

Module II: Public Revenue

A. Long Questions

1. Discuss the various sources of public revenue
2. Discuss the merits and demerits of direct taxes.
3. What are the merits and demerits of indirect taxes?
4. Explain the terms impact, incidence and shifting of a tax with the help of an example.
5. Explain the factors which affect the shifting of a tax.
6. Write explanatory note on forward and backward shifting of tax.
7. Discuss the various sources of public revenue to the government.
8. What are the objectives of taxation?
9. State and explain the canons of taxation.
10. Discuss the characteristics of a good system.
11. Explain India's tax structure.
13. Explain the various sources of public revenue.
14. Discuss the classification of tax revenue.
15. Discuss the classification of non-tax revenue.
16. Explain the various canons of taxation in detail.
17. Distinguish between the direct and indirect tax based on its merits and demerits.
18. Compare between direct and indirect taxes from the point of view of allocative, distributive, administrative, productive and growth aspects.
19. Explain the role of direct and indirect taxes in a developing economy.
20. Explain the complementary aspects of direct and indirect taxes.
21. Discuss the relative importance of direct and indirect taxes in a developing economy like India.
22. Trace the role of indirect taxes in a developing economy.
23. "Both direct and indirect taxes are needed to make up an equitable and adequate tax system" - Elucidate.

B. State whether True or False giving reasons in brief:

1. There is no quid-pro-quo between tax payers and the Government.
2. Fees are an important source of commercial non-tax revenue.
3. Fines and Penalties are commercial non-tax revenues to the Government.
4. Revenues in the form of profits and interests are termed as administrative non-tax revenues.
5. Indirect taxes are imposed on goods and services.
6. The impact and incidence of direct taxes are not on the same person.
7. The burden of direct taxes cannot be shifted.
8. The impact and incidence of indirect taxes are on the same person.
9. Taxes on receipts of income are regarded as indirect taxes.
10. Taxes on expenditure are regarded as direct taxes.
11. Service tax was introduced in India in 1999-2000.
12. Fees involve quid-pro-quo to some extent.
13. There is some element of quid-pro-quo in the case of special assessment or betterment levy.
14. Impact refers to the initial or immediate money burden of a tax.
15. Incidence refers to the final money burden of a tax.
16. Service tax is an example of direct tax.
17. The impact of a tax is the final resting place of a tax.
18. The incidence of a tax is upon who bears the first responsibility of paying the tax to the authorities.
19. In forward shifting of a tax the producer of a commodity transfers the money burden of the tax to the wholesaler, retailer and finally to the consumer.
20. In backward shifting the producer shifts the money burden of the tax on to the suppliers of factors of production.
21. In case, the price of a commodity does not rise by the full amount of the tax, the consumer pays only a part of the tax.
22. In the case of commodities having inelastic supply, the tax imposed on them cannot be easily shifted to the buyers.
23. In the case of commodities having elastic supply the shifting of the tax is relatively easier.

24. The greater the elasticity of demand, the higher the incidence of the tax on the sellers.
25. The greater the inelasticity of demand for the taxed commodity, the higher will be the incidence of tax on the buyer.
26. The greater the inelasticity of demand the greater will be the proportion of the tax shifted to the buyers.
27. The taxation of necessary items will have a regressive effects.
28. In the case of luxuries, the burden of tax will be more on the sellers.
29. In backward shifting the price of factors of production is increased by the amount of tax and in forward shifting the price is reduced by the amount of tax.
30. During the rising prices it is easy to shift taxes on to the price.
31. Shifting of a tax is easier in times of higher demand.
32. In the case of indirect taxes, evasion is easy.
33. Indirect taxes help to check the consumption of harmful goods.
34. Indirect taxes guide resource allocation in the economy.
35. Indirect taxes lack flexibility.
36. Indirect taxes have special significance to under developed countries.
37. Indirect taxes bring justice to the poor.
38. Indirect taxes may be inflationary.
39. Indirect taxes are less expensive to manage compared to direct tax.

[Ans.: True : 1, 5, 7,12,13,14,15,19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 30, 31, 33, 34, 36, 38

False: 2, 3, 4, 6, 8, 9,10,11,16,17,18, 29, 32, 35, 37, 39]

State with reason whether the following statements are true or false.

1. Proportional tax is based on the principle 'higher the income, higher the tax'.
2. A tax is said to be regressive when its burden falls more heavily on low-income earners.
3. Income tax is a form of tax which is levied on individual's total earnings.
4. A wealth tax is a levy upon individuals not on corporations.
5. Canon of certainty means the tax which each individual is bound to pay ought to be arbitrary.

6. The tax will be economical if the cost of collection is very small.

[Ans: 1. False, 2. True, 3. True, 4. True, 5. False, 6. True]

State with reason whether the following statements are true or false.

1. The burden of a direct tax cannot be shifted to someone else.
2. Direct taxes are based on the principle of equity.
3. Direct tax may lead to corruption in the economy.
4. Direct taxes refer to the type of tax which is indirectly imposed on a person.
5. The burden of indirect tax can be shifted to other person.

[Ans: 1. True, 2. True, 3. True, 4. False, 5. True.]

State whether the following statements are True or False, giving reasons:

1. In direct tax, the burden can be shifted. (False)
2. In indirect tax, the burden can be shifted to another person. (True)
3. Direct taxes are regressive in nature. (False)
4. The impact and incidence of direct taxes are on the same person. (True)
5. The impact and incidence of indirect taxes are on the same person. (False)
6. Direct taxes are progressive in nature (True)
7. Indirect taxes are regressive in nature (True)
8. Direct taxes are inequitable. (False)
9. Direct taxes help to reduce inequalities. (True)
10. The sacrifice in case of indirect tax is greater than direct tax of the same amount.
(True)
11. Direct taxes are less elastic. (False)
12. Indirect taxes are growth oriented than direct taxes. (True)
13. In developing countries, indirect taxation brings more revenue than direct taxation
(True)

State with reason whether the following statements are true or false.

1. Impact taxation refers to the final burden of the tax.

2. Incidence of taxation refers to the ultimate burden of the tax.
3. Impact is at the point of imposition, incidence occurs at the point of settlement.
4. The impact of a tax falls upon the person from whom the tax is collected.
5. Impact may be shifted but incidence cannot.

[Ans: 1. False, 2. True, 3. True, 4. True, 5. True]

C. Multiple Choice Questions

1. The objective of taxation by the Government are -
 1. Raising revenue for the state
 1. To maintain economic stability
 1. To remove disparities in the distribution of income
 1. All of the above
2. Which of the following is not a direct tax?

a) Personal Income Tax	b) Service tax
c) Wealth Tax	d) Corporate Income Tax
3. Transfer Payments include -

a) Old Age Pension	b) Subsidies
c) Wealth Tax	d) Corporate Income tax
4. The following is an example of commercial non-tax revenue - a) Gifts and Grants b) Fees

c) Fines	d) Surpluses
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5. The following is an example of administrative non-tax revenue, a) Surplus of public undertaking b) Gifts

c) Fees	d) Grants
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6. On what broad aspect of commodities are indirect taxes imposed, a) Production b) Sales

c) Movement	d) All of the above
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7. The following is not a characteristic of a tax.
 1. It is a compulsory payment
 2. Every tax involves a sacrifice by tax payer

3. There is a quid-pro-quo between the tax payer and the Government.
4. Refusal to pay tax is a punishable offence.
8. The following is a characteristic of indirect tax -
 1. The impact and incidence are not on the same person.
 2. It is levied on income.
 3. Taxes are progressive in nature.
 4. All of the above
9. The following is a characteristic of a direct tax -
 1. Incidence may be shifted
 2. Imposes more burden on poor
 3. The impact and incidence are on the same person
 4. All of the above
10. In India service tax was introduced in -
 - a) 1991-92
 - b) 1994-95
 - c) 1999-2000
 - d) 2005-06
11. Special assessment is also known as -
 - a) Tax Revenue
 - b) Battement Levy
 - c) VAT
 - d) None of the above
12. Impact of a tax refers to -
 - a) Final money burden
 - b) Immediate money burden
 - c) Indirect real burden
 - d) None of the above
13. After levying of a tax, if the price does not rise at all, it means that -
 1. Incidence of the tax remains with producer
 2. Tax has been shifted backward
 3. Shifting has taken place
 4. Any of the above
14. Which factor has no role in the shifting of a tax?
 - a) Change in prices
 - b) Elasticity of demand and supply
 - c) Nature of Demand
 - d) Income of the consumer

15. Pick out the statement which is not true with regard to tax shifting.
1. A purely local tax can be shifted if it is heavy.
 2. A purely local tax shifted if it is light
 3. Shifting becomes difficult if the people purchase from outside the locality.
 4. None of the above
16. Pick out the incorrect statement.
1. In the short period, shifting of a tax is easy.
 2. In the long period shifting of a tax is easy.
 3. When supply is elastic, shifting is easy.
 4. None of the above.
17. Pick out the tax which is not a part of indirect tax. a) Excise Duty b) Sales Tax
c) Entertainment Tax d) Corporate Tax
18. Pick out the characteristic which is not true of direct tax.
1. Simplicity
 2. Elasticity
 3. Creates Civic Consciousness
 4. Encourages savings and investment
19. Pick out the factor which is not a feature of indirect taxes.
- a) Convenience b) Tax evasion is difficult
 - c) Fair to the poor d) Powerful tool of economic policy
20. Pick out the factor which is not a demerit of indirect taxes.
- a) Unjust to poor b) Inflationary in nature
 - c) A tool of economic policy d) High administrative cost

[Ans. : (1 - d), (2 - b), (3 - d), (4 - d), (5 - c), (6 - d), (7 - c), (8 - a), (9 - c), (10 - b), (11 - b), (12 - b), (13 - d), (14 - d), (15 - a), (16 - a), (17 - d), (18-d), (19-c), (20-c)]

Choose the correct answer and rewrite the statement:

1. Which of the following is not a direct tax?
(Income tax, wealth tax, gift tax, **service tax**)
2. Which of the following is administrative non-tax revenue?
(**Fees**, gifts, grants, profits of Govt, enterprises)
3. The main objective of taxation is to
(**Raise revenue to the Government**, to promote exports, increase inequalities of income, promote employment)
4. Which of the following is not a characteristic of tax?
(Tax is a compulsory payment, **Tax has quid pro quo**, tax involves a sacrifice, refusal to pay tax is an offence)
5. The main objective of taxation is to
(**Obtain revenue to the Government**, check harmful consumption, promote investment, check savings)
6. A good tax system should ensure
(**maximum social welfare**, minimum social welfare, capital formation, growth of exports)
7. Which of the following is not an indirect tax?
(Sales tax, custom duty, excise duty, **gift tax**)
8. Service tax was introduced in India in
(1990-91,1994-95,2000-01,2010-11)
9. Special assessment is also known as
(**Betterment levy**, Value added tax, advalorem tax, octroi)
10.is a form of commercial non-tax revenue.
Surplus of Public sector undertakings, fees, fines, grants)

Choose the most appropriate answer and rewrite the statement.

1. An ad valorem tax is charged according to the

(a) Value of a commodity	(b) Weight of the commodity
(c) Size of the commodity	(d) None of the above

2. Specific duty is charged according to ...
- (a) Value of a commodity (b) Weight of the commodity
(c) Size of the commodity (d) None of the above
3. An example of direct tax is.....
- (a) Sales tax (b) Central excise duty
(c) Custom duty (d) Wealth tax
4. based on the principle 'higher the income, higher the tax'.
- (a) Progressive Tax (b) Proportion Tax
(c) Regressive Tax (d) Digressive Tax

[Ans: 1. (a), 2. (b), 3. (d), 4. (a)]

1. Generally, the nature of indirect tax is
- (a) Progressive (b) Regressive (c) Proportional (d) None of the above
2. Direct tax are..... in nature.
- (a) Progressive (b) Equitable (c) Regressive (d) None of the above
3. An increase in the direct tax means it is.....
- (a) Inflationary (b) Anti-inflationary (c) Having no impact on price (d) None of the above

[Answers: 1 (b), 2 (a), 3. (b)]

Choose the most appropriate answer and rewrite the statement.

1. The term impact of taxation means
- a. (a) Initial burden of the tax (b) Ultimate burden of the tax
b. (c) Burden of tax on government (d) None of the above
2. The term incidence of taxation refers to
- a. (a) Initial burden of the tax (b) Final burden of the tax
b. (c) Burden of tax on government (d) None of the above
3. The ultimate burden of taxation on producer implies....
- (a) Inelastic Supply and Elastic Demand (b) Elastic Supply and Demand
b. (c) Inelastic Supply and Demand (d) Elastic Supply and Inelastic Demand

4. The shared burden of taxation on consumer and producer implies
- (a) Inelastic Supply and Elastic Demand
 - (b) Elastic Supply and Demand
 - (c) Inelastic Supply and Demand
 - (d) Elastic Supply and Inelastic Demand

[Ans: 1. (a), 2. (b), 3. (a), 4. (b)]

Choose the most appropriate answer and rewrite the statement.

1. The significant characteristic of a direct tax is that _____ .
(it falls on the poor, **the impact and incidence is on the same person**, it is regressive in nature, it is equitable)
2. Direct taxes are _____ in nature.
(**Progressive**, regressive, proportional, equitable)
- 3.....taxes reduce income inequalities.
(**Progressive**, proportional, regressive, degressive)
4. Indirect taxes have a _____ effect on the society.
(Progressive, equitable, Justified, **Regressive**)

Module III: Public Expenditure

A. Long questions

1. What is public expenditure? Explain the different classifications of public expenditure.
2. Explain Dalton's classification of public expenditure.
3. What are the causes of growth of public expenditure in recent years?
4. What is public budget? Explain the types of budget.
5. Discuss the features of a good budget.
6. Explain the various types of public debt.
7. Discuss the internal and external burden of debt. Does debt burden create an impact on future generations.
8. Explain the various methods of managing public debt.
9. Discuss the various types of deficits.
10. Examine the different features of the FRBM Act, 2003.
11. Critically examine the FRBM Act, 2003.
12. Explain the concept of fiscal federalism.
13. What are the features of fiscal federalism?
14. Discuss the key issues in fiscal federalism.
15. What is public expenditure?
16. Discuss the various theories of public expenditure.
17. Explain the various types of public expenditure.
18. Discuss the various causes of increasing public expenditure.
19. What is public debt? What are its different types?
20. Explain the composition and growth of Public Debt in India.
21. Discuss the burden of public debts in India.
22. Discuss in brief the public debt management.

B. True and False with reasons

1. Expenditure on defence, interest payments, law and order maintenance and public administration expenses are unproductive expenditure.
2. Wagner's law was put forward by Dalton.
3. Old age pension is non-transfer expenditure.
4. Sometimes preparation and passing of the budget may have to be done more than once in a year.
5. A supplementary budget is considered during periods of war or natural calamity.
6. The budget is meant to correlate, compare and co-ordinate the financial administration of the various government departments.
7. In the absence of the budget, the ministries and departments are able to collect and spend money, in a proper manner.
8. Railway budget is an example of departmental budget.
9. In an executive budget the estimates of revenues and expenditure are prepared by the different ministries and departments before forwarding to the ministry of finance.
10. The executive budget is better than the legislative budget.
11. A balanced budget is one in which public revenue equals public expenditure.
12. Functional classification only covers the expenditure side.
13. Expenditure on economic services like agriculture and transports is a part of non-development expenditure.
14. Expenditure on justice and police is a part of developmental expenditure.
15. Productive debts are self-liquidating in nature.
16. Unproductive debts are not burdensome on the community.
17. There is no direct money burden of internal debts.
18. Unfunded debts are long-term debts.
19. Funded debts are repayable within a short period of time.
20. Market borrowings are a part of external liabilities of the Government.
21. Treasury bills constitute major source of long term fund.
22. Bonds are a part of internal debt credit instrument for the government.

23. Special floating loans are non- negotiable non-interest bearing short term debt of the government.
24. Ways and means advances provide support in times of difficulties and are given for short periods.
25. Debt management has nothing do with the monetary management of the country.
26. Public debt management has economic, social and political significance.
27. If a debt is self-liquidating there is no need to impose new taxes or increase the rate of old taxes.
28. The expenditure of the government has increased due to the emergence of welfare state.
29. For achieving economic stability, the objective of low interest cost will have to be sacrificed
30. A well co-ordinated mix of fiscal and monetary policy will remove economic instability and promote growth.
31. Public debt policy has no connection to economic stability and growth.
32. The funding operations should not lead to a rise in the long term rate **of** interest.
33. Traditional theory believed that government need not pay off the debt at the earliest.
34. According to the traditional theory, debt repayment policy should shaped as per the needs of circumstances.
35. Repudiation of debt is not a desirable method of debt management.
36. In the case **of** external debt, repudiation may lead to serious difficulties **forj** a country which repudiates the debt.
37. In refunding, the short term loans are replaced by long term loans.
38. For practical purposes refunding and conversion serve the same purpose.
39. In conversion, the form of debt is changed by altering a public debt from **a** higher rate of interest to a lower rate of interest.
40. A properly managed sinking fund will help on orderly debt retirement] process.
41. Capital levy is of a recurring nature.
42. Capital levy is advocated to repay the debt raised during a war.
43. Fiscal deficit is a more comprehensive measure of budgetary imbalance.
44. Budgetary deficit is the difference between all receipts and expenditure the revenue account.
45. Interest payments and servicing of debts are examples of revenue expenditure.

46. One of the objectives of the FRBM Act, 2003 was to improve transparency in the fiscal operations of the government.

47. The FRBM Act, 2003 was able to tackle social sector development issues.

[Ans.: True : 1, 4, 5, 6, 9, 10, 11, 12, 15, 17, 23, 24, 26, 28, 29, 30, 32, 35, 36, 37, 38, 39, 40, 42, 43, 45, 46 ;

False: 2, 3, 7, 8, 13, 14, 16, 18, 19, 20, 21, 25, 31, 33, 34, 41, 44, 47]

State with reason whether the following statements are true or false.

1. Any welfare state cannot avoid the responsibility of providing the basic amenities of life.

2. Growth of towns and cities are another cause of concern to the huge amount of public expenditure.

3. The government borrows funds from domestic market and foreign sources to meet expenditure on various government activities.

4. It is the responsibility of every state government to look after the weaker section of the society.

5. Economic planning involves formulation of objectives, fixing priority, mobilization of resources and execution of plan within a definite time period.

[Ans: 1. True, 2. True, 3. True, 4. True, 5. True]

State with reason whether the following statements are true or false.

1. An unproductive debt is one which does not yield any income.

2. Government borrowings within the country are known as internal debt.

3. Loans which government promises to pay off at some future date are called redeemable debts.

4. Funded debt is normally obtained on short-term basis.

5. Unfunded debts are long-term debts.

6. During recent years, public debt in India has been growing at an alarming rate.

7. The external debt-GDP ratio has risen since 1990-91.

8. External debt creates more burden than internal debt.

[Ans: 1. True, 2. True, 3. True, 4. False, 5. False, 6. True, 7. True, 8. True]

State with reason whether the following statements are true or false.

1. Under FRBM Act, rules are framed relating to fiscal responsibility of the Central Government, which came into-force on 5th July, 2004.
2. The first objective of the Act is to make the Government responsible to "ensure inter-generational equity in fiscal management".
3. The Act mandates the central government to take appropriate measures to reduce fiscal deficit and revenue deficits so as to eliminate the Revenue deficit by March 31, 2009.
4. It requires the reduction in fiscal deficit by 0.3% of GDP each year and the revenue deficit by 0.5%.
5. The central government shall not borrow from the Reserve Bank of India except by way of advances to meet temporary excess of cash disbursements over cash receipts.

[Ans: 1. True, 2. True, 3. True, 4. True, 5. True]

C. Rewrite the statement with appropriate answers

1. Transfer payments include-

- | | |
|----------------------------|---------------------|
| a) Old age pension | b) Subsidies |
| c) Interest on public debt | d) All of the above |

2. Interest payments are a part of –

- | | |
|----------------------------|--------------------------------|
| a) Development Expenditure | b) Non-Development Expenditure |
| c) Capital Expenditure | d) All of the above |

3. Bharat Nirman, MGNREGA are examples of -

- | | |
|------------------------|-------------------------|
| a) Plan Expenditure | b) Non-Plan Expenditure |
| c) Capital Expenditure | d) None of the above |

4. Which of the following is not true of public budget?

- a) A budget contains only proposals of taxation.
- b) It refers to the policies of the government.
- c) It contains the estimated receipts and proposed expenditure.
- d) It reflects the programmes of the government.

5. The number of sections of a good budget are –
 - a) Two
 - b) Three
 - c) Five
 - d) Eight
6. The budget presented when elections are due is known as –
 - a) Tentative Budget
 - b) Proposed Budget
 - c) Zero Budget
 - d) Lame Duck Budget
7. Pick out the feature which is not applicable to a good budget,
 - a) Comprehensiveness
 - b) Clarity
 - c) Objectivity
 - d) Lengthy
8. The finance commission's role is to -
 - a) Propose New Taxes
 - b) To Abolish Old taxes
 - c) To review and modify arrangements
 - d) None of the above
9. Pick out the item which is not a part of the plan expenditure,
 - a) Agriculture
 - b) Industry
 - c) Social Services
 - d) Defence
10. Pick out the item which is not a part of capital budget.
 - a) Market Borrowings
 - b) Sale of Treasury Bills
 - c) Revenue from Industry
 - d) Net Small Savings
11. Pick out the factor which is not a part of revenue budget.
 - a) Current consumption expenditure on commodities.
 - b) Current consumption expenditure on services
 - c) Transfer payments
 - d) Expenditure on machinery
12. Pick out the item which is not a part of non-tax revenue,
 - a) Interest Receipts
 - b) Dividends
 - c) Customs
 - d) Profits

21. The method by which a certain portion matures every year as decided by the lottery system.

- a) Sinking Fund
- b) Surplus Revenues
- c) Terminal Annuities
- d) None of the above

22. Pick out the feature which is not true of a capital levy.

- a) For paying off unproductive debt.
- b) It is paid by those who earn huge profits.
- c) It does not follow the principle of equity.
- d) It helps to fight inflation.

23. Which of the following is the most comprehensive measure of budgetary imbalances?

- a) Fiscal Deficit
- b) Revenue Deficit
- c) Primary Deficit
- d) All of the above

24. The full form of FRBM Act 2003 is-

- 1. Fiscal Regulation and Budget Management Act, 2003.
- 2. Fiscal Regulation and Banking Management Act, 2003.
- 3. Fiscal Responsibility and Budget Management Act, 2003.
- 4. Financial Responsibility and Budget Management Act, 2003.

25. When budget revenue equals expenditure the budget shows - a) Balance b) Deficit

- c) Surplus
- d) None of the above

26. The term fiscal federalism was introduced by -

- a) Dalton
- b) Seligman
- c) Musgrave
- d) None of the above

27. The theory of fiscal federalism assumes -

- 1. A federal system of government can be efficient and effective in solving problems.
- 2. A federal government will be able to bring about economic stability allocation of resources.
- 3. Since states and localities are not equal in their income, federalism is helpful.
- 4. All of the above

[Ans.: (1 - d), (2 - b), (3 - a), (4 - a), (5 - b), (6 - d), (7 - d), (8 - c), (9 - d), (10 - c), (11 - d), (12 - c), (13 - a), (14 - b), (15 - a), (16 - b), (17 - b), (18 - d), (19 - b), (20 - d), (21 - c), (22 - c), (23 - a), (24 - c), (25 - a), (26 - c), (27 - d)]

Choose the most appropriate answer and rewrite the statement.

1. Public Expenditure refers to
 - (a) Government Expenditure
 - (b) Private Expenditure
 - (c) Private Expenditure
 - (d) None of the above
2. The major objectives of public expenditure are
 - (a) Economic Growth
 - (b) Maintenance of Defence
 - (c) Social Welfare
 - (d) All of the above
3. The defence expenditure minimizes the possibility of
 - (a) External threats
 - (b) Internal threats
 - (c) Terrorism
 - (d) All of the above
4. An empirical law to the effect of growing public expenditure was propounded by
 - (a) Wagner
 - (b) Peacock
 - (c) Wiseman
 - (d) None of these
5. According to H.C. Adams' public expenditure has to perform the ...
 - (a) Protective Function
 - (b) Commercial Function
 - (c) Developmental Function
 - (d) All of the above

[Ans: 1. (a), 2. (d), 3. (d), 4. (a), 5. (d)]

Choose the most appropriate answer and rewrite the statement.

1. Productive debts are utilized for
 - a) Transfer payments in form of subsidies
 - b) They are raised for financing wars
 - c) They add to productive capacity of the economy
 - d) special incentives to weaker sections
2. External debts can be raised from.....
 - (a) Individuals
 - (b) RBI
 - (c) Commercial Banks
 - (d) World Bank
3. The treasury bills are issued by RBI on behalf of the government
 - (a) Short-term public debt
 - (b) Medium-term public debt
 - (c) Long-term public
 - (d) None of the above

4. Debts that are repaid at some specific future date are known as
- (a) Redeemable debts
 - (b) Irredeemable debts
 - (c) Treasury Bill
 - (d) None of the above

5. External loans are raised from
- (a) IDBI
 - (b) ICICI
 - (c) RBI
 - (d) WTO

[Ans: 1. (b), 2. (d), 3. (a), 4. (a), 5. (d)]

Choose the most appropriate answer and rewrite the statement.

1. The term Fiscal Federalism was introduced by
- (a) Musgrave
 - (b) Oates
 - (c) Dalton
 - (d) None of the above
2. Fiscal federalism deals with.....
- a) The division of governmental functions
 - b) Financial relations among levels of government
 - c) Proper allocation of Resources
 - d) All of the above
3. The main pillars of institutional framework to deal with centre-state financial relations in India is.....
- (a) Finance Commission
 - (b) Planning Commission
 - (c) National Development Council
 - (d) All of the above
4. Under Article 246 and Seventh Schedule, List I invest the Union with functions of
- (a) National Importance
 - (b) State Importance
 - (c) Local Importance
 - (d) All of the above
5. Under Article 246 and Seventh Schedule, List II invest the State with functions of
- (a) National Importance
 - (b) Defence
 - (c) External Affairs
 - (d) Public Health

[Ans: 1(a), 2. (d), 3. (d), 4. (a), 5. (d)]

19. Explain the role or significance of capital market in economic development.
20. Write notes on :Primary Capital Market in India, Secondary Capital Market in India
21. Examine the various capital market reforms introduced in India.
22. Outline the important reforms that have taken place in the Secondary Market in India.
23. Write notes on :Primary Market Reforms, Secondary Market Reforms

B. True and False with reasons

State whether True or False giving reasons in brief:

1. Money Market deals with long term monetary transactions.
2. Money market promotes economic growth.
3. Fall in interest rate cause the rate causes the bond prices also to fall.
4. Credit rating agencies determine interest rates on debt securities.
5. Capital Market deals with long term monetary transactions.
6. A fall in interest rates reduces the demand for bonds in the secondary market.
7. There exist too many interest rates in the Indian money market.
8. Increasing Government borrowing will raise interest rates.
9. Capital market also provides a valuable source of external finance.
10. Capital market does not provide an effective source of investment in the economy.

[Ans.: True : 2, 5, 6, 7, 8, 9 ; False: 1, 3, 4,10]

State whether the following statements are true or false with reasons:

1. Money market is a market for lending and borrowing of long-term funds.
2. The organized money market comes within the direct purview of government regulation.
3. The organized money market is a single market.
4. The call rate is determined by demand and supply of short-term funds.
5. The commercial bill market in India is underdeveloped.
6. The certificates of deposits are issued by corporates.

7. Repo operations inject liquidity into the financial system.
8. Reverse repo operation absorbs the excess liquidity out from the system.

[Ans.: False, False, False, True, True, False, True, True]

State whether the following statements are true or false with reasons :

1. There is no integration between the organized and unorganized sectors of the money market.
2. Indian money market has single uniform interest rate in all the segments.
3. In India the bill market is not yet fully developed.
4. From 1989, interest rates in money market were controlled by the RBI.
5. Only business corporates are allowed to invest in MMMFs.

[Ans.: True, False, True, False, False]

State whether the following statements are true or false with reasons:

1. The capital market is the market for medium and long-term funds.
2. Capital market not only mobilizes savings but also channelizes them into investments.
3. Capital market does not contribute towards modernization of industries.
4. The capital market does not serve as a reliable guide to the performance and financial position of companies.
5. Financial intermediaries such as mutual funds, merchant banks, leasing companies, etc. are part of capital market.
6. Primary market deals with securities already issued.

[Ans. True; True; False; False; True; False]

State whether the following statements are true or false with reasons :

1. The SEBI is under the overall control of RBI.
2. SEBI is not responsible for capital market surveillance.
3. On the recommendation of the Narasimham Committee (1991), the government abolished the post of controller of capital issue (CCI).
4. Screen based trading leads to improved operational efficiency in the secondary market.

5. Business corporates are allowed to determine par values of shares issued by them.
6. NSE is fully owned by the Government of India.
7. Retail investors are not allowed to trade in Central Government Securities.

[Ans. False; False; True; True; True; False; False]

C. Rewrite the statement with appropriate answers

Multiple Choice Questions:

1. Money market has to provide facility for adjusting liquidity to
 - a) banks
 - b) business corporations
 - c) non-banking financial institutions
 - d) All the above
2. Gilt edged securities refer to
 - a) Government Securities
 - b) Securities issued by municipal corporations
 - c) Securities issued by first class companies
 - d) None of these
3. E.P.S in share market stands for

a) Earning Per Share	b) Electronic Payment System
c) Employee Pension Scroll	d) Equated Payment System
4. Which of the following is not an organized sector in India?

a) Nationalized Bank	b) Regional Rural Banks
c) Cooperative Banks	d) Chits and Money lenders
5. C.R.A. in banking parlance stands for

a) Credit Rating Association	b) Credit Rating Agency
c) Credit Risk Assessment	d) None of these
6. The period for Call Money is_____ .

a) 10 to 15 Days	b) 1 to 14 Days
c) 15 to 30 Days	d) One Month

7. Which of the following statement regarding S.E.B.I is not correct?
 - a) It regulates the business in stock markets and other securities markets.
 - b) It was set up in 1988 and given statutory recognition in 1992.
 - c) It fixes prices of I.P.Os (Initial Public Offer) in the stock market.
 - d) It regulates substantial acquisition of shares and takeover of companies.
8. Certificates of deposits are issued by :
 - a) Scheduled commercial banks
 - b) Regional rural banks
 - c) Local area banks
 - d) All of the above
9. Which of the following is not a part of the organised sector of the Indian money market?
 - a) Commercial banks
 - b) Foreign banks
 - c) Chit funds
 - d) Mutual funds
10. Industrial Securities Market is a market for shares and debentures of –
 - a) The existing firms
 - b) New corporate firms
 - c) Both (a) and (b)
 - d) None of the above

[Ans.: (1 - d), (2 - c), (3 - a), (4 - c), (5 - c), (6 - b), (7 - c), (8 - a), (9 - c), (10 - c)]

Multiple Choice Questions:

1. Which of the following is a part of the organized sector or Indian money market ?
 - (a) Indigenous bankers
 - (b) Loan companies
 - (c) Call money market
 - (d) Moneylenders
2. Which of the following is not the main player of Indian money market ?
 - (a) Government
 - (b) RBI
 - (c) Commercial banks
 - (d) Over the Counter Exchange of India
3. Which of the following are the main participants in the call money market ?
 - (a) Commercial banks
 - (b) Co-operative banks
 - (c) Primary dealers
 - (d) All the above
4. Which of the following does not form the part of treasury bills issued by the government of India today?
 - (a) 14-day treasury bills
 - (b) 91-day treasury bills
 - (c) 182-day treasury bills
 - (d) 364-day treasury bills

5 . Which of the following is not the feature of commercial bills?

- (a) Short term
- (b) Trade bills
- (c) Issued by RBI
- (d) High degree of liquidity

6. Which of the following money market instrument is issued by commercial® banks ?

- (a) CPs
- (b) Commercial bills
- (c) CDs
- (d) Treasury bills

7. Which of the following measures absorb liquidity from the financial system?

- (a) Repo
- (b) Reverse repo
- (c) MSF
- (d) Buying of securities under OMO

[Ans: (1) - (c), (2) - (d), (3) - (d), (4) - (a), (5) - (c), (6) - (c), (7) - (b)]

Choose the correct answer and rewrite the statement:

1. Which of the following is the latest measure introduced by RBI to influence liquidity in the financial system?

- (a) Repo
- (b) Reverse repo
- (c) MSF
- (d) LAF

2. Money market in India suffers from

- (a) Insufficient funds
- (b) Excess regulation by the government
- (c) Insufficient demand for money
- (d) None of the above

3. Indian money market is

- (a) Fully integrated
- (b) suffering from dichotomy
- (c) Well organized and fully developed
- (d) None of the above

4. RBI introduced reverse repos in

- (a) 1992
- (b) 1996
- (c) 2002
- (d) None of the above

5. The minimum lock in period for MMMF is

- (a) 30 days
- (b) 45 days
- (c) 15 days
- (d) None of the above

6. The Clearing Corporation of India Limited (CCIL) deals with

- (a) Government securities
- (b) CDs
- (c) CPs
- (d) None of the above

[Ans. (1) - (c), (2) - (a), (3) - (b), (4) - (b), (5) - (c), (6) - (a)]

Choose the correct answer and rewrite the statement:

1. Capital market is a market for

- (a) Short term funds (b) Long term funds
(c) Medium term funds (d) Medium and long term funds

2. Which of the following is not an important segment of capital market ?

- (a) Gilt edged market (b) Corporate debt market
(c) Equity market (d) RBI

3. The process of capital formation involves

- (a) Savings and its mobilization (b) Moneylenders
(c) Commercial banks (d) None of the above

4. Which of the following is not the role of capital market?

- (a) Mobilization of savings (b) Industrial development
(c) Channelization of funds for investment (d) Development of commercial banking

5. Which of the following do not constitute the structure of capital market s India ?

- (a) Gilt-edged market (b) Industrial securities market
(c) RBI (d) Mutual funds

6. The primary market does not include

- (a) Equity issues (b) GDR issues
(c) Screen based trading (d) Debt issues

[Ans. (1) - (d), (2) - (d), (3) - (a), (4) - (d), (5) - (c), (6) - (c)]

Choose the correct answer and rewrite the statement:

1. Which of the following measures constitutes primary market reforms?

- a) Abolition of controller of capital issues b) Setting up of NSE
c) Setting up of OTCEI d) None of the above

2. Secondary market reforms do not include

- a) Screen based trading b) LAF
c) Depository system d) Rolling settlement

3. Foreign Institutional Investors (FIIs) are allowed to invest in

- a) only equity shares b)only debt market
- c) both the above markets d) None of above

4. The Over the Counter Exchange of India (OTCEI) allows the companies to register only in

- a) OTCEI b) OTCEI and NSE
- c) OTCEI and BSE d) None of above

5. Mutual Funds play an important role in Indian capital market as

- a) Speculator in stock market b) Investment avenue for small investors
- c) Promoter of large scale industries d)None of above

[Ans. (1) - (a), (2) - (b), (3) - (c), (4) - (a), (5) - (b)]