Fiscal policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. It is the sister strategy to monetary policy through which a central bank influences a nation's money supply. These two policies are used in various combinations to direct a country's economic goals. Here's a look at how fiscal policy works, how it must be monitored, and how its implementation may affect different people in an economy.

Q.7) In which of the following situation would a contractionary fiscal policy be adopted?

1. Hyper-inflation
2. Galloping inflation
3. Recession
4. Economic boom

Choose the correct answer using the codes given below

a) 2 and 4 only
b) 1 and 3 only
c) 1, 2 and 4 only
d) All of the above

Q.7) Solution (c)

Explanation

Contractionary policy is a monetary measure referring either to a reduction in government spending—particularly deficit spending—or a reduction in the rate of monetary expansion by a central bank.

It is a type of macroeconomic tool designed to combat rising inflation or other economic distortions created by central banks or government interventions. Contractionary policy is the polar opposite of expansionary policy.

Q.8) Match the following statements with the related terms given below:

Description	Monetary Policy tool
1. It is rate at which scheduled banks can borrow funds overnight from RBI against government securities.	A. Reverse Repo Rate