

INSTRUCTIONS

1. This Test Booklet contains 50 items (Questions). Each item is printed in English. Each item comprises four responses (answers). You will select the response which you want to mark on the Answer Sheet. In case you feel that there is more than one correct response with you consider the best. In any case, choose ONLY ONE response for each item.
2. You have to mark all your responses ONLY on the separate Answer Sheet provided. See direction in the answers sheet.
3. All items carry equal marks. Attempt all items. Your total marks will depend only on the number of correct responses marked by you in the answer sheet. **For every incorrect response 1/3rd of the allotted marks will be deducted.**

SWAPNIL'S
IAS

From Dream to Reality

1. In the context of the economy, tax expenditure refers to:

- (a) the expenditure shown on corporate balance sheet to avoid taxes.
- (b) the expenditure incurred by the Government in the collection of taxes.
- (c) the expenditure incurred by firms for tax and administrative compliance.
- (d) the opportunity cost of taxing at concessional rates

2. Consider the following statements in the context of Goods and Services Tax (GST):

- 1. GST is essentially a tax only on value addition at each stage.
- 2. It is a destination-based tax.
- 3. State GST (SGST) would be applicable only if both the buyer and seller are located within the same state.

Which of the statements given above is/are correct?

- (a) 1, 2 and 3
- (b) 2 only
- (c) 3 only
- (d) 1 and 2 only

3. In the context of the economy, Mezzanine Financing refers to:

- (a) A type of finance in which a business sells its accounts receivable to a third party at a discount.
- (b) Financing by an individual in a new or small business ventures.
- (c) Hybrid of debt and equity financing that gives the lender the right to convert to an equity interest.

(d) Financing from central banks to the respective governments in need.

4. Which of the following best defines effective revenue deficit?

- (a) Revenue deficit minus the interest payments
- (b) Revenue deficit minus the grants for creation of capital assets.
- (c) Revenue deficit minus expenditures on salaries and pensions
- (d) Revenue deficit minus the external grants received.

5. When the government increases spending by borrowing today, which will be repaid by taxes in the future, it will have the same impact on the economy as an increase in government expenditure that is financed by a tax increase today. Effectively, taxation and borrowing are equivalent means of financing the expenditure of the government.

Which of the following is best described in the passage given above?

- (a) Paradox of thrift
- (b) Kuznets' inverted-U hypothesis
- (c) Solow growth model
- (d) Ricardian equivalence

6. Consider the following statements in the context of proportional taxation:

- 1. In this, taxing authority charges the same rate of tax from each taxpayer, irrespective of income.
- 2. The objective of redistribution of resources by government is achieved through this system of taxation.

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

7. In the context of budgetary deficits, consider the following statements with reference to Primary Deficit:

1. Primary Deficit is the total government borrowings available to utilise after interest payments.
2. Primary Deficit in India is always higher than the Fiscal Deficit.

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

8. Consider the following types of receipts:

1. Tax revenues
2. Interest receipts on loans extended by Central Government
3. Recoveries of loans granted by the Central Government
4. Loans received from abroad

Which of the receipts given above come under the revenue receipts of the Government of India?

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

9. In the context of Indian economy, the term 'Twin Deficit refers to

- (a) Revenue deficit accompanied with Fiscal Deficit.
- (b) Occurrence of Current Account Deficit and Fiscal Deficit together.
- (c) Simultaneous Current Account Deficit and Capital Account Deficit
- (d) Simultaneous rise in the Non-Performing Assets of banks and debt burden of the corporates

10. Which of the following are the fiscal policy measures taken by the government to control inflation? 1. Reduction in public expenditure and public borrowing.

2. Increasing taxes on private businesses
3. Increasing interest rates in the economy.

Select the correct answer using the code given below.

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

11. Consider the following:

1. Disinvestment
2. Reducing expenditures
3. Raising tax rates
4. Rationalizing subsidies

Which of the actions mentioned above if adopted by Government would reduce its deficit?

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

12. Consider the following statements with reference to indirect and direct taxes in India:

1. In the case of direct taxes, the incidence and impact of the tax are on the same person.
2. Indirect taxes are regressive in nature.
3. While Income Tax is a type of direct tax, corporate tax is a type of indirect tax.

Which of the statements given above is/are correct?

- (a) 3 only
- (b) 2 and 3 only
- (c) 1 and 2 only
- (d) 1, 2 and 3

13. Consider the following statements regarding the National Investment Fund:

1. It is a non-lapsable fund to provide long term capital for infrastructure projects.
2. It is funded by the disinvestment proceeds of central public sector enterprises.

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

14. Which of the following have a bearing on the exchange rate of a currency of a country?

1. Prevailing interest rates in the domestic economy.
2. Speculation in the foreign currency market.
3. Increase in the imports of a country.

Select the correct answer using the code given below.

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

15. Consider the following statements:

1. The real exchange rate is the price of one unit of foreign currency in terms of the domestic currency.
2. The nominal exchange rate is the relative price of foreign goods in terms of domestic goods.
3. A real exchange rate determines the international competitiveness of a country in international trade.

Which of the statements given above is/are correct?

- (a) 3 only
- (b) 1 and 2 only
- (c) 2 and 3 only
- (d) None

16. Which of the following are accounted for in the Current Account of 'Balance of Payment' in India?

1. Exports
2. Private Transfers
3. Net Commercial Borrowings
4. Foreign Direct Investment

Select the correct answer using the code given below.

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

17. Consider the following statements:

1. Currency convertibility refers to the freedom to convert the domestic currency into other currencies and vice versa at the market-determined exchange rate.
2. In India, full current account as well as full capital account convertibility is practised.

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

18. Consider the following statements about Treasury Bills:

1. They are zero-coupon securities issued at discount.
2. They are issued by the Central Government and not State Governments.
3. They are usually long term securities with an average maturity of 10 years.

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

19. Consider the following statements with reference to monetisation of deficit:

1. It involves financing of such extra expenses by borrowing money from the market.
2. It is a type of debt financing.
3. In India, it is currently not allowed.

Which of the statements given above is/are correct?

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 3 only
- (d) 1 and 3 only

20. Immediately after a nation's currency is devalued, imports get more expensive and exports get cheaper, worsening trade deficit. Shortly thereafter, the sales volume of the nation's exports begins to rise steadily and at the same time, consumers at home begin to buy more locally-produced goods because they are relatively affordable compared to imports leading to better trade balance if not trade surplus. Which of the following best suit has the description given above?

- (a) J-curve effect
- (b) Laffer effect
- (c) W-curve effect
- (d) Kuznets effect

21. Which of the following will *not* lead to an increase in forex reserves of a country?

- (a) Increase in exports
- (b) Increase in total world trade
- (c) Increase in inbound international tourism.
- (d) Increase in Foreign Direct Investments

22. Purchasing Power Parity and market exchange rates are the two most common methods for comparing GDP of countries.

With reference to this, consider the following statements.

1. PPP rates are relatively stable over time while market rates are more volatile.
2. India has a greater share in the world economy using PPP rates than market based rates.

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

23. Consider the following statements about Foreign Portfolio Investors (FPI):

1. Investment here by any single investor or investor group cannot exceed 10% of the equity of an Indian company.
2. They can invest in both the listed and unlisted shares.
3. Foreign Portfolio Investment is a part of a country's capital account.

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 1 and 3 only
- (c) 2 only
- (d) 2 and 3 only

24. In the context of the participatory notes in the Indian economy, consider the following statements:

1. It is a derivative instrument issued in foreign jurisdictions.
2. This instrument was introduced to curb the menace of black money.
3. They are regulated by SEBI.

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 1 and 3 only
- (c) 2 only
- (d) 2 and 3 only

25. If the economy is booming, which of the following steps would amount to a countercyclical approach to fiscal policy?

1. Reducing government spending
2. Raising tax rates
3. Increasing interest rates

Select the correct answer using the code given below.

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

26. Which of the following correctly describes the phenomenon of Fiscal Drag?

- (a) Widening of government deficit due to dependency on borrowings for fueling economic growth.
- (b) Movement of taxpayers into higher tax brackets owing to inflation.
- (c) Lower purchasing power of domestic currency due to higher dependency on imports.
- (d) Loss of government revenue due to the emigration of people.

27. Fiscal Responsibility and Budget Management (FRBM) Act provides for escape clause on which of the following grounds?

1. National security
2. Collapse of agricultural output
3. Dispute with trading partners
4. National calamity

Select the correct answer using the code given below.

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

28. Which of the following is/are the objectives of the Debt Management Strategy of Government of India?

1. To mobilise borrowings at low cost while keeping the risks at prudent levels.
2. To maintain a stable and sustainable debt structure so as to ensure financial stability.
3. Development of a well-functioning domestic bond market.

Select the correct answer using the code given below.

- (a) 1 only
- (b) 1 and 2 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

29. Which of the following measures can help reduce the current account deficit?

1. Appreciation of exchange rate
2. Tight monetary policy
3. Removing bottlenecks in the supply chain

Select the correct answer using the code given below.

- (a) 1 and 2 only

- (b) 3 only
- (c) 1, 2 and 3
- (d) 2 and 3 only

30. Consider the following statements regarding balance of payment:

1. Balance of payments equilibrium is defined as a situation in which the value of total goods and services exported by a country equals the value of its total imports.
2. An autonomous international economic transaction is made independent of the state of balance of payment.

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

31. Which of the following are the benefits of currency-swap?

1. Hedge exposure to exchange-rate risk.
2. Used to predict the direction of a currency.
3. Reduce the cost of borrowing in a foreign currency.

Select the correct answer using the code given below.

- (a) 2 only
- (b) 1 only
- (c) 1, 2 and 3
- (d) 2 and 3 only

32. In the context of Balance of Payment, which of the following items comes under the Capital Account?

1. External assistance by India
2. Short-term trade credits
3. Non-Resident Indian (NRI) deposits,
4. Foreign Direct Investment (FDI)
5. Portfolio Investment.

Select the correct answer using the code given below.

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

33. Consider the following statements with respect to the trends in items under 'Invisibles' head of the Balance of Payment:

1. Transfers have constantly decreased in the last five years.
2. Services have constantly increased in the last five years.

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

34. In context to Foreign Direct Investment in India, which of the following statement is **not** correct?

- (a) FDI can come from an individual as well as institutions.

(b) FDI is permissible in unlisted and listed entities..

(c) As per present rules, FDI cannot be made in coal mining activities.

(d) FDI inflows in India has constantly increased for the last five years.

35. The Herfindahl-Hirschman Index (HHI) is used to determine:

- (a) the competitiveness in a market
- (b) the unemployment rate in an economy
- (c) a measure of the income inequality within a nation
- (d) growth rate of an economy over a long period of time

36. Regarding the benefits of signing Advance Pricing Agreements (APAs), consider the following statements:

1. It leads to more certainty with respect to the tax outcome of the tax payer's international transactions.
2. It minimizes the requirement for recurring audit procedures.

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

37. Consider the following statements regarding Short Term Capital Gains Tax in India:

1. It refers to a tax on the gain that arises from the sale of an asset after holding it less than sixty months.

2. Securities Transaction Tax (STT) is an indirect tax levied on sale and purchase of equities.

Which of the statements given above is/are **not** correct?

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

38. Consider a foreign investor, who invested in an Indian listed company (on the stock exchange) to the tune of 20%. At a later stage, the foreign investor decides to reduce its shareholding to 5%. Under such a scenario, how would such an investment be classified?

- (a) FDI in the first stage and FPI in the second stage
- (b) FPI in both the stages
- (c) FDI in both the stages
- (d) FPI in the first stage and FDI in the second stage

39. Consider the following statements regarding the India's foreign exchange (forex) reserve:

- 1. India's forex reserves do not include gold reserves.
- 2. Forex reserves increase only when there is a current account surplus.

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

40. Consider the following statements regarding the floating exchange rates:

- 1. A rise in the interest rates at home often leads to an appreciation of the domestic currency.
- 2. If a country's imports grow faster than its exports, then the domestic currency tends to depreciate.

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

41. With reference to public debt of India, consider the following statements:

- 1. It consists of internal debt, external debt and public account liabilities.
- 2. In India, the share of internal debt forms a higher proportion of public debt in India than external debt.

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 and 2

42. Which of the following is an example of "Pigovian Tax"?

- (a) Tax on Diesel
- (b) Education Cess

- (c) Value Added Tax (VAT)
- (d) Compulsory contribution for disaster Relief

Which of the following is/are the possible impacts of devaluation of a currency in a country?

1. It may help in combating inflation.
2. It may lead to increase in aggregate demand for domestically produced goods.
3. It may lead to improvement in current account balance.

Select the correct answer using the code given below.

- (a) 1 only
- (b) 1 and 3 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

44. In the context of exchange rate, the term "dirty floating" refers to

- (a) determining exchange rate completely by the market forces.
- (b) supplying of fake currency notes in an exchange rate of a country.
- (c) buying and selling of foreign currencies by the Central bank from the country's exchange reserve to stabilise the domestic currency.
- (d) supplying of local currency in the domestic exchange rate due to hyperinflation.

45. Consider the following statements regarding Futures Contract:

1. It is a contract between two parties where they agree to buy and sell a particular asset at a predetermined future date and price.

2. They do not trade on a centralized stock exchange.

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

46. Which of the following statements best explains Zero Based Budgeting?

- (a) It takes last year's actual figures and adds or subtracts a percentage to obtain the current year's budget.
- (b) It is a method of budgeting in which all expenses must be justified for each new period.
- (c) It is a practice of suggesting and listing of estimated outcomes of each programmes or schemes designed.
- (d) It is a method of calculating the income and expenditure without measuring the underlying performance.

47. A negotiable instrument is a piece of paper which entitles a person to a sum of money and which is transferable from person to person by mere delivery or by endorsement and delivery. Which of the following are negotiable instruments?

1. Promissory Note
2. Cheque
3. Currency Note
4. Bill of exchange

Select the correct answer using the code given below.

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

48. Consider the following statements regarding Credit Information Companies in India:

1. These companies are engaged in collecting individual's data about their debt repayment and its history and providing these inputs to financial institutions.
2. These are regulated as per the Banking Regulation Act, 1949.

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

49. Consider the following statements regarding an inverted Bond Yield curve:

1. It reflects the yield for a shorter tenure bond becomes less than that for a longer tenure bond.
2. An inverted bond yield curve may be suggestive of recession in the economy.

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

50. Which of the following are non-tax revenue sources of the government?

1. Disinvestment receipts
2. Spectrum fees
3. Dividends from Public Sector Undertakings

Select the correct answer from the code given below.

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

