Mahatma Gandhi University

Question Bank

B.A. Economics – Core 6 - Public Economics

I. *Choose the correct alphabet only.*

1. When expenditure exceeds total tax revenue, it is called:

a) Surplus budget b) Balanced budget

c) Deficit budget d) None of these

2. A pure private good is subject to:

a) Non exclusion b) Exclusion

c) Low satisfaction d) None of thse

3. Which of the following is not a fiscal instrument?

a) Open market operations b) Public expenditure

c) Taxation d) None of these

4. An increase in tax rate when tax base expands represents:

a) Progressive taxation b) Regressive taxation

c) Proportional taxation d) None of these

5. Which of the following is a measure of fiscal policy?

a) Public expenditure b) C.R.R.

c) S.L.R. d) Bank rate

6. The main difference between Public and Private Finance is:

a) Balance of income-expenditure b) Coerciveness of fiscal power to raise income:

c) Dissaving d) Borrowings

7. The First Finance Commission was appointed in the year:

a) 1952 b) 1950

c) 1951 d) 1949

8. Modern Canons of taxation are propounded by:

a)Bastable b) Adam Smith

c) Seligmon d) Pigou

9. In India, personal income tax is levied on individuals by:

a) Central Government b) State Government

c) Local bodies d) None of these

10. Income tax is based on the principle of:

a) Ability to pay b) Willingness to pay

c) Benefits received d) None of these

11.The Principle of Maximum Social Advantage is associated with:

a) Dalton b) Pigou

c) Seligman d) Hicks

12. Which is not the characteristic of a tax?

a) Import content b) Compulsory payment

c) Non –compulsory payment d) Punishment to tax evader

13. Sound tax policy is devised mainly on the basis of:

a) Maximum tax revenue b) Elastic tax base

c) High income elasticity d) High price elasticity

14. Special assessment means:

a) General tax on all people b) Gift tax

c) A tax for specific benefit conferred d) None of these

15. Who is the exponent of the law of increasing state activities?

a) Dalton b) Wagner

c) Seligman d) Musgrave

16. Classical canons of taxation are propounded by:

a) Adam Smith b) Bastable

c) Dalton d) Keynes

17. The Kelkar Proposals are concerned with:

a) Recommendations for re4forms in the power sector

b) Recommendations for tax reforms

c) Guidelines for the privatization of public sector undertakings

d) None of the above

18. Value Added Tax is:

a) Direct tax b) Indirect tax

c) Progressive tax d) None of these

19. In the case of direct tax, impact and incidence are on:

a) Different person b) Same person

c) Sellers d) None of these

20. The direct violation of Tax law is called:

a) Tax evasion b) Tax avoidance

c) Tax Rebate d) None of these

21. The final resting place of the burden of tax is called:

a) Tax avoidance b) Tax evasion

c) Impact d) Incidence

22. Incidence of tax refers to:

a) Initial resting place of the burden of tax b) Final resting place of the burden of tax

c) Both (a) and (b) d) None of these

23. A tax levied at 5 percent on the first Rs. 10,000 of income, 10 percent on the next Rs 20,000 and 12 percent on the next Rs 30,000 would be:

a) Progressive b) Degressive

c) Regressive d) Proportional

24. Which of the following taxes is the most likely to be regressive?

a) Sales tax on mobile phone b) Excise duties on Kerosene

c) Import duties on electronic goods d) Entrainment tax

25. Impact of tax refers to:

a) Initial resting place of the burden of tax b) Tax evasion

c) The final money burden of tax d) None of these

26. Fiscal policy is the policy of:

a) RBI b) NABARD

c) Government d) All the above

27. The principle of judging fiscal measures by the way they work is called:

a) Personal Finance b) Public Finance

c) Functional Finance d) Local Finance

28. When individuals with unequal tax paying ability should be taxed unequally in order to equalise sacrifice is called:

a) Horizontal equity b) Vertical Equity

c) Tax paying ability d) None of these

29. Elastic revenue response to marginal tax rate reductions is called:

a) Marginal tax curve b) Functional curve

c) Laffer curve d) None of these

30.The neo-Keynesian approach to public finance is called

a) Functional finance b) Aggregate demand c) Global finance d) Federal finance

31. The following is an example of direct taxes:

a) Sales tax b) Income tax

C) Estate duties d) Toll tax

32. If the rate of tax falls with an increase in income, it is called:

a) Proportional tax b) Progressive tax

c) Regressive tax d) None of these

33. Which is the method of financial adjustment between Centre and States?

a) Tax sharing b) Grant-in-aid

c) Public debt d) Federal Finance

34. Who suggested an expenditure tax as an alternative to income tax?

a) Musgrave b) Galbraith

c) Dalton d) Kaldor

35. Budget is an instrument of:

a) Monetary policy b) Fiscal policy

c) Trade policy d) Exchange rate policy

36. Merit goods means:

a) Public good b) Free good

c) Rare good d) White good

37. The concept of functional finance was developed by:

a) J.M. Keynes b) A.P. Lerner

c) Kaldor d) Pigou

38. Shifting refers to:

a) Imposing tax b) Avoiding of tax

c) Shifting of tax burden from one person to another d) None of these

39. The modern state is:

a) Laissez –faire state b) Welfare state

c) Aristocratic state d) Police state

40. According to Musgrave the major functions of public finance is:

a) Allocative function b) Distributive function

c) Stabilisation function d) All the above

41. Who is the author of the book "The Theory of Public Finance"?

a) Dalton b) R.A. Musgrave

c) A.R. Prest d)Harvey Rosen

42. A criterion by which public goods are distinguished from private goods:

a) Exclusion principle b) Externality principle

c) Public choice principle d) None of the above

43. Non-rivalray and non-excludability are the characteristics of:

a) Normal goods b) Demerit goods

c) Inferior goods d) Public goods

44. Who was the first to recommend the adoption of an expenditure tax for India?

a) K.N. Raj b) Paul Krugman

c) Raja J. Chelliah d) N. Kaldor

45. Which one of the following taxes is levied by the State Government only?

a. Entertainment tax b) Corporation tax

c) Wealt tax d) Income tax

46. Laffer curve suggest that the

a) Relationship between tax revenue and tax rates is U-shaped

b) Relationship between GDP growth rate and tax rates is U-shaped

c) Relationship between tax revenue and tax rates is inverted U-shaped

d) Relationship between savings rate and tax rate is inverted U-shaped

47. Which one of the following is not an instrument of fiscal policy?

a) Public revenue b) Public expenditure

c) Public borrowing d) Cash Reserve Ratio

48. The controlling authority of Government expenditure is:

a) RBI b) Planning Commission

c) Ministry of Finance d) Finance Commission

49. The idea of 'Democratic Decentralization' in India was popularized by:

a) A.D. Gorwala Committee, 1951 b) B.R. Mehta Committee, 1957

c) Ashok Mehta Committee, 1978 d) None of these

50. A tax levied upon a firm as a percentage of its value added

a) Merit tax b) VAT

c) Turnover tax d) Sales tax

51 A principle which states that those who are essentially equal should be taxed equally

a) Vertical equity b) Benefit principle

C) Horizontal equity d) Ability to pay principle

52. A progressive tax weighs more heavily upon the

a) Poor b) Wage earners

c) Farmers d) Rich

53. Which one of the following is the most acceptable theory of taxation:

a) Benefit theory b) Cost of service theory

c) Ability to pay theory d) None of these

54. Which among the following does currently impose service tax in India?

a) States b) Centre

c) Union territories d) All of these

55. The Kerala Panchayat Raj Act was passed in the legislature in the year:

a) 1995 b) 1994
c) 2000 d) 1999

56. The concept of decentralized planning received renewed attention in India with the:

73rd and 74th Constitutional Amendment Acts of :
a) 1993 b)1992

C) 1995 d)2000

57. The Indian income tax is:

a) Direct and proportional b) Indirect and proportional

c) Indirect and progressive d) Direct and progressive

58. The main objective of budgeting is:

a) Planning b) Co-ordination

c) Control d) All of these

59. Who appoints the Finance Commission?

a) President of India b) Prime Minister of India

c) Chairman of the Rajya Sabha d) Finance Minister of India

60. Finance Commission formed in India is of:

a) Political body b) Administrative body

c) Statutory body d) *Ad hoc* body

61. The incidence of tax refers to:

a) The level and rate of taxation b) Who ultimately pays the tax

c) The growth of taxation d) The way in which tax is collected

62. Which tax cannot be shifted to others?

a) Excise duty b) Sales tax

c) Entertainment tax d) Wealth tax

63. Wiseman-Peacock hypotheses supports in a much stronger manner the possibility of:

a) An upward trend in public expenditure b) A downward trend in public expenditure

c) A constancy of public expenditure d) A mixed trend in public expenditure

64. The theory of fiscal policy derives from

(A) Principle of sound finance (B) N.I. analysis
(C) Welfare economics (D) None of these

65. The most important source of public revenue is

(A) Fees (B) Commercial revenue

(C) Tax (D) Fines & Penalties

66. Chairman of the 13^{th} Finance Commission is

(A) K.C. Pant (B) Vijay Kelkar

(C) Pranab Mukherji (D) None of these

67. Fiscal Federalism refers to

(A) Sharing of political power between centre and states
(B) Organising and implementing economic plans
(C) Division of economic functions and resources among different layers of Govt.
(D) None of these

68. Which one of the following is an optional function of Government?

(A) Defense (B) Old Age Security

(C) Law and Order (D) None of these

69. Principle of sound finance refers to

(A) Maximum Government spending (B) Minimum Government spending
(C) Revenue expenditure balanced at the minimum level
(D) Balance between Tax and spending

70. Private goods are characterized by

(A) Application of exclusion principle (B) Rivalry in consumption
(C) Payment of prices (D) All the above

71. Tax refers to

(A) Compulsory contribution (B) Payment by the people to Government
(C) No direct return for the payment (D) All the above

72.. Pump priming is

(A) Injection of purchasing power into the public through Government spending
(B) Withdrawal of purchasing power from the public
(C) Balancing Revenue and Expenditure (D) None of the above

73. Merit goods means

(A) Private goods (B) Public goods

(C) Subsidized private goods (D) None of these

74. The most important aim of fiscal policy in a developing country is

(A) economic stability (B) economic development
(C) regional balance (D) None of these

75. Market failure refers to a situation when

(A) Market does not function (B) market solution occurs if government intervenes

(C) Social efficiency is not achieved (D) perfectly competitive firm experiences P > MC

76. Public hoods are non-rivial if

(A) Some people cannot be prevented from consuming it

(B) Consumption by one person reduces consumption of other individuals

(C) Some people are excluded from consuming it

(D) all the above

77. The income of the government through all its sources is called

(A) Public expenditure (B) public revenue

(C) Public finance (D) none of these

78. Which of the following are indirect taxes?

(A)Customs duties (B) Excise duties

(C)Sales tax (D) all the above

79. The Finance Commission is appointed in every

(A)3 year (B)4 year

(C)5 year (D) 6 year

80. The maximum effect of direct taxes is on

(A) Price of food (B) Income

(C) Capital goods (D) consumer goods

81. The Wanchoo Committee (1971) probed into

(A) Direct taxes (B) indirect taxes

(C) Agricultural holding tax (D) non-tax revenue

82. Deficit financing means

(A) Public expenditure in excess of public revenue

(B) Public revenue in excess of public expenditure

(C) Both (A) and (B)

(D) none of the above

83. Modvat means

(A) Modified value added tax (B) moderate value added tax

(C) Modest value added tax (D) modern value added tax

84. The revenue of the State Government is raised from the following sources except one, which is that?

(A) Land revenue (B) agricultural income tax

(C) Entertainment tax (D) expenditure tax

85. The Finance Commission does all the following functions except one, which is that?

(A) Works out allocation of taxes in the divisible pool

(B) Looks into financial relations between the Centre and the States

(C)Allocates grants - in – aid to the States and Union Territories

(D) Assist the Planning Commission in making 5 year plans.

86. The methods of restoring resource balance between different governments in a federal set-up

is based on

(A) Tax sharing (B) Grants –in-Aid

(C) Loans (D) All the above

87. Finance Commission determines

(A) The finances of Government of India (B) The resources transfer to the State

(C) The resources transfer to the various departments (D) none of the above

88. Federal Finance deals with

(A) State finances (B)Finances of railways

(C)Local bodies (D) Centre-State financial relations

9. The name of the Chairman of the 11th Finance Commission

(A) K.C. Pant (B) A.M. Kushro

(C) R. J. Chelliah (D) N.K.P. Salve

90. Primary deficit means:

(A) Fiscal deficit- Interest (B)Revenue deficit-interest payments

(C) Fiscal deficit+ revenue deficit d) Budgetary deficit

91. Non-Plan Grants are determined by

(A) Planning Commission (B) Finance Commission

(C)Central Government (D) State Government

92. Public Debt Management refers to

(A) Terms of new bonds (B) Proportion of different components of public debt

(C) Maturity (D) All the above

93. Public Expenditure increases

(A) Interest rate (B) Employment

(C) Exports (D) Imports

94. Central Assistance for State and UT plan is a part of

(A) Plan Expenditure (B) Revenue Expenditure

(C) Non-Plan Expenditure (D) None of the above

95. Defict financing includes

a) Borrowing from the Central Bank

b) Issues of new currency by the Government

C) Withdrawal of past accumulated cash balance by the government

d) All the above

96. The ……. had recommended certain reforms on the devolution of Grant – in – Aid (Plan fund) to LsGs from 2006-07 to 2010-11

(A) 3rd State Finance Commission (B) 2nd State Finance Commission

(C) 1rd State Finance Commission (D) None of the above

97. There is a view that reduced rates on income tax would lead to a significant rise in income tax revenue. This view has been attributed to

(A) Herbert Simon (B) Arthur Laffer

(C) Robert Lucas (D) J.B. Say

98. Functional Finance functions through

(A) Buying and selling (B) giving and taking

(C) Lending and borrowing (D) All the above

99. The ideal system of public Finance is one where the net benefit is

(A) Maximum (B) Minimum

(C) Zero (D) Infinity

100. The principle of Maximum Social Advantage is connected with

(A) Taxation (B) Expenditure

(C) Public Debt (D) Both (A) and (B)

Answer Key

1. **C -Deficit Budget**
2. **b- Exclusion**

3. a- open market operations

4. a-progressive taxation

6. a-balance of income-expenditure

7. c-1951

8. b-Adam Smith

9. a-Central Government

10. a-Ability to pay

11. a-Dalton

12. c-Non-compulsory payment

13. a maximum tax revenue

14. c-a tax for specific benefit conferred

15. b-Wagner

16. a-Adam Smith

17. b- recommendations for tax reforms

18. b-indirect tax

19. b-same person

20. a-tax evasion

21. d-incidence

22. b-final resting place of the burden of tax

23. a-progressive

24. b-expenditures on Kerosene

25. a-initial resting place of the burden of tax

26. c-Government

27. c-functional finance

28. c-Laffer curve

30. a-Functional finance

31. b-Income tax

32. c-regressive tax

33. a-tax sharing

34. d-Kaldor

35. b-fiscal policy

36. a-public good

37. b-A.P. Learner

38. c-shifting of tax burden from one person to another

39. b-welfare state

40. d-all the above

41. b- R.A. Musgrave

42. a-exclusion principle

43. d-public goods

44. d-Kaldor

45. a-entertainemnt tax

46. a-relationship between tax revenue and tax rates is U shaped

47. d-Cash Reserve Ratio

48. c-Ministry of Finance

49. c-Ashok Mehta Committee, 1978

50. b-VAT

51. b-Benefit principle

52. d-Rich

53. c-Ability to pay theory

54. b-Centre

55. b-1994

56. b-1992

57. d-Direct and progressive

58. d-All the above

59. a-President of India

60. c-statutory body

61. b-who ultimately pays the tax

62. c-entertainment tax

63. a-an upward trend in public expenditure

64. a-principle of sound finance

65. c-tax

66. b-Vijay Kelkar

67. c-division of economic functions and resources among different layers of Governemnt

68. b-old age security

69. c-revenue expenditure balanced at the minimum level\70. D-all the above

70.d-all the above

71. b-payment by the people to Government

72. a-injection of purchasing power to the public through Government spending

73. b-public goods

74.b-economic development

75. c-social efficiency

76. a-some people cannot be prevented from consuming it

77. b-public revenue

78. d-all the above

79. c-5 year

80. b-income

81. a-direct taxes

82. a-public expenditure in excess of public revenue

83. a-modified value added tax

84.d-expenditure tax

85. d-assist the Planning Commission in making 5 year plans

86. d-all the above

87. b-the resources transfer to the state

88. d-Centre-State Financial Relations

89. b-A.M.Kushro

90. a-Fiscal deficit-interest

91. c-Central Government

92. d-all the above

93. b-employment

94. c-Non-plan expenditure

95. d-all the above

96. a-3rd State Finance Commission

97. b-Arther Laffer

98. d-all the above

99. a-Maximum

100. b-Expenditure