



ECONOMICS

BOOKS - RADHA BHUGANA

ECONOMICS (HINGLISH)

**GOVERNMENT BUDGET AND THE
ECONOMY**

Examples

1. From the following data calculate Fiscal Deficit

S.No.	Item	₹ in Billions
1	Capital Receipt	68
2	Revenue Expenditure	160
3	Interest Payment	20
4	Borrowings	32
5	Tax Revenue	50
6	Non-Tax revenue	10



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2. Using budget estimates of government of India for the year 2008-09 calculate : Revenue

deficit , Fiscal deficit , Primary deficit :

Receipts			(₹ in Crores)
1.	Revenue receipts (= 2 + 3)		612935
2.	Tax revenue (net to centre)		
3.	Non-tax revenue	507150	
4.	Capital Receipts (= 5 + 6 + 7)	95785	
5.	Recoveries of loans		147949
6.	Other receipts	4197	
7.	Borrowings and other liabilities	10165	
8.	Total receipts (= 1 + 4)	133287	750884
Expenditures			(₹ in Crores)
9.	Non plan expenditure (= 10 + 12)		507498
10.	On revenue account	448352	
11.	Interest payments	190807	
12.	On capital account	59146	
13.	Plan expenditure (= 14 + 15)		243386
14.	On revenue account	209767	
15.	On capital account	33619	
16.	Total expenditure (= 9 + 13)		750884
17.	Revenue expenditure (= 10 + 14)	658119	
18.	Capital expenditure (= 12 + 15)	92765	



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3. From the budget estimates of government of India , calculate (i) Revenue deficit (ii) Fiscal

deficit (iii) Primary deficit .

	(₹ in Crores)
1. Revenue receipts	2037
2. Revenue expenditure	2811
3. Capital receipts	1324
4. Capital expenditure	550
5. Recoveries of loans and other receipts	240
6. Borrowing and other liabilities	1084
7. Interest payments	1020



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Application Based Question From Objective Of A Budget

1. Explain the objective of stability of prices of government budget.

Or

Explain the role of government budget in controlling inflationary and deflationary tendencies .

Or

Explain how government budget can be helpful in bringing economic stabilisation in the economy .



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2. In the government of India's budget for the year 2013-14 , the Finance Minister proposed to raise the excise duty on cigarettes . He also proposed to increase income tax on individual earning more than \hat{a} ,¹ one crore per annum .

Identify and explain the types of taxes proposed by the Finance Minister . Was the objective only to earn revenue for the government ? What possible welfare objectives could the Government be considering ?



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Let Us Recapitulate

1. Categorise the following into direct tax or indirect tax

Corporation tax



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2. Categorise the following into direct tax or indirect tax

GST



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3. Categorise the following into direct tax or indirect tax

Wealth tax



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4. Categorise the following into direct tax or indirect tax

Property tax



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5. Categorise the following into revenue receipts or capital receipts

Income tax received by government .



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6. Categorise the following into direct tax or indirect tax

Interest received on loans .



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7. Categorise the following into direct tax or indirect tax

Financial help received from foreign countries

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8. Categorise the following into direct tax or indirect tax

Loans raised by government from the world bank .



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9. Categorise the following into direct tax or indirect tax

Recovery of loans from the government of Delhi by Government of India .





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10. Categorise the following into direct tax or indirect tax

Deposits by people in public provident fund and National saving certificates .



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11. Categorise the following into direct tax or indirect tax

Tax Receipts .



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12. Categorise the following into direct tax or indirect tax

Public debt.



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13. Categorise the following into direct tax or indirect tax

Borrowing from public





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14. Categorise the following into revenue expenditure or capital expenditure

Construction of school buildings .



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15. Categorise the following into revenue expenditure or capital expenditure

Loans granted to Haryana state government by Government of India .



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16. Categorise the following into revenue expenditure or capital expenditure

Payment of salary to government employes .



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17. Categorise the following into revenue expenditure or capital expenditure

Repayment of a part of its outstanding loans to World bank by the Government of india .



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18. Categorise the following into revenue expenditure or capital expenditure

Expenditure incurred on training of teachers for 'Sarva Shiksha Abhiyan' .



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19. Categorise the following into revenue expenditure or capital expenditure

Interest paid on government loans .



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20. Categorise the following into revenue expenditure or capital expenditure

Expenditure on building a bridge .



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21. Categorise the following into revenue expenditure or capital expenditure

Expenditure on collection of taxes .



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Multiple Choice Questions

1. Components of govt. budget

A. Revenue receipt

B. revenue expenditure

C. capital receipt and expenditure

D. all of these.

Answer: D



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2. Receipts which do not affect asset or liability status of the government

A. capital receipts

B. revenue receipts

C. budgetary receipts

D. none of these .

Answer: B



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3. Example of a non-debt creating capital receipt

A. borrowings

B. extension of borrowings

C. recovery of loans

D. none of these .

Answer: C



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4. Amount of fiscal deficit is equal to

A. disinvestment

B. borrowings

C. recovery of loans

D. all of these.

Answer: B



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5. The way by which the government can finance its budgetary deficit

A. deficit financing

B. borrowings

C. disinvestment

D. all of these.

Answer: D



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6. It affects the assets and liabilities of the government :

A. taxes

B. fees and fines

C. disinvestment

D. forfeiture of bonds.

Answer: C



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7. Which of the following is not a revenue receipt ?

A. recovery of loans

B. foreign grants

C. profits of public enterprises

D. wealth tax

Answer: A



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8. Which of the following is a correct measure of primary deficit ?

A. fiscal deficit minus revenue deficit

B. revenue deficit minus interest payments

C. fiscal deficit minus interest payments

D. Capital expenditure minus revenue expenditure

Answer: C



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9. Direct tax is called direct because it is collected directly from :

A. The producers on goods produced

B. the sellers on goods sold

C. the buyers of goods

D. the income earners

Answer: D



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10. Primary deficit equals :

A. borrowings

B. interest payments

C. borrowings less interest payments

D. borrowings and interest payment both

Answer: C



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11. Fiscal deficit equals :

A. interest payments

B. borrowings

C. interest payments less borrowings

D. borrowings less interest payments

Answer: B



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12. Disinvestment by government means :

A. selling of its fixed capital assets

B. sellings of shares of public enterprises
held by it .

C. sellings of its buildings

D. all the above

Answer: B



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13. Which of the following is a source of capital receipt ?

A. Foreign donations

B. Dividends

C. disinvestment

D. Indirect taxes

Answer: C



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14. Which of the following sources of receipts in govt. budget increases its liabilities ?

- A. Direct taxes
- B. Recovery of loans
- C. Borrowings

D. Dividend from public sector undertakings

Answer: C



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15. Borrowing in government budget is :

A. Revenue deficit

B. Fiscal deficit

C. Primary deficit

D. Deficit in taxes

Answer: B



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Objective Type Questions

1. State one fiscal measure that can be reduce the gap between rich and poor .



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2. What is a government budget ?



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3. Name two components of government budget .



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4. What is revenue budget ?



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5. What is a capital budget ?



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6. What is the revenue receipts (or revenue items) of government ? Mention two sources of revenue receipts .



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7. What is tax ?



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8. Define direct tax . Give two examples of direct taxes.



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9. Define indirect tax . Give two examples of indirect taxes .



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10. Give example of non-tax revenue receipts .



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11. What does zero primary deficit mean ?



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12. Name the ways in which budgetary deficit is financed.



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13. Explain the term revenue expenditure of the government .



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14. Explain the term capital expenditure of the government .



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15. What is the difference between development and non development expenditure ?



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16. Define Fiscal deficit .



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17. What is Primary deficit ?



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18. What one step can be taken through market to reduce the consumption of product harmful for health ?



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19. Give two examples of revenue expenditure .



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Conceptual Questions

1. What are components of government budget ?



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2. What are the revenue receipts ?

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3. Classify government expenditure

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4. What are capital receipts

Or

Define the capital receipts of a government .



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5. Write short notes on : (i) Budgetary deficit
(ii) Revenue deficit (iii) Fiscal deficit (iv) Primary deficit .



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6. Elaborate 'economic growth ' as objective of government budget .



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Higher Order Thinking Skills

1. Classify the following as direct and indirect taxes : (i) Income tax (ii) Entertainment tax (iii) Profit tax (iv) Wealth tax .



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2. Identify the following as revenue receipts or capital receipts . Give reasons :

(i) Loan from the IMF . (ii) Grants received from World Bank .

(iii) Profit tax (iv) Sale of shares held by government in Maruti Udyog Limited .

(v) Borrowings from public (vi) Bus fare .

(vii) Fees of government hospital .



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3. Identify the following as revenue expenditure or capital expenditure . Give reasons :

(i) Salary paid to government employees .

(ii) Purchase of a machine from Korea.

(iii) Repayment of loan taken from IMF .

(iv) Interest paid on national debt .

(v) Interest paid on national debt .

(vi) Expenditure on construction of dams.

(vi) Social security benefits paid to retired government employees.



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4. What are the implications of a large revenue deficit? Give two measures to reduce this deficit.

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5. State items of: (a) Debt creating capital receipts. (b) Non-debt creating capital receipts.

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6. What are the measures to correct budget deficits ?



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7. Are fiscal deficits necessarily inflationary ?



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Value Based Questions

1. A rich person claims that he would not pay taxes to support government's expenditure on providing education because he has no children . Should he be exempted from tax payment ? What happens if he does not pay tax ?



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2. Through carefully planned , government budget reflects because its expenditure

exceeds revenue . How can this deficit be reduced ?



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3. There has been constant rise in price of sugar overtime . What measures would you support to bring down the prices ?



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4. What one step can be taken through market to reduce the consumption of a product harmful for health ?



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5. How can government budget be a useful instrument in reducing inequalities in the distribution of income and wealth ?



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Guidelines T O Ncert Questions

1. Distinguish between revenue expenditure and capital expenditure



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2. Discuss the issue of deficit reduction .



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3. What is the relationship between the revenue deficit and the fiscal deficit ?

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4. The fiscal deficit gives the borrowing requirement of the government . Elucidate .

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Exercises Very Short Answer Type Questions

1. State any one objective of a government budget .



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2. Define government revenue .



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3. Define government budget .



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4. What are indirect taxes ?

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5. What is meant by revenue receipts ?

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6. Why is entertainment tax , an indirect tax ?

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7. What is the basic difference between direct and indirect tax ?



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8. What do you mean by direct tax ?



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9. State any two sources of non-tax revenue receipts .



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10. How is primary deficit calculated ? What is Primary deficit ?



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11. Define Fiscal deficit .



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12. What is meant by progressive tax ?



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13. What do you mean by regressive tax ?



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14. What is meant by capital expenditure



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15. Why is payment of interest a revenue expenditure ?



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16. Mention two important sources of capital receipts .



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17. Why are subsidies treated as revenue expenditure ?



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18. What do you mean by revenue deficit ?



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19. A government budget shows a primary deficit of $\hat{1}$ 4400 crore . The revenue

expenditure on interest payment is $\hat{1}$ 400 crore . How much is the fiscal deficit ?



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20. What one step can be taken through market to reduce the consumption of a product harmful for health .



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21. Give two examples of indirect taxes .



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22. What are capital receipts in a government budget ?



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23. What is revenue expenditure ?



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Short Answer Type Questions

1. Define tax revenue . What are the two kinds of tax revenue ? Give two examples of each .



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2. Distinguish between direct tax and indirect tax . Give an example of each .



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3. Give meanings of capital receipts and revenue receipts with an example of each .



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4. What is meant by revenue deficit ? What are its implications ?



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5. What is fiscal deficit ? What are its implications ?



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6. What is a government budget ? Give the meaning of (i) Revenue deficit (ii) Fiscal deficit .



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7. Can there be a fiscal deficit in government budget without a revenue deficit ? Explain .



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8. Government raises its expenditure on producing public goods . Which economic value does it reflect ? Explain .



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9. What are the basis of classification of government receipts into revenue receipts and capital receipts ? Give an example of each .



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10. Distinguish between (a) Revenue receipts and capital receipts , (b) Direct tax and indirect tax.



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11. What is government budget ? Name two sources each of non-tax revenue receipts and capital receipts .



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12. Giving reasons , categorise the following into revenue receipts and capital receipts :

(i) Recovery of loans . (ii) Corporation tax .

(iii) Dividends on investments made by government .

(iv) Sale of public sector undertaking .

(v) Tax receipts (vi) Disinvestment .



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13. Categorise the following government receipts into revenue and capital receipts :

(i) Recovery from sale of shares of a public sector undertaking .

(ii) Borrowings from public .

(iii) Profits of public sector undertakings.

(iv) Income Tax received by the government .



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14. Explain the economic stability objective of a government budget .



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15. Distinguish between revenue receipts and capital receipts . Give an example of each .



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16. How can budgetary policy be used to reduce inequalities of income ?



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17. Distinguish between revenue expenditure and capital expenditure in government budget . Give an example of each .



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18. State three sources each of revenue receipts and capital receipts in government budget .



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19. Distinguish between revenue deficit and fiscal deficit .



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20. Explain any one objective of government budget .



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21. Tax rates on higher income group have been increased . Which economic value does it reflect ? Explain .



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22. Is the following revenue expenditure or capital expenditure in the context of government budget ? Give reason :

(i) Expenditure on collection of taxes (ii)

Expenditure on purchasing computers

(iii) Expenditure on scholarship (iv)

Expenditure on building a bridge



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23. Government has started spending more on providing free services like education and health to the poor. Explain the economic value it reflects.



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24. Explain how government budget can be helpful in bringing economic stabilisation in the economy.



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Long Answer Type Questions

1. Explain the implications of (i) Revenue deficit
(ii) Fiscal deficit .



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2. Discuss the meaning and significance of primary deficit for an economy.



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3. Define government budget . Explain the various objectives of a government budget .



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4. What is difference between revenue receipts and capital receipts ? Describe the various sources of capital receipts .



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5. What is the meaning of non-tax revenue ?

Explain the different sources of non-tax revenue .



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6. What is meant by budget expenditure ?

Explain the three ways in which budget expenditure can be classified .



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7. Distinguish between revenue expenditure and capital expenditure .



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8. What is meaning of revenue receipts ? What are the two main sources of revenue receipts ? Explain them.



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9. Explain how the government can use the budgetary policy in reducing inequalities in incomes.



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10. The government decides to give budgetary incentives to investors for making investments in backward regions . Explain these possible incentives and the reasons for the same .



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11. What is the difference between revenue expenditure and capital expenditure ? Explain how taxes and government can be used to influence distribution of income in the society



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12. What is the difference between direct tax and indirect tax ? Explain the role of government budget in influencing allocation of resources .



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13. Define revenue receipts in a government budget . Explain how government budget can be used to bring price stability in the economy.



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14. What is government budget ? Explain how taxes and subsidies can be used to influence

allocation of resources .



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15. What is government budget ? Explain the role of government budget in influencing allocation of resources in the economy .



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Unsolved Numericals

1. From the following data about a government budget find (a) revenue deficit (b) fiscal deficit (c) primary deficit .

	(₹ Arab)		(₹ Arab)
Tax revenue	47	Borrowings	32
Capital receipts	34	Revenue expenditure	80
Non-tax revenue	10	Interest payments	20



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2. From the following data about a government budget , find out (a) revenue

deficit , (b) fiscal deficit and (c) primary deficit :

	(₹ Arab)
(i) Capital receipts net of 'borrowings'	95
(ii) Revenue expenditure	100
(iii) Interest payments	10
(iv) Revenue receipts	80
(v) Capital expenditure	110



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3. Calculate (i) Revenue deficit (ii) Fiscal deficit
(iii) Primary deficit .

	(₹ in crores)
(i) Revenue receipts	2000
(ii) Revenue expenditure	2700
(iii) Capital receipts	1300
(iv) Capital expenditure	600
(v) Recovery of loans and disinvestment	200
(vi) Borrowings and other liabilities	1100
(vii) Interest payments	800



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4. Calculate Revenue deficit , fiscal deficit and primary deficit from estimates of Union Budget 2013-14 .

	(₹ in crores)
(i) Revenue receipts	10,56,330
(ii) Recoveries of loans	10,654
(iii) Other receipts	55,814
(iv) Borrowings and other liabilities	5,42,499
(v) Plan expenditure	
— on revenue account	4,43,260
— on capital account	1,12,062
(vi) Non-plan expenditure	
— on revenue account (includes interest payment of ₹3,70,684 crore)	9,92,908
— on capital account	1,17,067



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