CHAPTER-5 | Government Budget and the Economy

QUIZ PART-05

1. **Fiscal policy refers to:**
   A. Government's policy of controlling imports and exports
   B. Policy of the central government to control money supply through expenditure, revenue, and borrowings
   C. Monetary measures taken by the Reserve Bank of India
   D. Industrial policy to regulate production (B)

Explanation : Fiscal policy is the central government's policy to influence money supply through expenditure, revenue (taxes), borrowings, and deficit financing.

2. **An increase in government expenditure while keeping taxes constant will:**
   A. Decrease aggregate demand
   B. Increase aggregate demand
   C. Have no effect on aggregate demand
   D. Reduce disposable income (B)

Explanation: Government expenditure is a component of aggregate demand; higher spending shifts the AD curve upward.

3. **A cut in taxes affects income and output by:**
   A. Increasing disposable income and aggregate expenditure
   B. Reducing consumption and investment
   C. Lowering aggregate demand
   D. Reducing planned output (A)

Explanation: Lower taxes increase disposable income (Y – T), raising aggregate expenditure and output.

4. **The formula for the Tax Multiplier is:**
   A. 1 ÷ (1 – MPC)
   B. MPC ÷ (1 – MPC) with a negative sign
   C. ΔY ÷ ΔG
   D. MPC ÷ (1 + MPC) (B)

Explanation : The Tax Multiplier = –MPC ÷ (1 – MPC), showing the inverse relationship between taxes and income.

5. **The formula for the Government Expenditure Multiplier is:**
   A. MPC ÷ (1 – MPC)
   B. 1 ÷ (1 – MPC)
   C. –MPC ÷ (1 – MPC)
   D. ΔY ÷ ΔT (B)

Explanation: The Expenditure Multiplier = 1 ÷ (1 – MPC), showing the effect of a change in government spending on income.

6. **The Tax Multiplier is always:**
   A. Greater than the Expenditure Multiplier
   B. Equal to the Expenditure Multiplier
   C. Less than the Expenditure Multiplier
   D. Positive in value (C)

Explanation: The Tax Multiplier is always less than the Expenditure Multiplier because only a part of tax change affects consumption.

7. **Which of the following acts as an automatic stabilizer in the economy?**
   A. Lump-sum subsidies
   B. Proportional income tax
   C. Monetary policy
   D. Price controls (B)

Explanation: A proportional income tax makes disposable income and spending less sensitive to GDP fluctuations, acting as a stabilizer.

8. **Which of the following is not a feature of the Fiscal Responsibility and Budget Management Act, 2003 (FRBMA)?**
   A. Reduction of fiscal deficit by 0.3% of GDP annually
   B. Reduction of revenue deficit by 0.5% of GDP annually
   C. Government allowed to borrow freely from RBI without restrictions
   D. Quarterly budget reviews before Parliament (C)

Explanation: FRBMA restricts government borrowing from RBI (except temporary advances) to enforce fiscal discipline.

9. **Goods and Services Tax (GST) in India is:**
   A. A direct tax
   B. An indirect tax applicable on supply of goods and services
   C. A tax only on exports
   D. A surcharge on corporate profits (B)

Explanation: GST is a comprehensive indirect tax applicable nationwide on the supply of goods and services since July 1, 2017.

10. **Which of the following is not an impact of GST?**
    A. Creation of a common national market
    B. Simplification of multiple indirect taxes
    C. Freedom of movement of goods and services across states
    D. Higher complexity and multiple tax procedures (D)

Explanation : GST reduced complexity by unifying various indirect taxes, simplifying procedures, and creating a single national market.