



CA Foundation SAMPURNA Jan 2026

Public Finance

Notes

Unit-1: Fiscal Functions: An Overview, Centre and State: Introduction

1. Who is responsible for the economic stabilization and the income redistribution in an economy?

[June 2024]

- (A) State Government
- (B) Central Government
- (C) Central and State
- (D) Central, State, local bodies

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

- (A) Economic Growth
- (B) High levels of employment
- (C) Stable price levels
- (D) All of the above

3. Who has introduced the three-branch taxonomy of the role of government in a market economy in the book "The Theory of Public Finance"?

- (A) Adam Smith (B) J.B. Say
- (C) J.M. Keynes (D) Richard Musgrave

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

- (A) Allocation function
- (B) Income Redistribution
- (C) Stabilization Function
- (D) All of the above

The Allocation Function

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

- (A) Distribution function
- (B) Allocation function
- (C) Stabilization function
- (D) None of the above

6. The allocative function in budgeting determines _____.

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

The Redistribution Function

7. The Government can redistribute income and wealth through _____.

- (A) Expenditure side of the budget
- (B) Revenue side of the budget
- (C) Either (A) or (B)
- (D) None of these

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

- (A) Free or subsidized education
- (B) Healthcare
- (C) Progressive Taxation
- (D) Flat rate of Taxation

9. Allocative and Distributive functions of a government is a _____ economic function.

[June 2024]

- (A) Micro (B) Macro
- (C) Both (D) None

Stabilization Function

10. The stabilization issue also becomes more complex due to _____.

- (A) Contagion effect
- (B) Contraction effect
- (C) Expansion effect
- (D) Recession effect



11. The government stabilization intervention may be through which of the following?
- Monetary Policy
 - Fiscal policy
 - Monetary Policy as well as fiscal policy
 - None of these
12. Which of the following fiscal policy is adopted to alleviate recession?
- Expansionary
 - Contractionary
 - Both (A) and (B)
 - Neither (A) nor (B)
13. The policy designed to restrain the level of economic activities of the economy during the inflationary phase is known as _____.
[June 2024]
- Expansionary fiscal policy
 - Contractionary fiscal policy
 - Taxation policy
 - Budgetary policy
- Centre and State Finance**
14. Fiscal federalism in India is maintained by?
[June 2024]
- Central Government
 - State Government
 - RBI
 - Finance Commission
15. Which of the following Article of the constitution demarcates the powers of the union and the state by classifying their powers into three lists?
- Article 244
 - Article 245
 - Article 246
 - Article 247
16. On which of the following items, the State Government cannot levy taxes?
- Lands and Buildings
 - Electricity
 - Vehicles
 - Capital Value of assets
17. Which Article provides for a institutional mechanism, namely the Finance commission, for recommending the sharing of taxes?
- Article 277
 - Article 278
 - Article 279
 - Article 280
18. On which date, the GST was rolled out across the country?
- 1st April, 2017
 - 1st July, 2017
 - 1st January, 2018
 - 1st July, 2018
19. GST compensation is given:
- To the industries which have made losses due to the introduction of GST
 - To compensate for the lower rates of GST on essential items
 - To the states to compensate for the loss of revenue due to the introduction of GST
 - To compensate for the loss of input tax credit in manufacturing
20. As per the Supreme Court verdict in May 2022.
- The union has greater powers than the states for enacting GST laws
 - The union and state legislatures have "equal, simultaneous powers" to make laws on Goods and Services Tax
 - The union legislature's enactments will prevail in case of a conflict between those of union and states
 - The state legislatures can make rules only with the permission of central government



Why do Markets Fail?

21. Which one of the following is incorrect about the term "externalities" in relation to market failure?
- (A) Externalities are costs which are reflected in free market prices
 - (B) Externalities are also referred to as third party effects
 - (C) Negative externalities occur when the action of one party imposes costs on another party
 - (D) Positive externalities occur when the action of one party confers benefits on another party
22. Externalities leads to market failure because [June 2024]
- (A) They always result in negative outcomes for markets causing market failure
 - (B) They represent cost or benefit which are not reflected in the market price
 - (C) They are always associated with public goods and services
 - (D) They prevent the production of private goods harming mankind.
23. Which one of the following would you suggest for reducing negative externality?
- (A) Production subsidies
 - (B) Excise duty
 - (C) Pigouvian taxes
 - (D) All of the above
24. A Pigouvian subsidy:
- (A) Cannot be present when externalities are present
 - (B) Is a good solution for negative externality as prices will increase
 - (C) Is not measurable in terms of money and therefore not practical
 - (D) May help production to be socially optimal when positive externalities are present

25. What is the correct relationship between social cost and private cost?
- (A) $\text{Social cost} = \text{Private cost} - \text{External Cost}$
 - (B) $\text{Social cost} = \text{Private cost} + \text{External Cost}$
 - (C) $\text{Private cost} = \text{Social Cost} + \text{External Cost}$
 - (D) $\text{External Cost Private Cost} = \text{Social Cost}$

Public Goods

26. Which economist developed the theory of public goods?
- (A) Paul A. Samuelson (B) Jean Baptist Say
 - (C) J.R. Hicks (D) None of these
27. A public good is also called as _____.
- (A) Collective Consumption goods
 - (B) Social goods
 - (C) Both (A) and (B)
 - (D) None of above
28. The free rider problem arises because of:
- (A) Ability of participants to produce goods at zero marginal cost
 - (B) Marginal benefit cannot be calculated due to externalities present
 - (C) The good or service is non excludable.
 - (D) General poverty and unemployment of people.

Government Inventions to Minimise Market Failure (Due to Market Power and Externalities)

29. When smoking is completely banned by the government in public places like bus stand, schools, parks etc., then it is an example of _____. [June 2024]
- (A) Direct control on negative production externality
 - (B) Direct control on positive production externality
 - (C) Command solution
 - (D) Direct control on positive consumption externality.



30. What are Pigouvian taxes?
- (A) Pollution Taxes
 - (B) Corruption Levy Tax
 - (C) Penalty an over/under production
 - (D) Anti-profiteering tax

Government Intervention in the Case of Merit-Demerit and Public Goods

31. Which of the following is not an example of Demerit goods?
- (A) Cigarettes
 - (B) Alcohol
 - (C) Medical use of Alcohol
 - (D) Intoxicating drugs
32. Demerit goods are goods which are believed to be:
- (A) Socially desirable
 - (B) Socially Undesirable
 - (C) Having positive externalities
 - (D) None of above
33. Direct provision of a _____ by the government can help to over-come the free-rider problem which leads to market failure.
- (A) Public goods
 - (B) Private goods
 - (C) Demerit goods
 - (D) Goods with negative externalities

Price Intervention: Non - Market Pricing

34. Which of the following is Not a price intervention in the form of price controls by the Government?
- (A) Fixation of minimum wages
 - (B) Rent controls
 - (C) Price floor or price ceiling
 - (D) Pollution taxes

35. With the objective of ensuring stability in prices and distribution, governments often intervene in grain markets through:
- (A) Building and maintenance of Buffer stocks
 - (B) Price ceilings
 - (C) Price floor
 - (D) None of the above

Government Intervention (For Correcting Information Failure and For Equitable Distribution)

36. In Order to bring equity and fair. ness in the society, the government intervenes to redistribute incomes. Which one of the following is NOT an example of such policy?
- (A) Social Security Schemes
 - (B) Job reservations
 - (C) Unemployment Compensation
 - (D) Setting advertising standards to make advertising more responsible, information and less per-suasive

Unit 3: The Process of Budget Making: Sources of Revenue, Expenditure Management and Management of Public DEBT

Introduction to Indian Union Budget

37. Which Article of the Constitution of India requires the Government to present Union budget?
- (A) Article 111
 - (B) Article 112
 - (C) Article 113
 - (D) Article 114

The Process of Budget Making

38. The budget is prepared by the Ministry of Finance in consultation with _____.
- (A) Finance commission
 - (B) Niti Aayog
 - (C) Relevant Ministry
 - (D) Both (B) and (C)



39. Which of the following is a part of Annual Financial Statement?
 (A) Consolidated fund (B) Contingency fund
 (C) Public Account (D) All of the above
40. Which of the following is/are charged on the consolidated fund of India but are not subject to the vote of parliament?
 (A) Emoluments and allowances of the President of India
 (B) Emoluments of Judges of Supreme Court
 (C) Emoluments of High Ranking personnel of Constitutional bodies across India
 (D) All of the above
41. Which of the following is a statement submitted along with the bud. get as a requirement of FRBM Act.
 (A) Annual Financial Statement
 (B) Macro-Economic Framework Statement
 (C) Medium- Term Fiscal Policy cum Fiscal Policy Strategy Statement
 (D) (B) and (C) above
42. In how many days of its introduction, pass the parliament has to pass the finance Bill?
 (A) Within 50 days (B) Within 60 days
 (C) Within 75 days (D) Within 80 days
43. On the last day of the days allotted for discussion on the demands for grants, the speaker put all the outstanding demands for grants to the vote of the house. What is this process called?
 (A) Budgeting
 (B) Appropriation
 (C) Guillotine
 (D) None of these

Sources of Revenue

44. What is the statutory board through which the Department of Revenue exercises control in respect of Matters relating to all the direct and indirect union taxes?
 (A) CBDT
 (B) CBEC
 (C) CBDT and CBEC
 (D) CBDT and CBIC
45. As regards levy and collection which of the following taxes fall within the purview of CBIC?
 (A) GST
 (B) GST and Customs
 (C) GST, Customs and Central Excise Duties
 (D) All direct taxes
46. Which of the following is NOT a part of revenue receipts of the Government? [June 2024]
 (A) Tax Revenue (B) Non-Tax revenue
 (C) Debt receipts (D) All of the above
47. Non-debt capital receipts:
 (A) Do not add to the assets of the government and therefore not treated as capital receipts
 (B) Are those that do not create any future repayment burden for the government
 (C) Are those that create future liabilities for the government
 (D) Facilitate capital investments at low cost
48. Government borrowings from foreign governments and institutions:
 (A) Capital receipt
 (B) Revenue receipt
 (C) Accounts for fiscal deficit
 (D) Any of the above depending on the purpose of borrowing



Instruction: Read the Following and answer the questions 49 to 51

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

In ₹ lakh Crores

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

49. The capital receipts are:

- (A) 23.5 (B) 19.7
(C) 11.3 (D) None of the above

50. Revenue deficit is:

- (A) 23.6 (B) 13.0
(C) 7.0 (D) 2.6

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

- (A) 45.1 (B) 16.7
(C) 15.8 (D) None of the above

Public Expenditure Management

52. Which department of the minis-try of finance is the nodal department for overseeing the public financial management system in the Central Government?

- (A) Department of Revenue
(B) Department of Taxation
(C) Department of Expenditure
(D) Department of Revenue and Expenditure

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

- (A) Implementation of recommendation of finance commission
(B) Monitoring of audit comments/observations
(C) Controlling the costs and prices of public services
(D) All of the above

Public Debt. Management

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

- (A) Reserve Bank of India
(B) Ministry of Finance
(C) Both (A) and (B)
(D) None of the above

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

- (A) RBI credit to states
(B) Commercial credit of RBI
(C) Ways and Means Advances (WMA)
(D) Short-term facility

56. 'Retail Direct' scheme is:

- (A) Initiated by the Reserve Bank of India
(B) Facilitate investment in government securities by individual investors
(C) Direct sale of goods and services by government departments
(D) Both (A) and (B) are correct

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

- (A) 2003 (B) 2015
(C) 2016 (D) none of these



Types of Budgets

58. The revenue deficit for country A is:
(A) 5,000 (B) 24,000
(C) 4,500 (D) None of the above
59. Fiscal deficit of country A is:
(A) 14,000 (B) 24,000
(C) 23,500 (D) None of the above
60. Primary deficit of Country A is:
(A) 26,000 (B) 26,500
(C) 22,000 (D) 24,500
61. How the primary deficit is determined?
(A) Fiscal Deficit-Net interest liabilities
(B) Fiscal Deficit - Interest Payments
(C) Fiscal Deficit - Interest Receipts
(D) None of these

Unit-4: Fiscal Policy

Concept and Objectives of Fiscal Policy

62. Which of the following is/are the most common objectives of fiscal policy?
(A) Achievement and maintenance of full employment
(B) Maintenance of price stability and acceleration of the rate of economic development
(C) Equitable distribution of income and wealth
(D) All of the above
63. What may be the priorities of developing nations as regards objectives of fiscal policy?
(A) Stability
(B) Stability and Growth
(C) Equity
(D) Employment and Equity

Types of Fiscal Policy

64. While resorting to expansionary fiscal policy:
(A) The government may possibly have a budget surplus as increased expenditure will bring more out-put and more tax revenue
(B) The government may run into budget deficits because tax cuts reduce government income and the government expenditures exceed tax revenues in a given year
(C) It is important to have a balanced budget to avoid inflation and bring in stability
(D) None of the above will happen
65. Contractionary fiscal policy:
(A) Is resorted to when government expenditure is greater than tax revenues of any particular year
(B) Increase the aggregate demand to sustain the economy
(C) To increase the disposable income of people through tax cuts and to enable greater demand
(D) Is designed to restrain the levels of economic activity of the economy during an inflationary phase
66. Contractionary Fiscal policy works through:
(A) Decrease in Government Spending
(B) Increase in personal income tax / Business taxes
(C) Combination of (A) and (B)
(D) Increase in Government Spending and decrease in personal income tax.

The Instruments of Fiscal Policy

67. Which of the following is included in Government Expenditure?
(A) Current expenditures to meet the day-to-day running of the government
(B) Capital Expenditures
(C) Transfer Payments
(D) All of the above



68. An increase in personal income taxes:
- (A) Reduces disposable incomes leading to fall in consumption spending and aggregate demand
 - (B) Is desirable during inflation or when there is excessive levels of aggregate demand
 - (C) Is to compensate the deficiency in effective demand by boosting aggregate spending
 - (D) Both (A) and (B) are correct

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

69. Fiscal policy is a chief instrument available for governments:
- (A) To influence income distribution
 - (B) In reducing inequality
 - (C) In achieving equity and social justice
 - (D) All of above are correct

Limitations of Fiscal policy

70. Which of the following would illustrate a recognition lag?
- (A) The time required to identify the appropriate policy
 - (B) The time required to identify to pass a legislation
 - (C) The time required to identify the need for a policy change
 - (D) The time required to establish the outcomes of fiscal policy
71. Which of the following is NOT a type of lags involved in fiscal-policy action? [June 2024]
- (A) Recognition Lag
 - (B) Decision Lag
 - (C) Implementation Lag
 - (D) Progressive Lag

72. Which of the following lag occurs when the outcomes of a policy are not visible for sometime?
- (A) Impact Lag
 - (B) Decision Lag
 - (C) Recognition Lag
 - (D) Artificial Lag
73. Which one of the following lag is involved in fiscal -policy action under a democratic setup?
- (A) Recognition Lag
 - (B) Implementation Lag
 - (C) Decision Lag
 - (D) Impact Lag
74. During deep recessions crowd. ing-out is less likely to happen as private sector investment is al. ready minimal. Therefore, there is _____ to crowd out.
- (A) Only insignificant private spending
 - (B) Only insignificant public spending
 - (C) Only significant private spending
 - (D) Only significant public spending
75. Which of the following statement is true in respect of Social cost?
- (A) $\text{Social Cost} = \text{Private Cost} + \text{External Cost}$
 - (B) $\text{Social Cost} = \text{Private Cost} + \text{External Cost} - \text{Total Negative Externalities}$
 - (C) $\text{Social Cost} = \text{Private Cost} + \text{External Cost} - \text{Government Taxes}$
 - (D) $\text{Social Cost} = \text{Private Cost} + \text{Total Negative Externalities} - \text{Government Taxes}$
76. Which of the following is not a characteristic of Public Goods?
- (A) Non-rival in consumption
 - (B) Indivisibility
 - (C) More vulnerable to externalities
 - (D) Excludable



77. What does the term “lemon” means in the model of “Lemons problem” developed by “George Akeil of” in relation to used car market:-
- Only good quality used cars
 - Both poor and good quality used cars
 - Average quality used cars
 - Scrapped use cars
78. Which of the following is one of the key functions of fiscal policy and aims at eliminating the macroeconomic fluctuations arising from sub optimal allocation of resources?
- The Allocation Function
 - The Redistribution Function
 - The Stabilization Function
 - The Utilization Function
79. Article 112 of Indian Constitution provides that in respect of every financial year the President shall cause to be laid before both houses of the parliament a statement of estimated receipts and expenditure of the government of India for that year. This statement is referred as:
- Budget
 - Annual Financial Statement
 - Statement of Income and Expenditure
 - Interim Budget
80. Which of the following information regarding the receipts and expenditure of the Government is not presented in the budget documents?
- Budget estimates of Current financial year
 - Budget estimates of the Ensuing financial year
 - Revised estimates of the Ensuing financial year
 - Actual expenditure and Income of Current financial year
81. Which of the following is the nodal department for overseeing the public financial management system in the Central Government?
- NITI Aayog
 - Department of Revenue under Finance Ministry
 - Department of Expenditure under Finance Ministry
 - Reserve Bank of India
82. The statutory disclaimer that “Mutual Fund investments are subject to market risk please read the offer documents carefully before investing” is which of the following type of government intervention?
- Government intervention to correct externalities
 - Government intervention for equitable distribution
 - Government intervention to correct information failure
 - Government intervention in case of public goods
83. Which of the following is not true regarding the fiscal policy of Government?
- It is deliberate policy of Government
 - An economy producing full employment does not require Government action in the form of fiscal policy
 - Taxation policy is part of Fiscal policy
 - Fiscal Policy is supply side policy
84. During the Budget proceedings, the speaker of Lok Sabha once the prescribed time is over, puts all the outstanding demand for grants, whether discussed or not, to the vote of the house, this process is known as:
- Cut Motion
 - Presenting the appropriation bill
 - Outcome Budget
 - Guillotine



Answer Key

1. (B)	29. (C)	57. (C)
2. (D)	30. (A)	58. (C)
3. (D)	31. (C)	59. (B)
4. (C)	32. (B)	60. (C)
5. (B)	33. (A)	61. (A)
6. (D)	34. (D)	62. (D)
7. (C)	35. (A)	63. (B)
8. (C)	36. (D)	64. (B)
9. (A)	37. (B)	65. (D)
10. (A)	38. (D)	66. (C)
11. (C)	39. (D)	67. (D)
12. (A)	40. (D)	68. (D)
13. (B)	41. (D)	69. (D)
14. (D)	42. (C)	70. (C)
15. (C)	43. (C)	71. (D)
16. (D)	44. (D)	72. (A)
17. (D)	45. (C)	73. (B)
18. (B)	46. (C)	74. (A)
19. (C)	47. (B)	75. (A)
20. (B)	48. (A)	76. (D)
21. (A)	49. (A)	77. (C OR D)
22. (B)	50. (C)	78. (C)
23. (C)	51. (B)	79. (B)
24. (D)	52. (C)	80. (C)
25. (B)	53. (D)	81. (C)
26. (A)	54. (C)	82. (C)
27. (C)	55. (C)	83. (B)
28. (C)	56. (A)	84. (D)



Hints and Solution

- | | |
|---|---------|
| 1. (B) | 18. (B) |
| 2. (D) | 19. (C) |
| 3. (D) | 20. (B) |
| 4. (C)
The allocation and distribution functions are primarily macroeconomic functions, while stabilization is a macroeconomic function. | 21. (A) |
| 5. (B) | 22. (B) |
| 6. (D) | 23. (C) |
| 7. (C) | 24. (D) |
| 8. (C) | 25. (B) |
| 9. (A) | 26. (A) |
| 10. (A) | 27. (C) |
| 11. (C) | 28. (C) |
| 12. (A) | 29. (C) |
| 13. (B) | 30. (A) |
| 14. (D) | 31. (C) |
| 15. (C) | 32. (B) |
| 16. (D) | 33. (A) |
| 17. (D) | 34. (D) |
| | 35. (A) |



36. (D)

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

56. (A)

57. (C)

58. (C)

59. (B)

60. (C)

61. (A)

62. (D)

63. (B)

64. (B)

65. (D)

66. (C)

67. (D)

68. (D)

69. (D)

70. (C)

71. (D)

72. (A)

73. (B)

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

37. (B)

38. (D)

39. (D)

40. (D)

41. (D)

42. (C)

43. (C)

44. (D)

45. (C)

46. (C)

47. (B)

48. (A)

49. (A)

50. (C)

51. (B)

52. (C)

53. (D)

54. (C)

55. (C)



74. (A)

80. (C)

75. (A)

81. (C)

76. (D)

82. (C)

77. (C OR D)

83. (B)

78. (C)

84. (D)

79. (B)



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