SHETH T.J. EDUCATION SOCIETY'S

SHETH NKTT COLLEGE OF COMMERCE AND SHETH JTT COLLEGE OF ARTS

S. Y. B. Com – Semester -IV

Multiple Choice Questions of Business Economics IV

Module -1 -The role of government in an economy

1. The objective of fiscal policy of the government should be ____
   a. To reduce production
   b. To reduce inequality of income and wealth
   c. To maintain economic growth
   d. All of the above

2. The maximum social advantage is achieved when ____
   a. Marginal social sacrifice= Marginal social benefit
   b. Total social sacrifice= Total social benefit
   c. Average social sacrifice= Average social benefit
   d. Net social sacrifice= Marginal social benefit

3. _____ is not an assumption of the principle of MSA
   a. All taxes result in sacrifice
   b. All public expenditures lead to benefits
   c. Public revenue consists only of taxes
   d. The budget may be surplus or deficit

4. Public expenditure is subject to ____
   a. Diminishing marginal social benefit
   b. Increasing marginal social benefit
   c. Diminishing marginal social sacrifice
   d. Increasing marginal social sacrifice

5. When the size of the budget is less than optimum, then _____
   a. MSS < MSB
   b. MSS>MSB
   c. MSS=MSB
   d. NMB is zero

6. _____ is not within the scope of public finance
   a. Public revenue
   b. Monetary management

c. Public expenditure
d. Financial administration

7. A ____ budget should be followed during depression
a. Deficit
b. Surplus
c. Balanced
d. Neutral

8. The term functional finance was introduced by _____
a. J M Keynes
b. Richard Musgrave
c. Hugh Dalton
d. A P Lerner

9. It is difficult to assess the outcome of financial activities of the government because____
a. Social benefits and costs are subjective in nature
b. The budgetary activities are not open to scrutiny
c. Budgets may be surplus of deficit
d. All of the above

10. Classical economist advocated the government to involve in ____
a. All the activities of the economy
b. Only in most essential activities
c. Selective economic and political activities
d. None of the above

11. ____ is a concept in economic theory which describe the allocation of goods and services by a free market is not efficient.
a. Market failure
b. PPC
c. Allocative efficiency
d. Public goods

12. ____ involves production of goods and services by using non-optimal combination of inputs.
a. Productive efficiency
b. Productive inefficiency
c. Allocative efficiency
d. Allocative inefficiency

13. ____ goods are characterised by two important features ie non rival in consumption and non - excludability
a. Public goods

b. Private goods
c. Merit goods
d. Agricultural goods

14. ____ is not a feature of public goods
    a. Non rival in consumption
    b. Non excludability
    c. Free rider problem
    d. Consumers voluntarily pay for such goods

15. In distribution function, funds are collected and distributed according to the criteria of ____
    a. Utility and satisfaction
    b. Equity and social justice
    c. Productivity and satisfaction
    d. None of the above

16. Stabilisation function is also known as ____
    a. Deficit financing
    b. Debt financing
    c. Compensatory financing
    d. None of the above

17. Marginal social benefit curve ____
    a. Diminishes
    b. Increases
    c. Remains constant
    d. Does not follow fixed pattern for rise and fall

18. ____ is not an assumption of the principle of maximum social advantage
    a. all taxes result in sacrifice and public expenditure leads to benefits
    b. public revenue consists of taxes and other sources of income
    c. the government has a balanced budget
    d. public expenditure is subject to diminishing marginal social sacrifice

19. ____ functions of public finance came into prominence since late 1930s
    a. Distribution function
    b. Consumption function
    c. Stabilisation function
    d. None of the above

20. The marginal cost of a public good is generally ____
    a. High
    b. Negative

c. Near zero
d. Infinite

21. The need for city parks, defence, judicial and educational services are examples of ____
    a. Private wants
    b. Social wants
    c. Individual wants
    d. None of the above

22. Collective goods are satisfied through the provision of social goods whose remarkable features is ____
    a. They cannot be subdivided
    b. Their benefits cannot be independently shared as per individual need
    c. The principle of exclusion is not applicable
    d. All of the above

23. Pick out the feature which does not explain the term 'externalities'
    a. These effects may be good or bad
    b. It is associated with the effects of production and consumption of goods
    c. It may cause only losses to other units
    d. It may cause gain or loss

24. What are the tools of government intervention?
    a. Legislative measures
    b. Promotion of competition
    c. Fiscal measures
    d. All of the above

25. The Principle of maximum social advantage was introduced by ____
    a. Seligman
    b. Alfred Marshall
    c. J R Hicks
    d. Hugh Dalton

26. _____ economists advocated minimal role of the government and laissez faire.
    a. Classical
    b. Keynesian
    c. Both
    d. None of these

27. According to the Dalton's version of the Principal of maximum social advantage public expenditure is subject to ____
    a. Diminishing marginal social benefits

b. Increasing marginal social sacrifice
c. increasing marginal social benefits
d. Diminishing marginal social sacrifice

28. According to the Dalton's version of principle of maximum social advantage, as long as______ , the government should expand the level of taxation and public expenditure.
    a. MSB>MSS
    b. MSB<MSS
    c. MSB=MSS
    d. None of these

29. According to the Dalton's version of principle of maximum social advantage, Net social Advantage is positive if _____
    a. MSB>MSS
    b. MSB<MSS
    c. MSB=MSS
    d. MSB=NSB

30. _____ occurs when resources are misallocated or allocated inefficiently.
    a. Market failure
    b. Market efficiency
    c. Both a and b
    d. None of these

<u>Module-2- Public revenue</u>

1. ____ is not a characteristic of a tax
   a. Compulsory payment
   b. There is quid-pro-quo
   c. Involves some sacrifice
   d. None of the above

2. _____ is not a non-tax revenue
   a. Fees
   b. Customs duty
   c. Penalties
   d. Borrowings

3. _______ is not canons of taxation
   a. Canon of equity
   b. Canon of certainty

c. Canon of benefit
d. Canon of elasticity

4. ____ is the tax rate
   a. Proportional taxation
   b. Progressive taxation
   c. Regressive taxation
   d. All of the above

5. Incidence of tax refers to ____
   a. Final money burden of a tax
   b. Initial money burden of a tax
   c. Indirect money burden
   d. Real burden of a tax

6. In the case of a perfectly elastic demand, the money burden of a tax is ____
   a. Entirely on the seller
   b. Partially on the seller
   c. Entirely on the buyer
   d. Shifted partially to the buyer

7. In the case of a perfectly inelastic demand, the money burden of a tax is ____
   a. Entirely on the seller
   b. Partially on the seller
   c. Fully borne by the buyer
   d. Shifted partially to the buyer

8. In the case of a perfectly elastic supply the incidence of a tax is____
   a. Entirely on the seller
   b. Partially on the seller
   c. Entirely on the buyer
   d. Shifted partially to the buyer

9. When the supply is more elastic the burden of a tax is____
   a. More on a buyer
   b. More on the sellers
   c. Borne fully by the buyers
   d. Borne fully by the buyers

10. Under constant cost condition, the burden of a tax is ____
   a. Shifted fully to the buyer
   b. Borne fully by the seller
   c. Shifted partially to the buyers

d. More than the amount of tax

11. Under Monopoly the incidence of lumpsum tax is ____
    a. On the sellers
    b. On the buyers
    c. Partially on the sellers
    d. Partially on the buyers

12. Steep tax rate will reduce the willingness to ____
    a. Work
    b. Invest
    c. Both a and b
    d. None of these

13. Increase in tax will ____
    a. Divert the investment
    b. Reduce the investment to zero
    c. Increase the investment
    d. None of these

14. Tax on rich and luxury goods will____
    a. Increase the investment
    b. Check inflation
    c. Check deflation
    d. Will have no economic impact

15. The objective of taxation by the government is ____
    a. Raising revenue for the state
    b. To maintain economic stability
    c. To remove disparities in the distribution of income
    d. All of the above

16. ____ is not a direct tax
    a. Personal income tax
    b. Service tax
    c. Wealth tax
    d. Corporate tax

17. ____ is an example of commercial non-tax revenue
    a. Gifts and grants
    b. Fees
    c. Fines
    d. Surpluses

18. ____ is an example of administrative non-tax revenue
    a. Surplus of public undertaking
    b. Gifts
    c. Fees
    d. Grants

19. On what broad aspect of commodities is indirect taxes imposed?
    a. Production
    b. Sales
    c. Movement
    d. All of the above

20. _____ is not a characteristic of indirect tax
    a. It is compulsory payment
    b. Every tax involves a sacrifice by tax payer
    c. There is quid-pro-quo between the tax payer and government
    d. Refusal to pay tax is a punishable offence

21. _____ is a characteristic of a direct tax
    a. Incidence of a tax can be shifted
    b. Imposes more burden on poor
    c. The impact and incidence are on the same person
    d. There is quid-pro-quo between the tax payer and government

22. Special assessment is also known as ____
    a. Betterment levy
    b. Tax revenue
    c. VAT
    d. Grants

23. Impact of a tax refers to ____
    a. Final money burden
    b. Immediate money burden
    c. Indirect real burden
    d. None of the above

24. Which factor has no role in the shifting of a tax
    a. Changes in prices
    b. Elasticity of demand and supply
    c. Nature of demand
    d. Income of the consumer

25. Pick out the characteristic which is not true of direct tax
    a. Simplicity
    b. Elasticity
    c. Creates civic consciousness
    d. Encourages savings and investment

26. The item or economic activity on which the tax is levied by the government is _____
    a. Tax slab
    b. Rate of tax
    c. Tax base
    d. None of the above

27. Goods and services tax in India was introduced on ____
    a. 1st July 2017
    b. 1st June 2017
    c. 2nd February 2017
    d. None of the above

28. The two functions of redistributive taxation are ____
    a. Reduction of private savings and equalisation of living standards
    b. Increase in private savings and increase in living standards
    c. Reduction in private savings and reduction in living standards
    d. Increase in private savings and increase in living standards

29. After levying of a tax if the price does not rise at all, it means that____
    a. Incidence of the tax remains with the producer
    b. Tax has been shifted backward
    c. Shifting has taken place
    d. All of the above

30. In case if demand is relatively more elastic, _____
    a. Larger tax burden falls on the seller and smaller burden falls on the buyer
    b. Smaller tax burden falls on the seller and smaller burden falls on the buyer
    c. Larger tax burden falls on the seller and larger burden falls on the buyer
    d. smaller tax burden falls on the seller and larger burden falls on the buyer

Module 3 – Public Expenditure and Public debt

1. Which of the following canons of public expenditure is very to implement in developing countries?
   a) Canon of elasticity　　b) Canon of sanction
   c) Canon of surplus　　d) Canon of productivity

2. Which of the following type of public expenditure is characterized by quid-pro-quo?
   a. Grant
   b. Subsidy
   c. Interest
   d. Purchase prices

3. Which of the following is not a characteristic of capital expenditure?
   a) Is in the form of consumption　　b) Gives right of capital assets
   c) Usually funded through public debt　　d) Is in the form of investment

4. Public expenditure on education and health will have a _______ effect on people's ability to work.
   a. Negative
   b. Neutral
   c. Positive
   d. Stagnating

5. During recession, __________________.
   a) Public expenditure should be increased　　b) Public expenditure should be reduced
   c) Taxation should be increased　　d) Public debts should be incurred

6. The Low of increasing public activity was developed by
   a) Richard Musgrave　　b) Huge Dalton
   c)Adolf Wagner　　d) Alan T. Peacock

7. According to Wiseman-Peacock Hypothesis, public expenditure increases in
   a. step-like manner
   b. a smooth and continuous manner
   c. a cyclical manner
   d. a continuous rise

8. During the time of war, the government enlarges the tax structure to generate more funds to meet the increase in the defence expenditure. This is known as,
   a) Tax tolerance　　b) Inspection effect
   c) Displacement effect　　d) Concentration effect

9. After war, people's tax tolerance level___________.
   a) reduces　　b) remains the same　　c) becomes zero　　d) increases

10. Concentration effect refers to the increasing activities of which of the following?
a) Central government b) State government
c) Local government d) All the above

11. Which of the following is the cause of growth of public expenditure?
a) Rising population b) Democratic form of Government
c) Urbanisation d) All the above

12. Goods that are provided by both the public and the private sectors are known as
a. Public goods
b. Merit goods
c. Social goods
d. Demerit goods

13. The protection by the state of the individual against economic hazards is referred to as
a) Social insurance b) Private insurance c) General insurance d) Special insurance

14. Which of the following is not a characteristic of social insurance?
a) Compulsory participation b) Government sponsorship and regulation
c) Benefits prescribed in law d) Provided and initiated by the private sector

15. Which of the following programmes protects the people's right to work?
a) Public Provident Fund b) Atal Pension Yojana
c) MNREGA d) Pradhan Mantri Jan Dhan Yojana

16. Which of the following programmes aims at financial inclusion?
a. Public Provident Fund
b. Atal Pension Yojana
c. Mahatma Gandhi National Rural Employment Guarantee Act.
d. Pradhan Mantri Jan Dhan Yojana

17. In which of the following programmes is life insurance linked with savings bank account?
a) Pradhan Mantri Jan Dhan Yojana b) Atal Pension Yojana
c) Public Provident Fund d) Pradhan Mantri Jeevan Jyoti Bima Yojana

18. Public debts include; _________________.
a) Currency and money deposits b) Internal loans and government securities
c) External loans incurred by the government d) All the above

19. A dead weight debt is ____________.
a. Self-liquidating
b. Unproductive
c. Increase productive efficiency

d. Not burdensome to the economy

20. Loss of welfare suffered by people of debtor country is referred to as
   a) Direct real burden   b) Sum of money payments
   c) Effects on production and resource allocation   d) Foreign currency burden

21. Burden of external debts affecting production and resource allocation is termed as
   a) Direct money burden   b) Direct real burden
   c) Indirect money and real burden   d) All the above

22. The ability of a government to sustain its current spending, tax and other policies is termed as ____________.
   a) Economic sustainability   b) Growth sustainability
   c) Fiscal sustainability   d) All the above

23. Government expenditure on interest payment is an example of __________.
   a. Development expenditure
   b. Revenue expenditure
   c. Non- development expenditure
   d. Productive expenditure

24. Development expenditure is the expenditure incurred on _______________.
   a. Defence
   b. Interest payment
   c. Subsidies
   d. Infrastructure

25. The principal of public expenditure includes __________.
   a) Canon of economy   b) Canon of elasticity   c) Canon of benefit   d) All of these

26. Public expenditure is incurred to _____________.
   a) Make profits   b) increase surplus
   c) Maximize social welfare   d) incur debts

27. External public debt can be raised from _________.
   a. RBI
   b. IMF
   c. SBI
   d. CBI

28. Which of the following is the object of public debt?
   a) War finance   b) Curbing of inflation   c) Development Finance   d) All of the above

29. Public debt management refers to _________.
   a) Terms of new bonds   b) Maturity
   c)Proportion of different components of public debt   d) All of these

30. Which is the method of debt-redemption?
    a) Refunding b) Capital levy c) Sinking fund d) All of these

Module -4 – Fiscal Management and Financial Administration

1. Fiscal policy is the policy relating to _________.
   a) Taxation b) Public debt c) Government expenditure d) All of these

2. Fiscal policy is also called as a _________ policy.
   a) Budgetary b) Monetary c) both a) and b) d)None of these

3. Which of the following is/are objectives of fiscal policy?
   a) Economic growth and development c) Efficient allocation of resources
   b) Both a) and b) d) None of these

4. During inflation, the government adopt ___________fiscal policy.
   a. Expansionary
   b. Contractionary
   c. stagnant
   d. growing

5. During deflation, the government adopt ____________fiscal policy.
   a) Expansionary b) Contractionary c) Both of these d) None of these

6. Sound Finance implies ____________.
   a) Unbalanced budget b) Full budget c) Balanced budget d) None of the above

7. Principle of sound finance refers to _____________.
   a) Minimum government spending
   b) Maximum government spending
   c) Revenue expenditure balanced at the minimum level
   d) Balance between tax and spending

8. Which of the following does not form the basis of sound finance?
   a) Say's law c) Ricardian Equivalence Theorem
   b) Assumption of full employment d) Unbalanced budget

9. The origin of the term functional finance is attributed to _________.
   a) J. M. Keynes b) A. C. Pigou c) A.P. Lerner d) Richard Musgrave

10. Which of the following statements applies to the principle of functional finance?
    a) Budget deficits are uneconomical at all times and should be avoided
    b) Social objectives should be the primary focus of fiscal policy
    c) Government spending should be restricted to the traditional functions
    d) Every public expenditure is inflationary

11. What is the appropriate budget policy during recession?
    a. Balanced budget
    b. Neutral budget
    c. Surplus budget
    d. Deficit budget

12. The Neo-Keynesian approach to public finance is called __________.
    a) Sound finance b) Functional finance c) Global finance d) Federal finance

13. Budget is an instrument of ___________.
    a) Monetary policy b) Fiscal policy c) Trade policy d) None of these

14. Which of the following is not an objective of the budget?
    a. Generation of employment
    b. Manipulating the rate of interest
    c. Reduction of poverty
    d. Economic Growth

15. Which of the following serves as a tool for fiscal management and accountability?
    a. Monetary policy
    b. Budget
    c. Foreign policy
    d. Industrial policy

16. A budget in which revenue is equal to expenditure is _________.
    a) Surplus budget b) Balanced budget c) Deficit budget d) None of these

17. In which of the budget the existing programmes or activities may not be automatically funded?
    a) Zero based budget c) Executive budget
    b) Traditional budget d) Programme budget

18. All types of flows of funds to and from the government are shown in _________budget.
    a) Functional b) Cash c) Executive d) Legislative

19. Which of the following refers to the excess of revenue expenditure over revenue receipts?
    a. Revenue deficit
    b. Budgetary deficit

c. Fiscal deficit
d. Primary deficit

20. The excess of total expenditure over total receipts excluding debt capital receipts is called ___________.
   a. Revenue deficit
   b. Budgetary deficit
   c. Fiscal deficit
   d. Primary deficit

21. Primary deficit is obtained by deducting interest payment from the ____________.
   a. Monetized deficit
   b. Fiscal deficit
   c. Budgetary deficit
   d. Revenue deficit

22. Which of the following is not an objective of the FRBM Act, 2003?
   a. To bring about zero deficit
   b. To reduce the burden of debt repayment
   c. To improve transparency in fiscal operations
   d. To reduce pollution

23. FRBM act, 2003 aims to reduce fiscal deficit to ____% of GDP by 31st March 2009.
   a) 3 b) 5 c) 8 d) 9

24. Which of the following is concerned with division of economic responsibilities between the central and state Government of India?
   a. Planning commission
   b. Finance Commission
   c. NITI Aayog
   d. RBI

25. Fiscal Federalism refers to ______________.
   a) Organizing and implementing economic plans
   b) Sharing of political power between centers and states
   c) Division of economic functions and resources among different layers of the government
   d) None of these

26. The transfer of taxing and expenditure powers from the control of central government to state and local governments is known as __________.
   a. Administrative Decentralization
   b. Political Decentralization
   c. Fiscal Decentralization

d. Social Decentralization

27. The chairman of the 14th Finance Commission was __________.
    a) Dr. Raghuram Rajan b) Dr. C. Rangrajan c) Dr. Y.V. Reddy d) Dr. Bimal Jalan

28. The Finance Commission is appointed in every _____ years.
    a) Two
    b) Three
    c) Four
    d) Five

29. Federal finance deals with _____________.
    a. Only State finances
    b. Only Finances of Local bodies
    c. Centre – state financial relations
    d. Only Finances of village panchayat

30. Following is/are the key issues in fiscal federalism.
    a) Vertical Imbalance c) Horizontal Imbalance
    b) Revenue assignment d) All of the above

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