



30 Days Revision Module Day 12 - Economy I (UPSC Prelims 2021)

1) Consider the following statements with reference to Public Expenditure

1. The expenditure incurred on the purchase of defence equipment will come under the category of Capital expenditure
2. The grant in aids given during disaster and natural calamities to all foreign countries constitute as Revenue expenditure

Which of the statements given above is/are correct?

- a. 1 only
- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2

Answer : c

Revenue Expenditure

1. Salaries of government employees,
2. Interest payment on loans taken by the government,
3. Pensions,
4. Subsidies,
5. Grants,
6. Rural development,
7. Education and
8. Health services, etc.

Capital Expenditure

(A) Capital expenditure which leads to creation of assets are

- (a) Expenditure on purchase of land, buildings, machinery,
- (b) Investment in shares, loans by Central government
- (c) Acquisition of valuables.

(B) Repayment of loan is also capital expenditure because it reduces liability. These expenditures are met out of capital receipts of the government including capital transfers from rest of the world.

2) Which one of the following correctly reflects the meaning of the term "Fiscal Slippage"?

- a. It is the scenario when the actual fiscal deficit is more than what was expected
- b. It is the proportionate change in tax revenue without any discretionary change
- c. It is the scenario when the actual fiscal deficit is less than what was expected
- d. It is the proportionate change in tax revenue with some discretionary changes

Answer : a

- Fiscal slippage represents deviation from projected fiscal deficit.

3) Consider the following statements, with reference to Gig economy

1. In a gig economy, jobs are permanent and flexible in nature
2. The gig economy tends to be costlier but efficient in nature

Which of the statement given above is/are correct?

- a. 1 only
- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2

Answer : d

- In a gig economy, temporary, flexible jobs are commonplace and companies tend toward hiring independent contractors and freelancers instead of full-time employees.
- Due to the large numbers of people willing to work part-time or temporary positions, the result of a gig economy is cheaper, more efficient services, such as Uber or Airbnb, for those willing to use them.

4) With reference to 'Angel tax' sometimes seen in the news, which one of the following is the main purpose of the angel tax?

- a. To reduce number of ineffective start-ups
- b. To increase the share of tax from the licensed start-ups
- c. To curb the money laundering activities
- d. To improve the accountability of the start-ups in India

Answer : c

- Angel tax is a term used to refer to the income tax payable on capital raised by unlisted companies via issue of shares where the share price is seen in excess of the fair market value of the shares sold.
- The amount is reckoned as "income from other sources" and taxed under Section 56 (ii) of the Income Tax Act. The rate of tax was a hefty 30.9 per cent.
- The tax was introduced in the 2012 Union Budget **arrest laundering of funds**. It has come to be called angel tax since it largely impacts angel investments in startups.

5) Which of the following are not among the key identifying characters of tax havens?

- a. They are small countries with a tightly regulated banking structure
- b. Have zero or nominal taxes
- c. Lack of transparency in the operation of legislative, legal or administrative provisions.
- d. Do not indulge in effective exchange of tax information with foreign tax authorities.

Answer : a

The use of tax havens has consistently increased over the years robbing countries of tax revenue. OECD has these key attributes to identify a tax haven. They are,

1. No or minimal taxes
2. Protection / Secrecy of personal information where in information is not freely exchanged
3. Lack of transparency in banking / operations of different spheres of government.
4. No requirements of substantial local presence (ie) open to foreign investors. It means that banking operation is not regulated methodically. So, Statement A is correct (Qs is in negative connotation)
5. Self promotion as offshore financial centre
6. Geographically they are often small and an insland or archipelago.

6) Consider the following statements regarding the Human Development Index (HDI)

1. It is prepared by the United Nations Development Programme (UNDP).
2. The real per capita income adjusted for the Purchasing Power Parity (PPP) is given more weightage than the other two parameters.

Which of the statements given above is/are correct?

- a. 1 only
- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2

Answer : a

The three parameters have equal weightage.

(a) Standard of living: The real per capita income adjusted for the differing Purchasing power parity.

(b) Knowledge: This is indicated by the level of education

i. Educational attainment among the adults (2/3 weightage)

ii. Gross enrollment (1/3rd weightage)

(c) Life expectancy: to be calculated at the time of birth.

7) Which of the following funds is a part of Public Account of India?

1. Provident fund
2. Interest from loans
3. Small saving schemes
4. National investment fund
5. Surcharge on Income tax

Select the correct answer using the code given below

- a. 1, 3 and 4 only
- b. 1, 2, 4 and 5 only
- c. 1, 3, 4 and 5 only
- d. 2 and 3 only

Answer : a

- All public money received other than those included in the Consolidated fund of India are held in Public Accounts of India.

- This account mainly consists of money raised through Small saving schemes provident fund schemes, and the national investment funds.
- It has to repay either on maturity date or claimed by the people.
- This kind of debt or obligation raised by the government is called other liabilities.

8) A higher Gross National Product in comparison to Gross Domestic Product may imply which of the following with respect to the Indian economy?

- High merchandise exports by India
- Greater number of Indians working abroad
- Greater number of foreign companies headquartered in India
- High external borrowing by India

Answer : b

- $GNP = GDP + \text{Net factor income from abroad}$, a higher GNP indicates positive net factor from abroad which is possible when greater number of Indians work abroad.

9) Which of the following fiscal measures of government will lead to reduction in inflation?

- Reduction in government borrowing
- Reduction in government spending.
- Reduction in government tax collection

Select the correct answer using the codes given below

- 1 and 2 only
- 2 and 3 only
- 1 and 3 only
- 1, 2 and 3

Answer : a

- Inflation is the persistent and appreciable rise in the general level of prices.
- Measures to reduce inflation -

Monetary measures: Bank rate policy, variable reserve ratio, liquidity adjustment facility, Demonetisation of currency, Issue of new currency.

- The Central bank could increase interest rates. Higher rates make borrowing more expensive and saving more attractive. This should lead to lower growth in consumer spending and investment.
- A higher interest rate should also lead to higher exchange rate, which helps to reduce inflationary pressure by
- Making imports cheaper.
- Reducing demand for exports and
- Increasing incentive for exporters to cut costs.

Fiscal measures: Reduction in government expenditure, Increase in Direct taxes, Decreasing Indirect taxes, Reduction in government borrowing.

- The government can increase taxes (such as income tax and VAT) and cut spending. This improves the budget situation and helps to reduce demand in the economy.
- Both these policies reduce inflation by reducing the growth of Aggregate Demand. If economic growth is rapid, reducing growth of AD can reduce inflationary pressures without causing a recession.
 - Trade Measures: Increasing imports to meet the supply shortage.

- Administrative measures

10) Which of the following is exempted for calculating National Income in India?

1. Allowances by the Government for unemployed youths.
2. Money transferred for education by a father to his son.
3. Remittances from a husband from UAE to his wife.

Select the correct answer using the codes given below

- a. 3 only
- b. 1 and 2 only
- c. 1, 2 and 3
- d. None of the Above

Answer : b

- National income (i.e, Net national product(NNP) at factor cost) is the monetary value of finished goods and services produced by a country's citizens, overseas and domestically, in a given period.
- As in the first two statements no economic activity had happened, so it cannot be taken into account.

11) Consider the following statements regarding Disinvestments

1. It is the sale of shares of PSUs without change in ownership.
2. RBI sells the shares in stock exchanges on behalf of the government.
3. Money from sale of shares goes to Consolidated Fund of India.

Which of the statements given above is/are correct?

- a. 1 only
- b. 1 and 2 only
- c. 2 and 3 only
- d. 1, 2 and 3

Answer : a

- Disinvestment involves the sale of Government's share in the Public Sector Undertakings.
- In disinvestment, the government sells only a part of the equity which is essentially less than 51% so that ownership and management rights can be possessed by the Government itself.
- The money obtained from such share selling through disinvestment will be kept with a special fund called National Investment Fund (NIF), which is a 'Public Account' under the Government Accounts.
- The NIF money will be utilized for specific purposes set by the government.
- The funds would remain there until withdrawn/invested for the approved purposes.

12) What is Tax expenditure?

- a. Non-recurring expenditure spent by Government in increasing earning capacity of the business.
- b. Amount spent on to improve tax-GDP ratio.
- c. Government expenditure from the tax revenues.
- d. Ratio of total tax revenue collected to the aggregate tax base.

Answer : d

- The divergence between the statutory tax rate and effective tax rate (defined as the ratio of total tax revenue collected to the aggregate tax base) is mainly on account of tax exemptions.
- Tax expenditure is also termed as 'revenue forgone', but it does not necessarily imply that this quantum of revenue has been waived by the government.

13) Under public debt of India, which among the following will not be included under internal debt?

- a. Treasury Bills
- b. Ways and Means Advances
- c. State Provident Funds
- d. Market Borrowings

Answer : c

According to Statement of Revenue, Budget 2019-20, Liabilities are classified thus.

1. Internal Liability which comprises of,

- Market loans
- Securities issued RBI / PSBs / EximBank
- Compensatory bonds
- T-Bills, Cash Management Bills
- Ways & means advances
- Securities against National Small Savings Fund

2. External Debt

3. Other Liabilities

- National Small Savings Fund
- **State Provident Funds**

14) The reduction in personal disposable income which results from tax rates not being adjusted for inflation. It is termed as

- a. Fiscal Illusion
- b. Fiscal Crisis
- c. Fiscal Drag
- d. Fiscal Rectitude

Answer : c

- **Fiscal drag** is the tendency of revenue from taxation to rise as a share of GDP in a growing economy. Fiscal drag may happen due to inflation or fiscal policies of the government. Seen from the perspective of tax payers, fiscal drag means greater tax burden for people. And the greater tax burden can lead to less consumer spending.
- **Fiscal Cliff** - A situation where the stimulus package (in form of tax cuts, increased government spending) is withdrawn and the economy is allowed to function without too much government intervention. And the result is that there is steep reduction in government spending / increase in tax.

15) The government has identified champion sectors in order to focus on improving India's manufacturing capabilities. Which of the following is/are identified as Champion sectors?

- 1. Construction
- 2. Railways
- 3. Shipping

Select the correct code

- a. 2 and 3 only
- b. 2 only
- c. 1 and 2 only
- d. 1, 2 and 3

Answer : d

List of Champion Sectors in Manufacturing

- i. Aerospace and Defence
- ii. Automotive & Auto Components
- iii. Pharmaceuticals and Medical Devices
- iv. Bio-Technology
- v. Capital Goods
- vi. Textiles and Apparels
- vii. Chemicals and Petro-Chemicals
- viii. Electronics System Design and Manufacturing (ESDM)
- ix. Leather & Footwear
- x. Food Processing
- xi. Gems and Jewellery
- xii. Shipping
- xiii. Railways
- xiv. Construction
- xv. New and Renewable Energy

16) Consider the following statements regarding criteria for classification of micro, small and medium enterprises

1. The composite criteria include Investment in Plant & Machinery/equipment and Annual Turnover.
2. There will be no difference between manufacturing and service sectors

Which of the given statements above is /are correct?

- a. 1 only
- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2

Answer : c

- New criterion of turnover and Investment in Plant & Machinery/equipment are added.
- A new composite formula of classification for manufacturing and service units has been notified. Now, there will be no difference between manufacturing and service sectors.

17) Consider the following statements regarding Securities Transaction Tax

1. It is an indirect tax

2. It is a financial transaction tax levied on transactions done by Indians on foreign stock exchanges

Which of the statements given above is/are correct?

- a. 1 only
- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2

Answer : d

- STT is a direct tax levied on every purchase and sale of securities that are listed on the recognized stock exchanges in India.
- STT is governed by Securities Transaction Tax Act (STT Act) and STT Act has specifically listed down various taxable securities transaction i.e., transaction on which STT is leviable. They are,
 - Shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or other body corporate
 - Derivatives
 - Units or any other instrument issued by any collective investment scheme to the investors in such schemes
 - Government securities of equity nature
 - Equity oriented units of mutual fund
 - Rights or interest in securities
 - Securitized debt instruments
- STT is an amount to be paid over and above transaction value and hence, increases transaction value.

18) Consider the following:

- 1. Product method
- 2. Expenditure method
- 3. Export-Import method
- 4. Income method

Which of the above are the methods of estimating national income of India?

- a. 1 and 2 only
- b. 3 and 4 only
- c. 1, 2 and 4 only
- d. 1, 2, 3 and 4

Answer : c

- There are three different methods of calculating national income.
- Product or Output Method - In the output or product method, the measures of GDP are calculated by adding the total value of the output (of goods and services) produced by all activities during any time period, such as a year. The major challenge of this method is the problem of double-counting.
- Income Method - In the income method, the measures of GDP are calculated by adding all the income earned by various factors of production which are engaged in the production of output.
- The various incomes included to compute the gross national income are: Wages and Salaries (compensation of employees) + Rent + Interest + Profit.
- Expenditure Method - This method focuses on goods and services produced within the country during one year

19) Quantitative Easing involves which of the following?

- 1. Buying of government securities by the Central Bank from the market

2. Short-term interest rates approaching near zero level
3. Printing of new currency

Select the correct answer using the code given below

- a. 1 only
- b. 3 only
- c. 1 and 2 only
- d. 1, 2 and 3

Answer : c

- Quantitative easing is an occasionally used monetary policy, which is adopted by the government to increase money supply in the economy in order to further increase lending by commercial banks and spending by consumers
- A central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity.
- There are two situations when QE is considered.
 - When short-term interest rates are at or approaching zero.
 - When the printing of new banknotes isn't an option.

20) Which one of the following is generally regarded as the true index of economic growth?

- a. An increase in national income at constant prices during a year
- b. A sustained increase in real per capita income
- c. An increase in national income at current prices over time
- d. An increase in national income along with increase in production

Answer : b

- **Real vs Nominal** - it is desirable that real income / real GDP increases rather than just nominal GDP / nominal Income. It is because "Real" accounts for inflation and nominal doesn't account for inflation.
- **Sustained increase vs Boom/Burst Cycle** - Any economy must have a stable outlook and positive profile. It cannot be expanding in one particular year and contracting in the next.