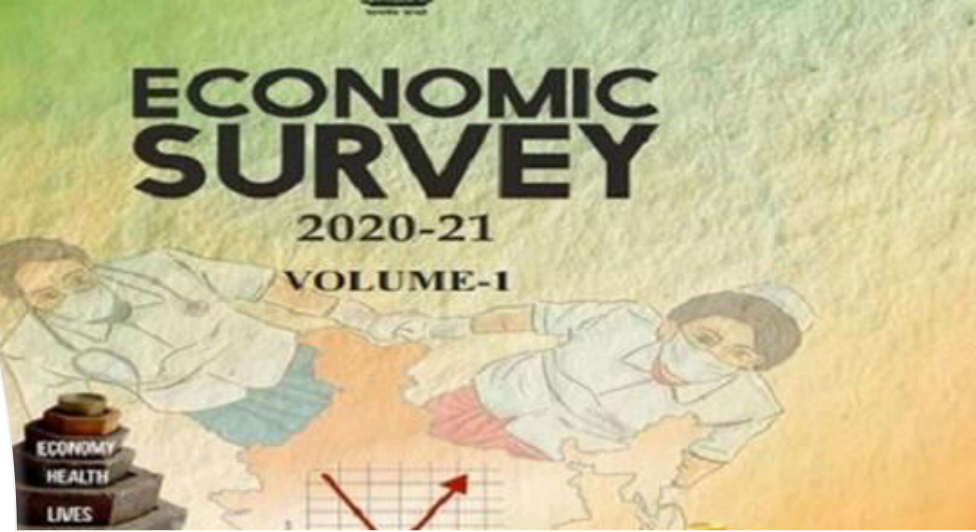


# Economic Survey & Budget 2021 Most Important MCQs

By Kapil Sikka





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# ABOUT ME



Mentoring, guiding and teaching  
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# Highlights



- Comprehensive Coverage of Current Affairs
- Must for UPSC/SSC/Banking Exams
- PDFs for Doubts Clearing and Revisions

# Set 1

**Q1 With regard to the National Infrastructure Pipeline, consider the following statements**

1. It includes both economic and social infrastructure projects
2. It has investments from both Public and Private sectors
3. Under this, health, education and agriculture constitutes 70% of the projected capital expenditure in infrastructure in India

**Select the CORRECT statement(s) using the codes given below**

- a) 1 Only
- b) 2 and 3
- c) 1 and 2
- d) 1, 2 and 3

C

- Under the pandemic conditions, according to Economic Survey 2021, public investment programme centred around the National Infrastructure Pipeline is likely to accelerate the demand push and further the recovery.
- NIP will enable a forward outlook on infrastructure projects which will create jobs, improve ease of living, and provide equitable access to infrastructure for all, thereby making growth more inclusive.
- NIP includes economic and social infrastructure projects.
- Task Force was constituted to draw up the National Infrastructure Pipeline (NIP) for each of the years from financial years 2019-20 to 2024-25.
- **Statement 3:** During the fiscals 2020 to 2025, sectors such as Energy (24%), Roads (19%), Urban (16%), and Railways (13%) amount to around 70% of the projected capital expenditure in infrastructure in India.
- It has outlined plans to invest more than Rs. 102 lakh crore on infrastructure projects by 2024-25, with the Centre, States and the private sector to share the capital expenditure in a 39:39:22 formula.

**Q2 Which of the following statements best describes Basic Reproduction Number in the context of COVID-19?**

- a)The expected number of new cases of the disease caused by a single individual
- b)The expected number of deaths among the positive cases over the particular period of time
- c)It is the rate of recovery from COVID-19
- d)It is the number of patients getting affected by COVID-19 first time



A

- The transmission potential is often summarized by the expected number of new infections caused by a typical infected individual during the early phase of the outbreak, and is usually denoted by the basic reproduction number,  $R_0$ .
- It is simply the expected number of new cases of the disease caused by a single individual.
- $R_0$  is an interplay between the number of people an infected person meets ( $k$ ) and the probability with which he spreads the infection to the person he comes into contact with ( $p$ ). Small changes in ( $k$ ) and ( $p$ ) can have a large effect when  $R_0$  is near 1.

### Q3 Consider the following statements

1. The germ theory was proposed by Louis Pasteur
2. He is considered as a father of hand hygiene and infection control in hospitals

**Select the CORRECT statement(s) using the codes given below**

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

A: Only statement 1 is correct.

- Due to COVID-19, handwashing received attention once more after nearly 170 years. It may be unbelievable today, but nearly 200 years ago, doctors did not wear gloves for surgeries and the concept of germs was not known. The germ theory was proposed by Louis Pasteur in 1885.
- Today, Ignaz Semmelweis is considered the father of hand hygiene and infection control in hospitals.
- During the COVID-19 pandemic, handwashing has come to the rescue once again. Handwashing is considered a proven and among the most cost-effective public health interventions along with vaccination.
- This was recognised under the Swachh Bharat Mission in India with a focus to develop the habit of handwashing early at schools under Swachh Bharat: Swachh Vidyalaya.

**Q4 With regard to the impact of lockdown, consider the following statements**

1. Cities that implemented lockdowns for longer tend experienced low mortality and low growth
2. Cities with shorter lockdowns periods experienced high mortality as well as high growth

**Select the CORRECT statement(s) using the codes given below**

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

D

Both the statements are incorrect.

- Correia et al. (2020) use a **dynamic difference-in-difference regression approach** to examine the impact of lockdowns on control of the Spanish flu and consequent effect on economic activity across cities.
- The study found that cities that implemented lockdowns for **longer tend to be clustered in the upper-left region (low mortality, high growth)**, while cities with **shorter lockdowns** periods are clustered in the **lower-right region (high mortality, low growth)**.
- This suggests that lockdowns play a critical role in attenuating mortality, but without reducing economic activity and contribute to faster growth in the medium term

## Q5 Which of the following statements are correct about Black Swan Event?

- a) It is an unpredictable event that is beyond what is normally expected of a situation
- b) It can cause catastrophic damage to an economy by negatively impacting markets and investments
- c) Even the use of robust modelling cannot prevent a black swan event
- d) All of the above

D

All statements are correct.

- The COVID-19 pandemic is being widely described as a Black Swan event, an event that has outsized impact, that is harder to predict and even harder to compute its probabilities.
- A black swan is an extremely rare event with severe consequences. It cannot be predicted beforehand, though after the fact, many falsely claim it should have been predictable.
- Black swan events can cause catastrophic damage to an economy by negatively impacting markets and investments, but even the use of robust modelling cannot prevent a black swan event.

**Q6 Barbell Strategy is associated with:**

- a) Investment
- b) Collection of revenue
- c) Increasing Indirect Taxes
- d) Recapitalization of Public Sector Banks



A

- The barbell strategy is an investment concept that suggests that the best way to strike a balance between reward and risk is to invest in the two extremes of high risk and no risk assets while avoiding middle-of-the-road choices.
- Given the 'black swan event' marked by sheer uncertainty and once in a century crisis, Indian policymakers followed an approach similar to the Barbell strategy in finance – hedging for the worst outcome initially, and updating its response step-by-step via feedback.
- All investing strategies involve seeking the best return on investment that is possible given the degree of risk that the investor can tolerate. Investors who follow the barbell strategy insist that the way to achieve that is to go to extremes.

## Q7 Consider the following statements with regard to the Stringency Index

1. Its aim is to capture the strictness of 'lockdown style' policies of respective States that primarily restrict people's behaviour
2. A higher index score indicates a higher level of stringency
3. It shows that higher the restrictions lower is the human mobility

**Select the CORRECT statement(s) using the codes given below**

- a) 1 Only
- b) 1 and 2
- c) 2 and 3
- d) 1, 2 and 3

## D

All statements are correct.

- A measure of the COVID-19 induced restrictions imposed by governments (Centre and State) have been developed as a State-wise Stringency index. After the nation-wide lockdown was gradually eased, States were advised to impose restrictions as per the spread of the pandemic in the State; thus the stringency of lockdown varied across States over time.
- The Government Response Stringency Index is a composite measure based on various response indicators including school and workplace closures, stay-at-home policies and travel bans, rescaled to a value from 0 to 100.
- A higher index score indicates a higher level of stringency (100 = strictest response).
- It is among the metrics used by the Oxford Coronavirus Government Response Tracker (OxCGRT).

**Q8 In Indian context, 'debt sustainability' depends on difference between:**

- a) Interest rate and Growth rate
- b) Capital Account and Current Account
- c) Gross National Product and Gross Domestic Product
- d) Monetary Deficit and Fiscal Deficit

# A

- Growth leads to debt sustainability in the Indian context but not necessarily vice-versa.
- Debt sustainability depends on the 'Interest Rate Growth Rate Differential' (IRGD), i.e., the difference between the interest rate and the growth rate.
- More, **negative** the IRGD, the easier (and quicker) it is for the Government to ensure debt sustainability.
- Conversely, if the IRGD is **positive**, the harder (and slower) it is for the Government to ensure debt sustainability. A negative IRGD thus creates an enabling environment for debt sustainability.

## Q9 Consider the following statements with regard to the Counter-Cyclical Fiscal Policy

1. It refers to the steps taken by the central bank of the country that go against the direction of the economic or business cycle
2. While counter-cyclical fiscal policy is necessary to smooth out economic cycles, it becomes critical during an economic crisis

**Select the CORRECT statement(s) using the codes given below**

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

**B**

Only statement 2 is correct.

- **Statement 1:** Counter-cyclical fiscal policy refers to the steps taken by the government (not by central bank like RBI) that go against the direction of the economic or business cycle.
- Counter-cyclical fiscal policy stabilizes the business cycle by being contractionary (reduce spending/increase taxes) in good times and expansionary (increase spending/reduce taxes) in bad times. On the other hand, a pro-cyclical fiscal policy is the one wherein fiscal policy reinforces the business cycle by being expansionary during good times and contractionary during recessions.
- **Statement 2:** While counter-cyclical fiscal policy is necessary to smooth out economic cycles, it becomes critical during an economic crisis. This is because fiscal multipliers, which capture the aggregate return derived by the economy from an additional Rupee of fiscal spending, are unequivocally greater during economic crises.

## Q10 Higher debt leading to lower growth, because:

1. higher levels of public debt are accompanied by more taxes in the future to pay for the debt
2. lower aggregate demand
3. lower lifetime wealth

**Select the CORRECT statement(s) using the codes given below**

- a) 1 Only
- b) 1 and 2
- c) 2 and 3
- d) 1, 2 and 3



**D**

All statements are correct.

### **Direction of Causality in India:**

Question arises: Does higher growth lead to lower debt or lower debt cause higher growth? Conceptually, causality could flow in either direction.

### **Higher debt leading to lower growth because:**

- higher levels of public debt are accompanied by more taxes in the future to pay for the debt, thereby leading to lower lifetime wealth, which may decrease consumption and savings, eventually resulting in lower aggregate demand and growth rates
- if higher public debt (i.e. lower public savings) is not accompanied by increase in private savings, it may also lead to lower total savings in the economy
- this may put upward pressure on the interest rates, resulting in crowding out of investment and thus negatively impacting the growth rates

Thank you 🌞

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