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|-----------------|---|
| 1. Deflation    | A. Reduction in the rate of inflation                                 |
| 2. Disinflation | B. General fall in the level of prices                                |
| 3. Stagflation  | C. Combination of inflation and rising unemployment due to recession  |
| 4. Reflation    | D. Attempt to raise the prices to counteract the deflationary prices. |

Select the correct answer code:

- a) 1-A, 2-B, 3-C, 4-D
- b) 1-B, 2-A, 3-C, 4-D
- c) 1-B, 2-A, 3-D, 4-C
- d) 1-A, 2-B, 3-D, 4-C

Solution: b)

21) Consider the following statements regarding Fiscal Deficit.

- 1. Fiscal deficit is reflective of the total borrowing requirements of the Government.
- 2. A higher fiscal deficit can lead to higher interest rates in the economy.

Which of the above statements is/are incorrect?

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

Solution: d)

Fiscal Deficit is the difference between the Revenue Receipts plus Non-debt Capital Receipts (NDCR) and the total expenditure.

In other words, fiscal deficit is “reflective of the total borrowing requirements of the Government”.

If the fiscal deficit ratio is too high, it implies that there is a lesser amount of money left in the market for private entrepreneurs and businesses to borrow.

Lesser amount of this money, in turn, leads to higher rates of interest charged on such lending.

So, simply put, a higher fiscal deficit means higher borrowing by the government, which, in turn, mean higher interest rates in the economy.

A high fiscal deficit and higher interest rates would also mean that the efforts of the Reserve Bank of India to reduce interest rates are undone.

22) Which of the following are considered or counted while calculating GDP?

- 1. Rental value of all houses
- 2. Newly produced cars as well as second-hand cars
- 3. Pensions and scholarships given by the Government.

Select the correct answer code:

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

Solution: a)

In calculating GDP, only newly produced goods are counted. Transactions in existing goods like second-hand cars are not included, as these do not involve the production of new goods. But the services provided by the agents while selling second-hand cars are counted. The agents make some money through commission which adds to the service economy.