Direction (Q1-Q5): Read the passage below and answer the question:

The Goods and Services Tax (GST) represents a significant reform in India's indirect taxation system. Introduced nationwide from July 1st, 2017, its primary aim was to replace a multitude of central and state-level indirect taxes, such as excise duty, service tax, and VAT. The core objectives behind this transition included mitigating the cascading effect of taxes and creating a unified national market. GST is designed as a comprehensive tax levied on the supply of goods and services, with the tax burden ultimately borne by the final consumer. The system operates under a dual structure, involving both the central government (CGST) and state governments (SGST) concurrently. For transactions occurring between different states, an Integrated GST (IGST) mechanism is in place. The framework is based on the principle of a destination-based consumption tax and incorporates an Input Tax Credit (ITC) mechanism. This reform intends to simplify the tax structure and enhance efficiency in the economy.

Q1. The GST Council governs GST in India and is chaired by the Union Finance Minister. Besides the Union Finance Minister, who are the other key members typically included in the GST Council?

(a) Chief Justices of the Supreme Court and High Courts

(b) State Finance Ministers or their nominated representatives

(c) Chairpersons of Public Sector Banks

(d) Chief Ministers of all States

Q2. GST is a comprehensive tax levied on the supply of goods and services and implemented across India. Based on the general application of GST in India, which of the following is a primary factor determining if a business is required to register under GST?

(a) The number of branches the business operates

(b) The business's annual aggregate turnover exceeding a specified threshold

(c) Whether the business is owned by an individual or a company

(d) The educational qualification of the business owner

Q3. The GST aims to eliminate the cascading effect of taxes and create a single national market. The Input Tax Credit (ITC) mechanism is also mentioned as part of the GST framework. How does the seamless flow of ITC, enabled by GST, primarily benefit businesses?

(a) By increasing the final price of goods and services

(b) By allowing businesses to pay taxes only on the value added at each stage of the supply chain

(c) By exempting businesses from paying any taxes on their outputs

(d) By making compliance procedures more complex

Q4. GST as a dual system involving both central and state components (CGST and SGST) levied concurrently on intra-state transactions. For interstate transactions, IGST is levied and collected by the center. Which of the following best describes the purpose of the Integrated Goods and Services Tax (IGST)?

(a) To collect tax on imports into India only

(b) To ensure a seamless flow of credit across states for interstate supplies

(c) To replace income tax on businesses involved in interstate trade

(d) To levy tax only on services supplied between states

Q5. GST is a destination-based consumption tax. Based on this principle, where is the revenue from an intra-state GST transaction (CGST and SGST) primarily allocated?

(a) To the state from where the goods are dispatched or services originate

(b) Equally between the state of origin and the state of destination

(c) To the state where the final consumption of the goods or services takes place

(d) To the Central Government only

Q6. Which of the following is a potential benefit of a fixed exchange rate system?

(a) Exchange rate stability encourages international trade and investment

(b) Currency values fluctuate unpredictably

(c) Governments have no control over their monetary policies

(d) Inflation rates become highly volatile

Q7. Which of the following statements accurately describe the nature of Fiat and Fiduciary money?

A. Fiat money has no intrinsic value and is not backed by physical commodities.

B. Fiduciary money's value is solely based on a government order.

C. Examples of fiduciary money include checks and promissory notes.

D. Fiat money is always redeemable for gold or silver.

(a) A and C only

(b) B and D only

(c) A, C, and D only

(d) A and B only

Q8. What is the likely effect on the demand for a good when the price of its substitute increases?

(a) Demand for the good decreases

(b) Demand for the good remains unchanged

(c) Demand for the good increases

(d) Supply of the good decreases

Q9. How does inflation typically affect the supply of goods in the market?

(a) Inflation always increases supply by lowering production costs

(b) Inflation reduces supply by increasing input and production costs

(c) Inflation has no effect on supply

(d) Inflation causes supply to increase due to higher demand

Q10. If the marginal cost of production is rising, this usually indicates:

(a) Increasing returns to scale

(b) Decreasing returns to scale or diminishing marginal productivity

(c) Constant returns to scale

(d) No change in total cost

Solutions

S1. Ans. (b)

Sol. The GST Council, which governs GST in India, is a joint forum of the Centre and States. Its standard composition includes the Union Finance Minister (Chairperson) and the State Finance Ministers or their nominated representatives from each state and union territory. This structure ensures representation from both the central and state governments in decision-making processes regarding GST.

S2. Ans. (b)

Sol. A fundamental aspect of GST implementation is the requirement for businesses to register based on their annual aggregate turnover. If a business's turnover exceeds the threshold prescribed by the government (which varies depending on the nature of supply and location), it is mandatory for them to register under GST. This is a standard feature of the tax not explicitly detailed in the provided text but relates directly to its broad application.

S3. Ans. (b)

Sol. The final consumer bears the tax and that businesses are entitled to get Input Tax Credit (ITC) on their inputs (a tax on value addition only). The seamless flow of ITC is a key benefit of GST that allows businesses to claim credit for taxes paid on their purchases (inputs) and set it off against the tax payable on their sales (outputs). This ensures that tax is effectively levied only on the 'value added' at each stage of the supply chain, thus eliminating the cascading effect of taxes.

S4. Ans. (b)

Sol. The IGST mechanism has been designed to ensure seamless goods flow from one state to another. IGST is levied on interstate supplies of goods and services. A primary purpose of IGST is to facilitate the flow of Input Tax Credit across state borders, ensuring that businesses can utilize the credit of CGST, SGST, and IGST paid on their interstate purchases to set off against their IGST liability on interstate sales, thereby maintaining the chain of ITC across the country.

S5. Ans. (c)

Sol. The GST as a destination-based consumption tax, stating that it implies that all SGST collected will ordinarily occur to the state where the consumer of goods and services sold resides. This means that the revenue from GST, both the state component (SGST) and a portion of the central component (CGST), for intra-state sales accrues to the state where the final consumption occurs, not the state where the goods were produced or services originated.

S6. Ans.(a)

Sol. A fixed exchange rate provides stability, which helps in boosting international trade and investment by reducing exchange rate uncertainty.

S7. Ans. (a)

Sol.

A is correct as fiat money has no intrinsic value and is not commodity-backed.

B is incorrect because fiduciary money's value depends on trust, not government orders.

C is correct; checks and promissory notes are examples of fiduciary money.

D is incorrect; fiat money is not redeemable for gold or silver.

S8. Ans. (c)

Sol.

When the price of a substitute good rises, consumers tend to switch to the relatively cheaper good, increasing its demand. Hence, demand for the good increases.

S9. Ans. (b)

Sol.

Inflation raises the costs of inputs and production, making it more expensive for producers to supply goods, which tends to reduce the overall supply.

S10. Ans. (b)

Sol. Rising marginal cost typically signals diminishing marginal productivity, meaning each extra unit costs more to produce.