



#### **ECONOMICS**

## BOOKS - GEETA PUBLISHING HOUSE ECONOMICS (HINGLISH)

#### **GOVERNMENT BUDGET AND THE ECONOMY**

## Question

- **1.** Giving reasons, categorise the following into revenue receipts and copital 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 interprises, (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.



- **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



- **3.** Is the following revenue receipt or capital receipt in the context of government budget and give reason ?
- (i) Tax receipts
- (ii) Disinvestment



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

- 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



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## **Numericals On Budget Deficits**

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

95

Revenue deficit, (b) Fiscal deficit, and (c) Primary deficit.

(i) Capital receipts net of borrowings

1	(Rs.	in arab)

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(ii)	Revenue	expenditure		100

(iii)	Interest payments	10
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(iv)	Revenue re	ceipts	80
/ \	~	7.0	440

(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.	$\operatorname{in}\operatorname{arab})$
(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)

	(As. III crores
(a) Revenue receipts	9,35,685

7,71,071

5,55,240

12,86,109

- (ii) Non tax revenue 1,64,614
- (b) Capital receipts
- (i) Recovery of loans 11,650 30,000 (ii) Other receipts (mainly disinvestment)
  - (iii) Borrowing and other liabilities 5,13,590
- (c) Revenue expenditure
- of which interest payments 3,19,759 (d) Capital expenditure 2,04,816
- (e) Total expenditure 14,90,925



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Tax revenue

## **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



- 2. Which one of the following is not an objective of government budget?
  - A. Reduction of poverty and unemployment
  - B. Reallocation of resources

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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C. Economic growth

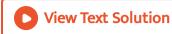
- 4. The receipts of the government which create liabilities or reduce assets are called \_\_\_\_\_\_.A. capital receipts
  - B. revenue receipts
  - C. escheat
  - D. fees and fines

#### Answer: A



- 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



- 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**



- **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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<b>10.</b> 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**



A. Total expenditure - Capital expenditure B. Fiscal deficit - Interest payment C. Revenue expenditure - Revenue receipts D. Total expenditure - Revenue expenditure **Answer: C View Text Solution** 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

12. Revenue deficit is equal to:

D. None of these
nswer: A
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<b>4.</b> 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
nswer: B
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**15.** Identify the correct statement.

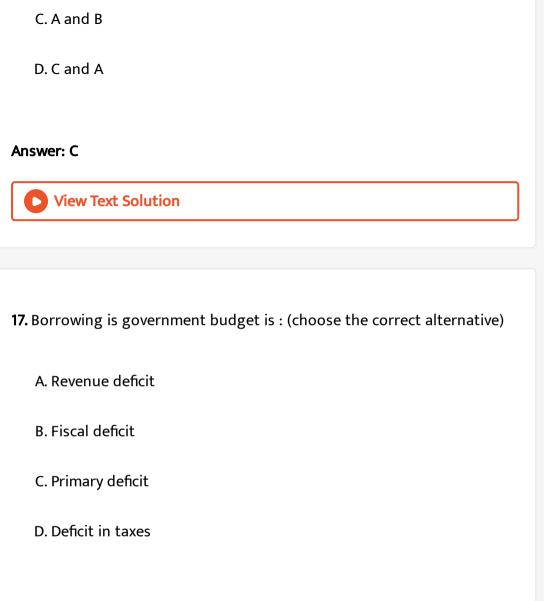
- A. Indirect taxes are imposed on production, sale of goods and
- B. A government budget is an annual statement of actual receipts and actual payments
- C. Revenue deficit is related to only revenue expenditure
- D. Primary deficit shows total borrowing requirements of the government.

#### **Answer: A**



services

- 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



**Answer: B** 

<b>18.</b> The non-tax revenue in the following is:
A. Export duty
B. Import duty
C. Dividend
D. Excise
Answer: C
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<b>19.</b> 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 **View Text Solution 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 **View Text Solution 21.** Fiscal deficit equals \_\_\_\_: A. Indirect payment

C. Interest payment less borrowing
D. Borrowings less interest payments
Answer: B
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<b>22.</b> 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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B. Borrowings

## **True Or False**

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



2. Indirect taxes are not convenient to realise.

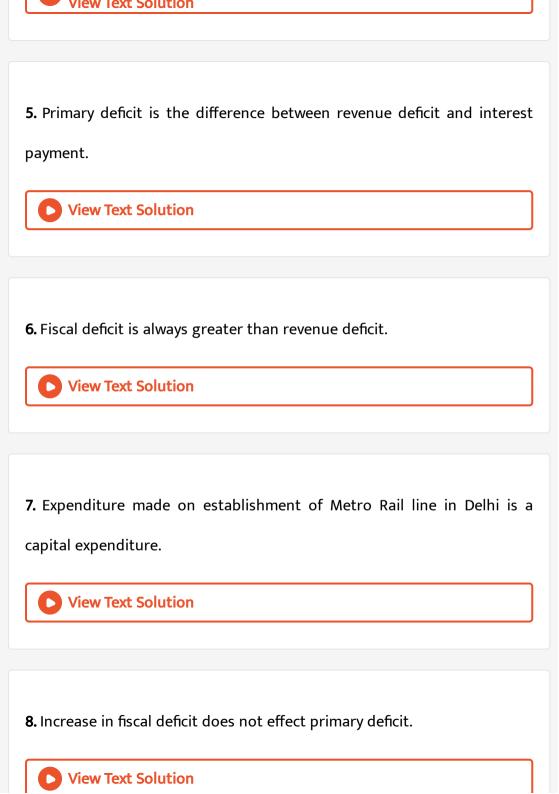


**3.** payment of salaries to the government employees is a capital payment.



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



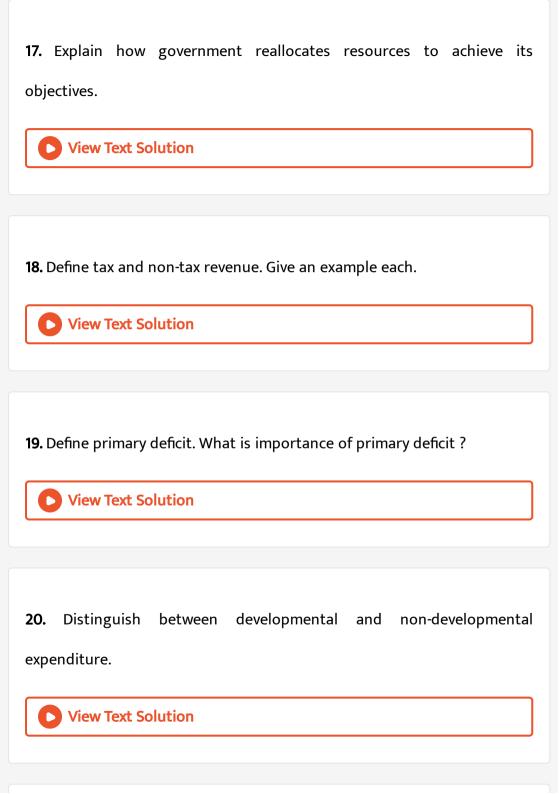


9. Fiscal deficit in the economy will be zero if there is no provision for
borrowing in the budget.
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Remembering And Understanding Based Questions
1 What is government hudget ?
1. What is government budget ?
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2. What are the objectives of a budget? Write any two:
View Text Solution
3. Give two examples of debt creating capital receipts.

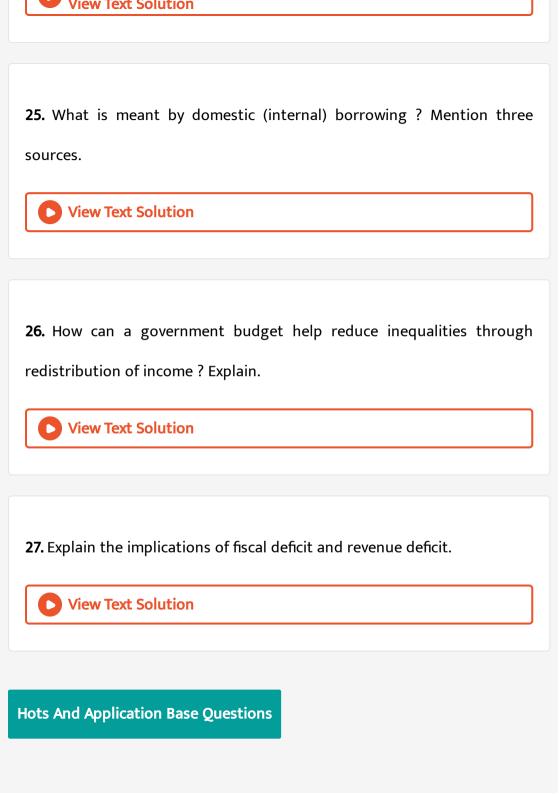
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4. Give two examples of non-debt capital receipts.
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5. Why is tax not a capital receipt
View Text Solution
6. Why are borrowings by government capital receipts?
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7. Why is recovery of loan a capital receipt ?
View Text Solution

8. Why is interest received on loan a revenue receipt?
View Text Solution
9. Why is sale of public undertaking a capital receipt?
View Text Solution
10. What is 'Disinvestment'?
View Text Solution
11. Classify public expenditure.
View Text Solution
12. Why is repament of loan a capital expenditure ?

View Text Solution
13. Why are subsidies treated as revenue expenditure?
View Text Solution
14. How can a deficit be financed ?
View Text Solution
<b>15.</b> Write adverse effect of deficit financing.
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<b>16.</b> What is deficit financing ?
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<b>21.</b> 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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<b>23.</b> Distinguish between revenue expenditure and capital expenditure on the basis of :
(a) Asset creation (b) Recurrence (c) Period (d) Example
View Text Solution
<b>24.</b> Define (a) Fiscal deficit, (b) Budget deficit, (c) Revenue deficit and (d) Primary deficit.



- **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
  - View Text Solution

from public.

- **2.** What steps can be taken through the market to reduce consumption of product harmful to health?
  - View Text Solution

**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.  View Text Solution
5. Giving reasons classify the following into direct tax and indirect tax:  (i) Wealth tax, (ii) Entertainment tax and (iii) Sales tax  View Text Solution
<b>6.</b> A presistent slow-down of an economy could lead to revenue deficit.'  Comment.
View Text Solution
7. Can there be fiscal deficit without a revenue deficit ?

**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	



**9.** From the following data, find out (a) revenue deficit, (b) fiscal deficit and (c) primary deficit.

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



10. "A cut in subsidies puts the government in a dilemma" Comment. **View Text Solution** 11. Give two examples each of capital receipts which create a liability and which does not create a liability. **View Text Solution 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? **View Text Solution** 

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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<b>4.</b> Is fiscal deficits necessarily inflationary? Is fiscal deficit advantageous always?
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5. Deos 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.



- **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.



## **Very Short Answer Questions**

1. Define a government budget.

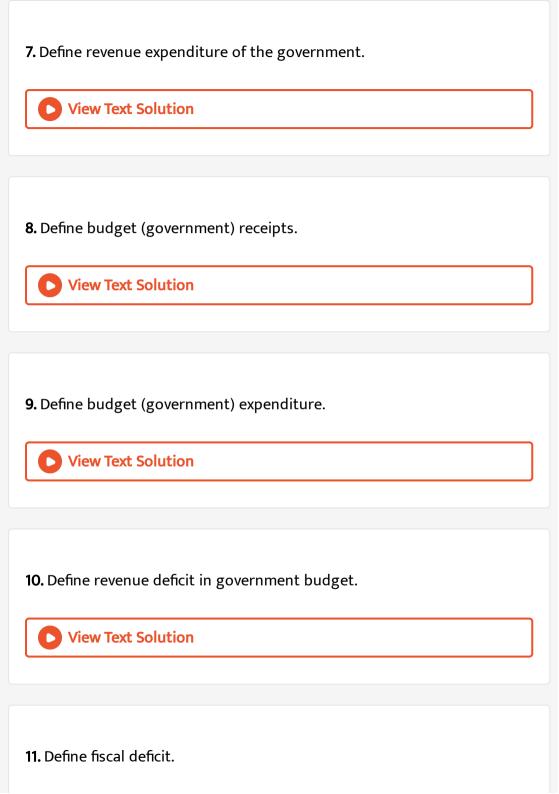


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2. Name two objectives of government budget.



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.
View Text Solution
6. Give two examples of non-tax revenue.
View Text Solution



View Text Solution
12. What is meant by primary deficit ?
View Text Solution
13. Define a direct tax.
View Text Solution
<b>14.</b> What is meant by an indirect tax?
View Text Solution
15 Which of the two - primary deficit or fiscal deficit indicates harrowing
<b>15.</b> Which of the two - primary deficit or fiscal deficit-indicates borrowing
requirement of the government ?
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<b>16.</b> Define plan expenditure.
View Text Solution
17. What is meant by non-plan expenditure ?
View Text Solution
<b>18.</b> Define capital receipts.
View Text Solution
<b>19.</b> 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.

**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?



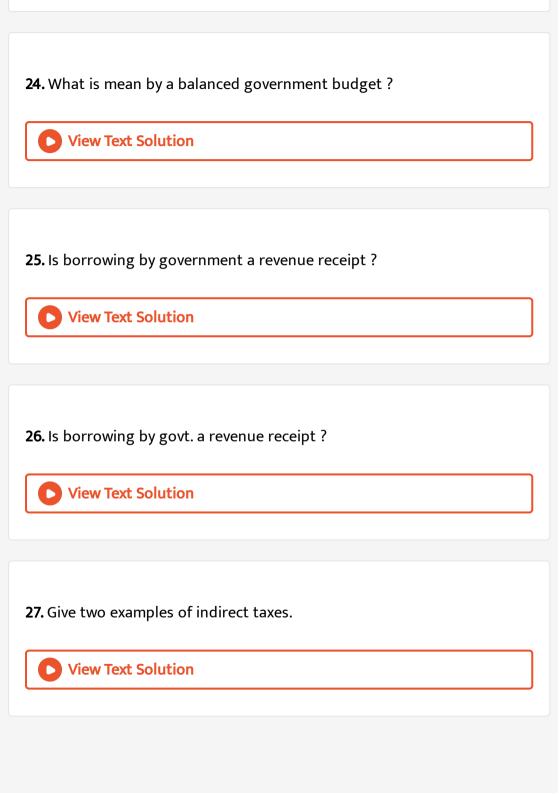
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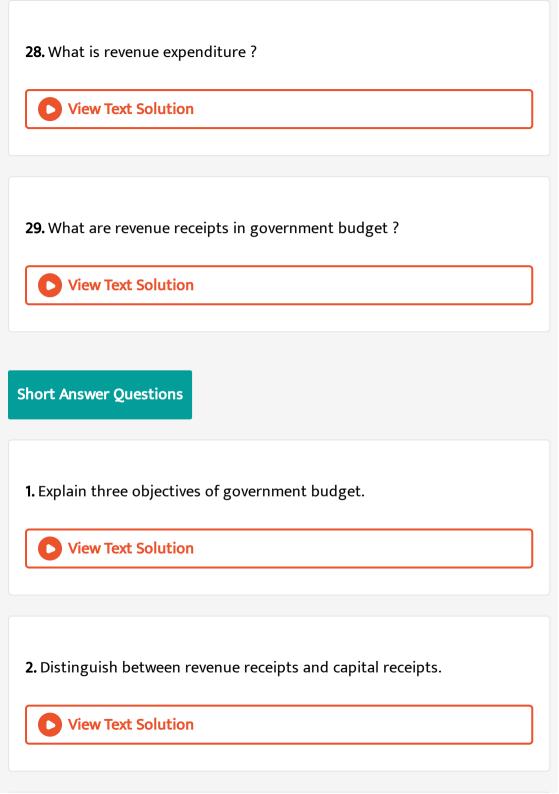
22. Why is recovery of loan treated as capital receipt?



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







3. What is meant by the term 'disinvestment'? **View Text Solution** 4. What is the difference between revenue expenditure and capital expenditure in a government budget? Give two examples of each. **View Text Solution** 5. What is the basis of classifying taxes into direct taxes and indirect taxes? Give two examples of each. **View Text Solution 6.** Distinguish between tax revenue and non-tax revenue. **View Text Solution** 

7. What are the implications of fiscal deficit?



**View Text Solution** 

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

 $(Rs. ext{ in arab})$ (i) Tax revenue 47

(ii) Capital receipts 34

(iii) Non - tax revenue10(iv) Borrowings32

(v) Revenue expenditure 80 (vi) Interest payments 20



**9.** Explain 'reduction of inequyalities' of income objective of government budget.



**View Text Solution** 

10. Define revenue deficit in a govt. budget. Suggest three remedies. View Text Solution 11. Tax rates on higher income group have been increased. Which economic value does it reflect? Explain. **View Text Solution** 12. Government raises its expenditure on producing public goods. Which economic value does it serve? Explain. **View Text Solution** 13. Explain why public goosds lie roads, police, parks must be provided by the government. **View Text Solution** 

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



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



## **Long Answer Questions**

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



2. What do you understand by fiscal deficit ? What problem can fiscal
deficit create ?
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<b>3.</b> 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.  View Text Solution
5. Define fiscal deficit. How is it financed ?
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**6.** Distinguish between direct taxes and indirect taxes and indirect taxes.



**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.



**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.



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



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



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



12. Fiscal deficit gives the borrowings requirement of the government. Flucidate. **View Text Solution** 13. What is deficit financing? Describe its three advantages and three disadvantages. **View Text Solution** 14. Explain the role, the government can play through the budget in influencing allocation of resources. **View Text Solution** 15. Explain how the government can use the budgetary policy in reducing inequalities in income.

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



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



**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.



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



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

