit equals:**
 - a) Fiscal deficit - interest payments
 - b) Revenue deficit - capital expenditure
 - c) Total debt/GDP ratio
 - d) Tax revenue - non-tax revenue
14. **Which is NOT a method of debt redemption?**
 - a) Sinking fund
 - b) Budget surplus
 - c) Additional taxation
 - d) Printing currency
15. **The Finance Commission deals with:**
 - a) Monetary policy
 - b) Tax sharing between center-states
 - c) Foreign trade
 - d) Banking regulation
16. **Fiscal policy is most effective for:**
 - a) Controlling inflation
 - b) Managing exchange rates
 - c) Short-term economic stabilization
 - d) Long-term growth
17. **Which component is NOT part of fiscal policy?**
 - a) Government spending
 - b) Taxation
 - c) Interest rates
 - d) Public debt
18. **A high debt-to-GDP ratio indicates:**
 - a) Strong fiscal position
 - b) Potential debt sustainability issues
 - c) Low tax revenue
 - d) High savings rate
19. **Automatic stabilizers include:**
 - a) Discretionary tax changes
 - b) Progressive tax system
 - c) New welfare schemes
 - d) Public sector investments

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20. **Which is true about public debt?**
- a) Always harmful to economy
 - b) Must be avoided completely
 - c) Can be beneficial if used productively
 - d) Only for developed countries

****Answer Key:****

- 1. c
- 2. b
- 3. b
- 4. c
- 5. b
- 6. b
- 7. b
- 8. b
- 9. c
- 10. b
- 11. d
- 12. b
- 13. a
- 14. d
- 15. b
- 16. c
- 17. c
- 18. b
- 19. b
- 20. c