



## Economic Survey 2020-21 Part - X

1) *Laffer Curve* shows the relationship between which of the following?

- a. Inflation & Unemployment
- b. Economic Growth & Inequality
- c. Balance of Payment & Fiscal Deficit
- d. Average Tax Rates & Total Tax Revenue

Answer : d

- It is a curve designed by the economist Arthur Laffer in 1974.
- It links **average tax rates to total tax revenue**.
- It suggests that higher tax rates initially increase revenue but after a point further increases in tax rates cause revenue to fall (for instance by discouraging people from working).
- But it is tough to know whether an economy is on the Laffer curve, as higher taxation breeds evasion of taxes too.

2) Consider the following statements

1. India's external debt to GDP ratio is higher than most of the emerging market economies.
2. India's external debt to exports ratio increased steadily since the crisis year 199

Which of the statement(s) given above is/are correct?

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

Answer : d

- The India's **external debt to GDP ratio has been well below the optimal zone** over the years as it came down from 38.7 per cent as at end-March 1992 to as low as 17.1 per cent as at end-March 2006.
- It remained range-bound around 23 per cent during early 2010s.
- It is estimated at 20.6 per cent as at end-March 2020.
- **Barring China, leading emerging market economies have higher ratio than India's.**
- India's **external debt to exports ratio dropped secularly downwards** since the crisis year 1992, though it has climbed up in the recent years and is now hovering in the close vicinity of the optimal zone.
- The optimal zone indicates growth maximising compatible with the long-run framework of steady state.

3) Arrange the following countries in ascending order based on foreign exchange reserves as of September, 2020:

1. China
2. Japan

3. Switzerland
4. Russia
5. India

Select the correct answer using the codes given below:

- a. 3-4-5-1-2
- b. 3-5-4-2-1
- c. 5-4-3-2-1
- d. 1-2-3-4-5

Answer : c

- As at end-September 2020, **India is the fifth largest foreign exchange reserves holder** among all countries of the world after China, Japan, Switzerland and Russia.
- While improved current account balance has been a key factor for reserve accretion, robust capital flows, particularly FDI and FPI, in subsequent months largely drove foreign exchange reserves to an all-time high of US\$ 586.1 billion as on January 8, 2021, covering about 18 months of imports.

4) Consider the following statements

1. The current account balance, in economic terms, is synonymous with the Savings-Investment balance.
2. A current account surplus implies a higher level of national savings relative to investment.

Which of the statement(s) given above is/are *incorrect*?

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



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Answer : d

- The rise in the foreign exchange reserves of the RBI has largely been due to the current account surplus which, in turn, is largely due to contraction in imports rather than increase in competitiveness of exports.
- The current account balance, in economic terms, is synonymous with the Savings-Investment balance.
- A current account surplus implies a higher level of national savings relative to investment.

5) Which of the following constitutes *Revenue Expenditure*?

1. Pension
2. Major Subsidies
3. Interest payments
4. Grants-in-aid to States/UTs
5. Defence Revenue expenditure

Select the correct answer using the codes given below:

- a. All except 5
- b. All except 1 and 2
- c. All except 4 and 5
- d. All of the above

Answer : d

- Revenue Expenditure, constitutes over 87 per cent of the total expenditure in India.

- Interest payments, Defence Revenue expenditure, Major Subsidies, Grants-in-aid to States/UTs, and Pension are the major items of revenue Expenditure.



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