

**IASbaba's Daily Prelims Test [Day 33]**

**TOPIC:** Economy- Finance and Fiscal Policy, IYB, Eco-Survey and Current Affairs

**1. Consider the following statements regarding 'Goods and Service tax'.**

1. GST essentially a tax only on the value addition at each stage.
2. The proposed GST will have Two components one levied by the centre and the other levied by the state.
3. Alcohol, Tobacco products, Petroleum products are kept out of proposed GST regime.

**Which of the above statements are correct?**

1. 1 and 2 only
2. 1 and 3 only
3. 2 and 3 only
4. All the above

**Ans: (4)**

**Explanation:**

It is essentially a tax only on value addition at each stage, and a supplier at each stage is permitted to set-off, through a tax credit mechanism, the GST paid on the purchase of goods and services as available for set-off on the GST to be paid on the supply of goods and services.

Consistent with the federal structure of the country, the GST will have two components: one levied by the Centre (Central GST), and the other levied by the States (State GST). This dual GST model would be implemented through multiple statutes (one for CGST and SGST statute for every State).

The Central GST and State GST are to be paid to the accounts of the Centre and the States separately.

Items containing Alcohol, Tobacco products, Petroleum Products etc are kept out of purview of proposed GST

**2. Fourteenth Finance Commission submitted its report recently. Which of the following statements are correct regarding the recommendations of 14<sup>th</sup> Finance Commission?**

1. States share in net proceeds of Union tax revenues raised to 42%.
2. Grants to states divided into two; a basic grant and a performance grant.
3. Ratio of basic to performance grant fixed at 80:20 for panchayats as well as municipalities.

**Select the correct code from below.**

1. 1 and 2 only
2. 1 and 3 only
3. 2 and 3 only
4. All the above

**Ans: (1)**

**Explanation:**

FFC Recommends by Majority Decision that the States' Share in the Net Proceeds of the Union Tax Revenues be Raised to 42% which is a Huge Jump from the 32% Recommended by the 13th Finance Commission.

FFC has recommended distribution of grants to States for local bodies using 2011 population data with weight of 90% and area with weight of 10%.

The grants to States will be divided into two, a grant to duly constituted Gram Panchayats and a grant to duly constituted Municipal bodies, on the basis of rural and urban population.

FFC has recommended grants in two parts; a basic grant, and a performance grant, for duly constituted Gram Panchayats and municipalities. The ratio of basic to performance grant is 90:10 with respect to Panchayats and 80:20 with respect to Municipalities.

**3. Consider the following statements regarding 'Effective Revenue Deficit'.**

1. It is the Revenue deficit excluding the grants for creation of capital assets.
2. 14<sup>th</sup> Finance Commission recommended that an amendment to FRBM act to omit the definition of Effective Revenue Deficit.

**Which of the above statement/s is/are correct?**

1. 1 only
2. 2 only
3. Both 1 and 2
4. Neither 1 nor 2

**Ans: (3)**

**Explanation:**

Effective Revenue deficit is a new term introduced in the Union Budget 2011-12. The present accounting system includes all grants from the Union Government to the state governments/Union territories/other bodies as revenue expenditure, even if they are used to create assets. Such assets created by the sub-national governments/bodies are owned by them and not by the Union Government. Nevertheless they do result in the creation of durable assets.

The 'effective revenue deficit' excludes those revenue expenditures (or transfers) in the form of grants for creation of capital assets.

Grants for creation of capital assets, as a concept, was introduced in the FRBM Act through the amendment in 2012. However, the 14th Finance Commission observed that the concept of effective revenue deficit is not recognised in the standard government accounting process. The Commission recommends that the Union Government should consider making an amendment to the FRBM Act to omit the definition of effective revenue deficit from 1 April 2015.

**4. Receipts of the government are divided into Revenue receipt and Capital receipt. Which of the following are considered as Revenue receipts?**

1. Tax collections by the government.
2. Long term loans raised by the government.
3. Recovery of the loan amount lent out in the past.
4. Fees and penalties received by the government.

5. Interest received by the government out of the loans forwarded by it.

**Select the correct code from below.**

1. 1, 2, 3 and 4 only
2. 2, 3 and 4 only
3. 1, 4 and 5 only
4. 1, 2 and 5 only

**Ans: (3)**

**Explanation:**

Revenue receipts of a government are of two kinds—Tax Revenue Receipts and Non-tax Revenue Receipts.

Tax Revenue Receipts includes all money earned by the government via the different taxes the government collects, i.e., all direct and indirect tax collections.

Non-tax Revenue Receipts includes all money earned by the government from sources other taxes. In India they are—

- (i) *Profits and dividends* which the government gets from its public sector undertakings (PSUs).
- (ii) *Interests* received by the government out of all loans forwarded by it.
- (iii) *Fiscal services* also generate incomes for the government, i.e., currency printing, stamp printing, coinage and medals minting, etc.
- (iv) *General Services* also earn money for the government as the power distribution, irrigation, banking, insurance, community services, etc.
- (v) *Fees, Penalties and Fines* received by the government.
- (vi) *Grants* which the governments receives.

The money the government had lent out in past in India (states, UTs, PSUs, etc.) and abroad their capital comes back to the government when the borrowers repay them as capital receipts. The interests which come to the government on such loans are part of the revenue receipts.

**5. Consider the following statements regarding FRBM Act, 2003.**

1. It provides for a legal institutional framework for fiscal consolidation.
2. Act makes monetary policy independent of fiscal policy.
3. Government can move away from the path of fiscal consolidation in case of natural calamity, national security and other exceptional grounds.

**Which of the above statements are correct?**

1. 1 and 2 only
2. 1 and 3 only
3. 2 and 3 only
4. All the above

**Ans: (4)**

**Explanation:**

Fiscal Responsibility and Budget Management (FRBM) became an Act in 2003. The objective of the Act is to ensure inter-generational equity in fiscal management, long run macroeconomic stability, better coordination between fiscal and monetary policy, and transparency in fiscal operation of the Government.

FRBM Act provides a legal institutional framework for fiscal consolidation. It is now mandatory for the Central government to take measures to reduce fiscal deficit, to eliminate revenue deficit and to generate revenue surplus in the subsequent years.

Further, the Act prohibits borrowing by the government from the Reserve Bank of India, thereby, making monetary policy independent of fiscal policy.

The Government can move away from the path of fiscal consolidation only in case of natural calamity, national security and other exceptional grounds which Central Government may specify.

**6. The government recently set up a high-level committee to look into the issues pertaining to levy of minimum alternate tax on foreign institutional investors (FIIs). Which of the following are correct regarding minimum alternative tax (MAT)?**

1. MAT is an indirect tax.
2. MAT is applicable to only corporate tax payers.
3. Real estate investment trusts are exempted from MAT.

**Select the correct code from below.**

1. 1 and 2 only
2. 1 and 3 only

3. 2 and 3 only
4. All the above

**Ans: (2)**

**Explanation:**

Initially the concept of MAT was introduced for companies and progressively it has been made *applicable to all other taxpayers* in the form of AMT (Alternate Minimum Tax).

Real estate investment trusts are exempted from MAT.

[http://articles.economictimes.indiatimes.com/2013-02-25/news/37289864\\_1\\_indirect-tax-transaction-tax-wealth-tax](http://articles.economictimes.indiatimes.com/2013-02-25/news/37289864_1_indirect-tax-transaction-tax-wealth-tax)

**7. Consider the following statements regarding ways and means advances.**

1. It is a mechanism used by RBI to help states to correct the temporary mismatches in the cash flow of their receipts and payments.
2. WMA are provided against government securities only.
3. WMA limits are decided by RBI in consultation with Government from time to time.

**Which of the above statements are correct?**

1. 1 and 2 only
2. 1 and 3 only
3. 2 and 3 only
4. All the above

**Ans: (2)**

**Explanation:**

RBI provides Ways and Means Advances (WMA) to the States banking with it to help them to tide over temporary mismatches in the cash flow of their receipts and payments. Such advances repayable in each case not later than three months from the date of making that advance.

There are two types of WMA – normal and special. While normal WMA are clean advances, special WMA are secured advances provided against the pledge of Government of India dated securities.

RBI has determined limits for normal and special WMA for each State as multiples of the prescribed minimum balance required to be maintained with the RBI by that State. These limits have been revised periodically.

<https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?ID=6>

**8. Recently NITI Aayog replaced Planning Commission. Which of the following statements are correct regarding NITI Aayog?**

1. Chairperson of NITI Aayog is Prime Minister.
2. Governing council of NITI Aayog consists of chief ministers of states, Lt. Governors and union cabinet ministers.
3. As a think tank it will monitor and evaluate the implementation of programmes.

**Select the correct code from below.**

1. 1 and 2 only
2. 2 and 3 only
3. 1 and 3 only
4. All the above

**Ans: (3)**

**Explanation:**

Governing council of NITI Aayog consists of chief ministers of states only.

**9. Consider the following statements regarding Financial Stability and Development Council (FSDC).**

1. FSDC is headed by Prime Minister.
2. Its members include union cabinet ministers responsible for finance, revenue, commerce etc.
3. FSDC also focuses on financial literacy and financial inclusion.

**Which of the above statement/s is/are correct?**

1. 1 and 2 only
2. 3 only
3. 2 and 3 only
4. 1 and 3 only

**Ans: (2)**

**Explanation:**

FSDC is headed by Finance Minister.

Its members include the heads of financial sector Regulators (RBI, SEBI, PFRDA, IRDA & FMC) Finance Secretary and/or Secretary, Department of Economic Affairs, Secretary, Department of Financial Services, and Chief Economic Adviser.

FSDC also focuses on financial literacy and financial inclusion

**10. Expenditure of the government categorized into plan and non-plan expenditure. Which of the following items comes under the category of non-plan expenditure?**

1. Interest payments
2. Wage and salary payments to government employees
3. Expenditure on electricity generation
4. Defence Expenditure
5. Loans to public enterprises

**Select the correct code from below.**

1. 1, 2 and 5 only
2. 1, 2, 3 and 5 only
3. 1, 2, 4 and 5 only
4. 2, 4 and 5 only

**Ans: (3)**

**Explanation:**

Non-plan expenditure includes expenses on heads such as interest payment on government debt, subsidies, defence, pensions and other establishment costs of the government. A large part of this is obligatory in nature. For example, the government may cut allocation towards

rural development or education if it falls short of funds, but it cannot cut interest payments on borrowed funds.

<https://data.gov.in/keywords/non-plan-expenditure-1>

**11. Consider the following regarding Competition Appellate Tribunal of India**

1. It is a non-statutory body under Competition Commission of India
2. They have the power similar to Civil Courts
3. The Appellate Tribunal shall not be bound by the procedure laid down in the Code of Civil Procedure, 1908 but shall be guided by the principles of natural justice

**Which of the above is NOT correct about CAT?**

1. Only 3
2. 1 and 2
3. Only 1
4. None

Solution- 3

The Competition Appellate Tribunal is a statutory organization established under the provisions of the Competition Act, 2002 to hear and dispose of appeals against any direction issued or decision made or order passed by the Competition Commission of India.

The Appellate Tribunal shall not be bound by the procedure laid down in the Code of Civil Procedure, 1908 (5 of 1908), but shall be guided by the principles of natural justice and, subject to the other provisions of this Act and of any rules made by the Central Government. The Appellate Tribunal shall have, for the purposes of discharging its functions under the Act, the same powers as are vested in a civil court under the Code of Civil Procedure, 1908.

**12. Consider the following regarding Corporate Social Responsibility (CSR)**

1. It is not only applicable to all Indian companies, but also applicable to branch and project offices of a foreign company in India.
2. CSR funds can be also be used in National Relief Fund and combating terrorism.
3. Companies are restricted to use the fund for the welfare of ST's and SC's.

Select the Correct statement/s

1. 1, 2 and 3
2. 2 and 3
3. Only 1
4. None

Solution- 4

Only those companies are eligible falling under the criterion

**Applicability:** Section 135 of the Companies Act provides the threshold limit for applicability of the CSR to a Company i.e.

- (a) net worth of the company to be Rs 500 crore or more;
- (b) turnover of the company to be Rs 1000 crore or more;
- (c) net profit of the company to be Rs 5 crore or more.

**Activities under CSR:**

The activities that can be done by the company to achieve its CSR obligations include eradicating extreme hunger and poverty, promotion of education, promoting gender equality and empowering women, reducing child mortality and improving maternal health, combating human immunodeficiency virus, acquired, immune deficiency syndrome, malaria and other diseases, ensuring environmental sustainability, employment enhancing vocational skills, social business projects, contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women and such other matters as may be prescribed.

**13. Service sector is the biggest contributor to GDP in most of the developing and developed countries. Consider the following w.r.t it**

1. There is an increasing trend in World GDP with respect to contribution of Service Sector
2. India is among top five nations in the world in service GDP along with top position holder USA

Select the **WRONG** statement/s

1. Only 1
2. Only 2
3. Both
4. None

Solution- 4

In the last twelve years, the share of services in world GDP has declined by 2.8 percentage points (pp). The US ranks first in services GDP as well as in overall GDP, with China and Japan a distant second and third. Among the world's top 15 countries in terms of GDP, India ranked 10th in terms of overall GDP and 11th in terms of services GDP in 2013.

**14. Consider the statement/s**

1. India's service sector contributes more to employment than income.
2. India's major services exports are Professional and Consulting Services.

Select the **correct** statement/s

1. Only 1
2. Only 2
3. Both
4. None

Solution- 4

In India, the services sector had a high share in income at 56.9 per cent in 2012 with a lower share of 28.1 per cent in employment. And India's major services exports are Computer Services.

**15. Joint Comprehensive Plan of Action, a Nuclear deal was**

1. Nuke deal between US, UN and Iran
2. Civilian Nuke deal Agreement between UN, P+5 and Iran
3. Signed in Vienna, between Iran and US, Russia, China, Germany, France Plus EU
4. Signed in Vienna, between Iran and P+5 plus Germany and the EU.

Solution- 4

**16. What does animal BEAR means in Stock Market?**

1. Afraid to lose anything
2. Different investment styles and strategies out there.
3. Economy is bad, recession is looming and stock prices are falling.
4. Be conservative and never invest in anything you do not understand.

Solution- 3

Economy is bad, recession is looming and stock prices are falling.

**17. IRENA Headquarter located in**

1. Tel Aviv City, Israel
2. Madaba City, Jordan
3. Masfut City, UAE
4. Masdar City, UAE

Solution- 4

**18. Match the following**

- | City          | River         |
|---------------|---------------|
| 1. Hanoi      | (a) Menam     |
| 2. Bangkok    | (b) Irrawaddy |
| 3. Phnom-Penh | (c) Mekong    |
| 4. Yangon     | (d) Red River |

**Codes**

	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1.	a	b	c	d
2.	b	c	a	d
3.	d	a	c	b
4.	d	a	b	c

Solution- 3

**19. in International law, what does 'Mare clausum' refers to?**

1. An area in international waters where ocean mining is prohibited
2. A sea, ocean or other navigable body of water under the jurisdiction of state that is open to navigation to ships of all nations.
3. A sea, ocean or other navigable body of water under the jurisdiction of a state that is closed or not accessible to other states.
4. Both (1) and (2)

Solution- 3

**20. Consider the following with respect to 'Deep Sea Adaptation'**

1. The species have high agility than surface water species
2. The species have reflective scales
3. The species tend to grow much faster than surface sea species.

**Select the correct statement/s**

1. 1 and 2
2. Only 2
3. Only 3
4. 1, 2 and 3

Solution- 2, Statements 1 and 3 are wrong. They have low agility. They grow much slower than surface sea species.

www.iasbaba.com