Q3

Which among the following steps is most likely to be taken at the time of an economic recession? (a) Cut in tax rates accompanied by increase in interest rate (b) Increase in expenditure on public projects (c) Increase in tax rates accompanied by reduction of interest rate. (d) Reduction of expenditure on public projects Official key: B.

UPSC Civil Services Prelims 2021 · General Studies · 2 marks · Economy

Indian economy, budget, schemes - Prelims GS Paper I.

Explanation

(a)

Cut taxes and raise rates. Fiscal ease plus monetary tightness fight each other; rates up is not a recession pack.

(b) Official key

Increase expenditure on public projects. Classic Keynesian stimulus in a slump.

(c)

Raise taxes and cut rates. Tax rise is contractionary.

(d)

Cut public projects. That deepens a recession.

Summary

Official key is (b). In a recession the usual first fiscal move is more public spending (and often easier money). Raising rates or taxes, or cutting projects, is the wrong direction.

Related possible facts

These can be asked in a future Prelims paper.

Automatic stabilisers
Tax take falls and welfare rises in a slump without a new vote.

Multiplier
Public investment's extra demand in unused capacity.