



ECONOMICS

BOOKS - GEETA PUBLISHING HOUSE ECONOMICS (HINGLISH)

GOVERNMENT BUDGET AND THE ECONOMY

Question

1. Giving reasons, categorise the following into revenue receipts and capital receipts. (12C, A14)

(i) Recovery of loan, (ii) Corporation tax, (iii) Dividend on investment made by govt., (iv) Sale of public sector undertaking, (v) Interest received on loans, (vi) Dividend received from public enterprises, (vii) Grants from foreign govt. (viii) Income tax received by govt. and (ix) Borrowing from public. (x) Loan received from World Bank (xi) Grants received from abroad, (xii) Borrowing from public.



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2. Is the following revenue expenditure or capital expenditure in the context of govt. budget ? Give reason.

- (i) Expenditure on collection of taxes
- (ii) Expenditure on purchasing computers



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3. Is the following revenue receipt or capital receipt in the context of government budget and give reason ?

- (i) Tax receipts
- (ii) Disinvestment



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4. Government raises its expenditure on producing goods. Which economic value does it reflect ?



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5. Giving reasons classify the following into direct tax and indirect tax:

(i) Wealth tax, (ii) Entertainment tax and (iii) Income tax, (iv) Capital gain tax.



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Numericals On Budget Deficits

1. From the following data about a government budget, find out (a) Revenue deficit, (b) Fiscal deficit, and (c) Primary deficit.

| | (Rs. in 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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2. From the following data about a government budget, find (a) revenue deficit, (b) fiscal deficit and (c) primary deficit.

(Rs. in arab)

| | |
|-------------------------|----|
| (i) Tax revenue | 47 |
| (ii) Capital receipts | 34 |
| (iii) Non - tax revenue | 10 |
| (iv) Borrowings | 32 |
| (v) Revenue expenditure | 80 |
| (vi) Interest payments | 20 |



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3. From the following data about a government budget, find out (a) Revenue deficit, (b) Fiscal deficit, and (c) Primary deficit.

(Rs. in arab)

| | |
|---------------------------------------|-----|
| (i) Plan capital expenditure | 120 |
| (ii) Revenue expenditure | 100 |
| (iii) Non - plan capital expenditure | 80 |
| (iv) Revenue expenditure | 70 |
| (v) Capital receipts net of borrowing | 140 |
| (vi) Interest payments | 30 |



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4. Payment of interest by government is Rs. 30,000 crore, which is 60 % of primary deficit. Find amount of borrowing.

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5. The following figures are based on the budget estimates of Govt. of India for the year 2012 - 13. Calculate 1. Fiscal deficit 2. Revenue deficit and 3. Primary deficit.

| | <i>(Rs. in crores)</i> |
|--|------------------------|
| (a) Revenue receipts | 9,35,685 |
| (i) Tax revenue | 7,71,071 |
| (ii) Non - tax revenue | 1,64,614 |
| (b) Capital receipts | 5,55,240 |
| (i) Recovery of loans | 11,650 |
| (ii) Other receipts (mainly disinvestment) | 30,000 |
| (iii) Borrowing and other liabilities | 5,13,590 |
| (c) Revenue expenditure | 12,86,109 |
| of which interest payments | 3,19,759 |
| (d) Capital expenditure | 2,04,816 |
| (e) Total expenditure | 14,90,925 |

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Multiple Choice Questions

1. A government budget is an annual statement of _____ during a fiscal year.

- A. estimated receipts and expenditure
- B. actual receipts and expenditure
- C. revenue receipts and expenditure
- D. capital receipts and expenditure

Answer: A



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2. Which one of the following is not an objective of government budget ?

- A. Reduction of poverty and unemployment
- B. Reallocation of resources

C. Economic growth

D. maintaining law and order

Answer: D



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3. Direct taxes are _____.

A. imposed on every member of the society

B. helpful in reducing inequalities of income

C. inflationary in nature

D. helpful in reducing consumption of harmful commodities

Answer: B



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4. The receipts of the government which create liabilities or reduce assets are called_____.

- A. capital receipts
- B. revenue receipts
- C. escheat
- D. fees and fines

Answer: A



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5. Which of the following is not an indirect tax ?

- A. Sales tax
- B. Corporate tax
- C. Value added tax
- D. Excise duty

Answer: B



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6. Which of the following is a characteristic feature of tax ?

- A. Penalty for breaking traffic rules
- B. Compulsory or legal payment
- C. Payment for special payment
- D. Direct payment for purchase of goods

Answer: B



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7. Fiscal deficit - interest payment = _____.

- A. Revenue deficit

B. Budget deficit

C. Primary deficit

D. None of these

Answer: C



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8. Borrowing are equivalent to _____.

A. primary deficit

B. fiscal deficit

C. revenue deficit

D. None of these

Answer: B



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9. What is repayment of loan ? Choose one option.

- A. capital receipt
- B. Revenue receipt
- C. Capital expenditure
- D. Revenue expenditure

Answer: C



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10. Loans to state government are a part of _____.

- A. capital expenditure
- B. revenue expenditure
- C. revenue receipt
- D. capital receipt

Answer: A



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11. Which of the following statement is not true for fiscal deficit ?

A fiscal deficit :

- A. represents the borrowing of the government.
- B. is the difference between total expenditure and total receipts of the government
- C. is the difference between total expenditure and total receipts other than borrowing
- D. increases the future liability of the government

Answer: B



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12. Revenue deficit is equal to :

- A. Total expenditure - Capital expenditure
- B. Fiscal deficit - Interest payment
- C. Revenue expenditure - Revenue receipts
- D. Total expenditure - Revenue expenditure

Answer: C



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13. A government budget shows primary deficit of Rs. 4400 crore. The government expenditure on interest payment is Rs. 400 crore. How much is the fiscal deficit ?

- A. Rs. 4800
- B. Rs. 4000
- C. Rs. 4600

D. None of these

Answer: A



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14. What will be the effect of a deficit budget on aggregate demand ?

A. AD decreases

B. AD increases

C. AD remains constant

D. None of these

Answer: B



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15. Identify the correct statement.

- A. Indirect taxes are imposed on production, sale of goods and services
- B. A government budget is an annual statement of actual receipts and actual payments
- C. Revenue deficit is related to only revenue expenditure
- D. Primary deficit shows total borrowing requirements of the government.

Answer: A



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16. The government budget has a revenue deficit. This gets financed by :

A. Borrowing B. Disinvestment C. Tax revenue D. Indirect taxes

A. A and D

B. C and D

C. A and B

D. C and A

Answer: C



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17. Borrowing is government budget is : (choose the correct alternative)

A. Revenue deficit

B. Fiscal deficit

C. Primary deficit

D. Deficit in taxes

Answer: B



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18. The non-tax revenue in the following is _____:

- A. Export duty
- B. Import duty
- C. Dividend
- D. Excise

Answer: C



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19. Primary deficit in a government budget is _____:

- A. Revenue expenditure - Revenue receipts
- B. Total Expenditure - Total Receipts
- C. Revenue deficit - Interest payment
- D. Fiscal deficit - Interest payment

Answer: D



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

- A. The producer on goods produced
- B. The sellers on goods sold
- C. The buyers of goods
- D. The income earners

Answer: D



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21. Fiscal deficit equals _____:

- A. Indirect payment

B. Borrowings

C. Interest payment less borrowing

D. Borrowings less interest payments

Answer: B



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22. Primary deficit equals _____ :

A. Borrowings

B. Interest payments

C. Borrowing less interest payments

D. Borrowings and interest payments both

Answer: C



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1. Government budget is a statement of actual receipts and expenditure of the government.

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2. Indirect taxes are not convenient to realise.

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3. payment of salaries to the government employees is a capital payment.

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4. Revenue budget is an account of assets and liabilities of the government.

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5. Primary deficit is the difference between revenue deficit and interest payment.

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6. Fiscal deficit is always greater than revenue deficit.

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7. Expenditure made on establishment of Metro Rail line in Delhi is a capital expenditure.

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8. Increase in fiscal deficit does not effect primary deficit.

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9. Fiscal deficit in the economy will be zero if there is no provision for borrowing in the budget.

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Remembering And Understanding Based Questions

1. What is government budget ?

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2. What are the objectives of a budget ? Write any two :

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3. Give two examples of debt creating capital receipts.



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4. Give two examples of non-debt capital receipts.



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5. Why is tax not a capital receipt



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6. Why are borrowings by government capital receipts?



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7. Why is recovery of loan a capital receipt ?



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8. Why is interest received on loan a revenue receipt ?

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9. Why is sale of public undertaking a capital receipt ?

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10. What is 'Disinvestment'?

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11. Classify public expenditure.

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12. Why is repayment of loan a capital expenditure ?



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13. Why are subsidies treated as revenue expenditure ?



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14. How can a deficit be financed ?



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15. Write adverse effect of deficit financing.



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16. What is deficit financing ?



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17. Explain how government reallocates resources to achieve its objectives.

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18. Define tax and non-tax revenue. Give an example each.

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19. Define primary deficit. What is importance of primary deficit ?

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20. Distinguish between developmental and non-developmental expenditure.

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21. What is the difference between revenue budget and capital budget ?

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22. Briefly describe how the government budget contributes to the process of growth and stability.

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23. Distinguish between revenue expenditure and capital expenditure on the basis of :

(a) Asset creation (b) Recurrence (c) Period (d) Example

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24. Define (a) Fiscal deficit, (b) Budget deficit, (c) Revenue deficit and (d) Primary deficit.



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25. What is meant by domestic (internal) borrowing ? Mention three sources.

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26. How can a government budget help reduce inequalities through redistribution of income ? Explain.

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27. Explain the implications of fiscal deficit and revenue deficit.

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Hots And Application Base Questions

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

(i) Recovery of loan, (ii) Corporation tax, (iii) Dividend on investment made by government, (iv) Sale of public sector undertaking, (v) Interest received on loans, (vi) Dividend received from public enterprises, (vii) Grants from foreign government, (viii) Income tax received by govt. and (ix) Borrowing from public.



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2. What steps can be taken through the market to reduce consumption of product harmful to health ?



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3. Name one step the government can take through its budget to reduce the gap between the rich and the poor.



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4. "It is no part of the government's duty to finance the ailing PSUs".

Comment.

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5. Giving reasons classify the following into direct tax and indirect tax:

(i) Wealth tax, (ii) Entertainment tax and (iii) Sales tax

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6. A presistent slow-down of an economy could lead to revenue deficit.'

Comment.

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7. Can there be fiscal deficit without a revenue deficit ?

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8. From the following data, find out (a) Revenue deficit, (b) Fiscal deficit, and (c) Primary deficit.

| Particulars | (₹ in 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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9. From the following data, find out (a) revenue deficit, (b) fiscal deficit and (c) primary deficit.

| Particulars | (₹ in Arab) |
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| (ii) Revenue expenditure | 100 |
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| (iv) Revenue receipts | 70 |
| (v) Capital receipts net of borrowing | 140 |
| (vi) Interest payments | 30 |

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10. "A cut in subsidies puts the government in a dilemma" Comment.

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11. Give two examples each of capital receipts which create a liability and which does not create a liability.

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Evaluation Based Questions

1. If you were to be appointed as Finance Minister of India, which of direct taxes or indirect taxes would you prefer and why?

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2. Is deficit financing (printing of new currency) always beneficial?

Comment.

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3. If there is inflation in a particular country, which type of government budget - surplus or deficit - is advisable ? Explain.

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4. Is fiscal deficits necessarily inflationary ? Is fiscal deficit advantageous always ?

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5. Does public debt impose a burden ? Explain.

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



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7. Dr Raghuram Rajan, the Governor of RBI in a speech in July 2015 warned that the world was slipping into recession. The events in Greece justified what he said. The ratio of government debt-to-GDP was very high in case of Greece.

(a) What in your opinion led to such an event as in Greece ?

(b) Explain the chain effect.

(c) What is the remedy for the above situation ? What economic value is highlighted here.



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8. The government of India has implemented DBT (Direct Benefit Transfer scheme), wherein subsidy on LPG is directly transferred to the bank a/c of the consumer. It is also asking rich people to give up subsidy altogether.

(a) What in your opinion is the idea behind the above action of the government ?

(b) Write two economic values highlighted here.



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Very Short Answer Questions

1. Define a government budget.



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2. Name two objectives of government budget.



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3. What is the time period of a financial year in India ?

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4. Define a tax.

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5. Give two examples of tax revenue.

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6. Give two examples of non-tax revenue.

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7. Define revenue expenditure of the government.



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8. Define budget (government) receipts.



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9. Define budget (government) expenditure.



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10. Define revenue deficit in government budget.



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11. Define fiscal deficit.



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12. What is meant by primary deficit ?



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13. Define a direct tax.



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14. What is meant by an indirect tax?



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15. Which of the two - primary deficit or fiscal deficit-indicates borrowing requirement of the government ?



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16. Define plan expenditure.



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17. What is meant by non-plan expenditure ?



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18. Define capital receipts.



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19. Give two examples each of Revenue Receipts and Capital Receipts.



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20. Give two examples each of Revenue Expenditure and Capital Expenditure.

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21. A government budget shows primary deficit of Rs. 4400 crore. The government expenditure on interest payment is Rs. 400 crore. How much is the fiscal deficit ?

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22. Why is recovery of loan treated as capital receipt ?

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23. Is interest received on loan a capital receipt or revenue receipt ?

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24. What is meant by a balanced government budget ?



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25. Is borrowing by government a revenue receipt ?



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26. Is borrowing by govt. a revenue receipt ?



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27. Give two examples of indirect taxes.



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28. What is revenue expenditure ?



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29. What are revenue receipts in government budget ?



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Short Answer Questions

1. Explain three objectives of government budget.



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2. Distinguish between revenue receipts and capital receipts.



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3. What is meant by the term 'disinvestment' ?

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4. What is the difference between revenue expenditure and capital expenditure in a government budget ?

Give two examples of each.

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5. What is the basis of classifying taxes into direct taxes and indirect taxes ? Give two examples of each.

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6. Distinguish between tax revenue and non-tax revenue.

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7. What are the implications of fiscal deficit ?



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

(Rs. in arab)

| | |
|-------------------------|----|
| (i) Tax revenue | 47 |
| (ii) Capital receipts | 34 |
| (iii) Non - tax revenue | 10 |
| (iv) Borrowings | 32 |
| (v) Revenue expenditure | 80 |
| (vi) Interest payments | 20 |



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9. Explain 'reduction of inequalities' of income objective of government budget.



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10. Define revenue deficit in a govt. budget. Suggest three remedies.

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

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

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13. Explain why public goods like roads, police, parks must be provided by the government.

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

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15. Explain how allocation of resources can be influenced in government budget through taxes, expenditure and subsidies.

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Long Answer Questions

1. What is meant by deficit financing ? Illustrate with an example.

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2. What do you understand by fiscal deficit ? What problem can fiscal deficit create ?



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3. What is meant by domestic (internal) borrowing ? Mention its three sources.



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4. What is meant by non-debt capital receipts ? Give its two components.



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5. Define fiscal deficit. How is it financed ?



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6. Distinguish between direct taxes and indirect taxes and indirect taxes.

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

(i) Recovery of loan, (ii) Corporation tax, (iii) Dividend on investment made by government and, (iv) Sale of shares of public sector undertaking, (v) Tax deposit (vi) Disinvestment.

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8. Giving reasons, categorise the following into revenue expenditure and capital expenditure

(i) Subsidies, (ii) Grants given to state governments, (iii) Repayment of loan and (iv) Construction of school building, (v) Payment of salaries to Government employees.

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9. How can a government budget help reducing inequalities redistribution of income ? Explain.

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10. Suppose a ban is imposed on consumption of tobacco. Examine its likely effects on (a) GDP (b) Welfare.

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11. Explain in allocation of resources/allocation function objective of government budget.

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12. Fiscal deficit gives the borrowings requirement of the government.

Elucidate.

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13. What is deficit financing ? Describe its three advantages and three disadvantages.

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14. Explain the role, the government can play through the budget in influencing allocation of resources.

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15. Explain how the government can use the budgetary policy in reducing inequalities in income.



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16. What is government budget? Explain how taxes and subsidies can be used to influence allocation of resources.



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



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



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19. 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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20. How does increase in inequalities in distribution of income affect welfare of society? Explain.



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