**Ch – Government Budget**

1. The formula to calculate Primary deficit is.................

Ans. Fiscal Deficit minus Interest payments

2. If estimated government receipts are more than estimated government expenditure, it is said to be a \_\_\_\_\_\_\_\_\_\_\_ budget.

Ans. Surplus

3. Government expenditure incurred on defence items is a type of ……………… expenditure in the Government Budget.

Ans. Revenue Expenditure

4. The interest payments as per the government budget during a year are ₹ 9,000 crores, which is 40% of primary deficit, then fiscal deficit is equal to ₹ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Ans. ₹ 31,500 crores

5. Government expenditure on Mid-Day Meal scheme running in government (state run) schools is a type of …………………….. expenditure in government budget.

Ans. Revenue Expenditure

6. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Deficit indicates that government is using up savings of other sectors of the economy to finance its consumption expenditure.

Ans. Revenue

7. State one fiscal measure that can be used to reduce the gap between rich and poor.

Ans. Taxation, Subsidies (Any 1)

8. \_\_\_\_\_\_\_\_\_\_\_\_\_ refers to the act of selling a part or the whole of shares of selected public sector undertakings held by the government.

Ans. Disinvestment

9. Primary deficit is equal to:

(a) Fiscal Deficit less Interest Payments

(b) Revenue Deficit less borrowings

(c) Borrowings less interest payments

(d) Borrowings less Fiscal Deficit.

Ans. Option (a)

10. If interest payments are estimated at ₹ 40,000 crores and total borrowing requirements are ₹ 70,000 crores, then primary deficit is ₹ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Ans. ₹ 30,000 crores

11. Fiscal deficit can be estimated using the formula ………………………. .

Ans. Total estimated expenditure less total estimated non debt receipts of the government

12. Define the capital receipts of a government.

Ans. It refers to the receipts which either creates liability or reduces the assets of the government.

13. \_\_\_\_\_\_\_\_\_\_\_ is tax which is imposed on the property and income of persons and paid directly by the consumer to the government.

Ans. Direct tax

14. …………………… is a revenue receipt of the government.

(a) Funds raised by the government by issuing National Saving Certificates

(b) Sale of 40% shares of a public sector undertaking to a private enterprise

(c) Profits of LIC, a public enterprise

(d) Amount borrowed from Japan for construction of Bullet Train.

Ans. Option (c)

15. State whether the following statement is true or false: "Government Budget is an important monetary policy instrument."

Ans. False, Government Budget is an important fiscal policy instrument as it deals with taxation and expenditure policy of the government.

16. Construction of flyover is a revenue expenditure of the government.

Ans. False, it is a capital expenditure as it leads to creation of assets.

17. State, whether the given statement is true or false: Expenditure on Ujjwala Yojana launched by the Government is an example of capital expenditure."

Ans. False, it is a revenue expenditure because it neither creates assets nor reduces the liabilities of the government.

18. Define "Primary deficit".

Ans. It refers to the difference between fiscal policy and interest payments.

19. What do you mean by Fiscal Deficit?

Ans. It refers to the difference between total estimated expenditure and total estimated non debt receipts of the government during a fiscal year.

20. Which of the following statement is true?

(a) Loans from IMF is a Revenue Receipt.

(b) Higher revenue deficit necessarily leads to higher fiscal deficit.

(c) Borrowing by a government represents a situation of fiscal deficit.

(d) Revenue deficit is the excess of capital receipts over the revenue receipts.

Ans. (c) Borrowing by a government represents a situation of fiscal deficit.

21. Give any one example of 'debt creating capital receipts' in the Government Budget.

Ans. Borrowings from abroad

22. Give any two examples of non-tax revenue receipts.

Ans. Fines and challans, interest/profit/rent/dividend received, escheats, special assessments (Any 2)

23. In a government budget, revenue deficit is ₹ 50,000 crores and borrowings are ₹ 75,000 crores. The fiscal deficit will be:

(a) 25,000 crores

(b) 75,000 crores

(c) 1,25,000 crores

(d) 50,000 crores

Ans. (b) 75,000 crores

24. Disinvestment is a .................(capital/revenue) receipt of the government.

Ans. Capital Receipt

25. "The Government Budget of a country cannot have fiscal deficit without the existence of revenue deficit." Defend or refute the given statement.

Ans. False, there is a possibility that revenue budget of the government is in surplus and fiscal deficit occurs on account of deficit in capital budget. Also, deficit in capital budget should be greater than revenue budget surplus for fiscal deficit.

26. "Policies of surplus budget during inflation" is a part of which objective of government budget?

(a) Economic Growth

(b) Economic Stability

(c) Reducing Regional Disparities

(d) Reallocation of Resources

Ans. (b) Economic Stability

27. Identify which of the following statements is true?

(a) Fiscal deficit is difference between planned revenue expenditure and planned revenue receipts

(b) Fiscal deficit is difference between total planned expenditure and total planned receipts

(c) Primary deficit is the difference between total planned receipt and interest payments.

(d) Fiscal deficit is the sum of primary deficit and interest payment.

Ans. Option (d)

28. Which of the following conditions satisfy the concept of revenue receipts?

(a) Does not create a liability

(b) Does not reduce an asset

(c) Neither (a) nor (b)

(d) Both (a) and (b)

Ans. (d) Both (a) and (b)

29. Which of the following is not a non-tax revenue receipt?

(Choose the correct alternative)

(a) Goods and Services tax

(b) External grants

(c) Dividends and profits

(d) Disinvestment

Ans. Option (a) that is Goods and Services Tax

30. State, whether the following statement is true or false "Government budget is an annual statement showing actual receipts and actual payments of the government for the last fiscal year."

Ans. False, government budget is an annual statement showing the total estimated expenditure and total estimated non debt receipts of the government during a given fiscal year

31. Identify the non-tax revenue from the following statement: "It refers to claim of the government on the property of a person who dies without leaving behind any legal heir or a will".

(a) Special Assessment

(b) Escheats

(c) Forfeitures

(d) Fees

Ans. (b) Escheats

32. Assertion (A): Higher value of fiscal deficit creates an alarming situation for the economy as a whole.

Reason (R): Fiscal Deficit indicates the borrowing requirements of the government.

(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).

(c) Assertion (A) is true but Reason (R) is false.

(d) Assertion (A) is false but Reason (R) is true.

Ans. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

33. Primary deficit can be zero if.................... (Fill in the blank with correct alternative)

(a) Fiscal deficit = Interest payments

(b) Fiscal deficit < Interest payments

(c) Fiscal deficit > Interest payments

(d) Revenue deficit < Fiscal deficit

Ans. Option (a)

34. Define capital receipts.

Ans. It refers to a receipt which either creates liabilities or reduces the assets of the government.

35. Assertion (A): Relief funds given to Nepal for earthquake victims is recorded as revenue receipts in Indian Government Budget.

Reason (R): Revenue Receipts are those which neither creates liability nor reduces the assets of the government.

(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).

(c) Assertion (A) is true but Reason (R) is false.

(d) Assertion (A) is false but Reason (R) is true.

Ans. (d) Assertion (A) is false but Reason (R) is true.

36. Fees of the government college is a revenue receipt because:

(a) It creates liability of the government.

(b) It neither creates any liability nor reduces any asset of the government.

(c) It neither creates any asset nor reduces any liability of the government.

(d) It increases asset of the government.

Ans. (b) It neither creates any liability nor reduces any asset of the government.

37. ……………………… deficit includes interest payment by the Government on the past loans.

Ans. Fiscal Deficit

38. Disinvestment by government means:

(a) Selling of its fixed capital assets

(b) Selling of shares of PSUs held by it

 (c) Selling of its buildings

(d) All the above

Ans. Option (b)

39. Assertion (A): Higher value of primary deficit is better for the economy.

Reason (R): High value of primary deficit indicates the situation where even after paying the amount of interest, significant amount of borrowings are left to be used for other expenses.

(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).

(c) Assertion (A) is true but Reason (R) is false.

(d) Assertion (A) is false but Reason (R) is true.

Ans. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

40. Define the term 'Public Goods'.

Ans. Public Goods refer to the goods which are non-rival and non-excludable in nature. These goods are provided by the government of the nation.

41. Primary deficit in a government budget will be zero. When........

(a) Revenue deficit is zero

(b) Net interest payments are zero

(c) Fiscal deficit is zero

(d) Fiscal deficit is equal to interest payments

Ans 41. Option (D)

42. If the budgetary deficit of the government is ₹ 25,000 crores and the borrowings and other liabilities are ₹ 7,000 crores, how much will be the fiscal deficit?

(a) 25,000 crores

(b) 32,000 crores

(c) 18,000 crores

(d) 7,000 crores

Ans. (b) 32,000 crores

43. Define Government Budget.

Ans. It is an annual statement showing total estimated expenditure and total estimated non debt receipts of the government during a given fiscal year.

44. Fiscal Deficit equals:

(a) Primary deficit minus interest payments

(b) Primary deficit plus interest payments

(c) Total budget expenditure minus total budget receipts

(d) None of the above

Ans. Option (b)

45. Assertion (A): Revenue Deficit is the difference between estimated revenue expenditure and estimated revenue receipts of the government.

Reason (R): Revenue deficit indicates the inability of the government to cover up its day-to-day expenses from its daily receipts.

(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not explanation of Assertion (A).

(c) Assertion (A) is true but Reason (R) is false.

(d) Assertion (A) is false but Reason (R) is true.

Ans. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

46. What is meant by revenue receipts of the government budget?

Ans 46. It refers to the receipts which neither creates liability nor reduces the assets of the government.

47. The government under "Ujjwala Yojna" is providing free LPG gas cylinders to the families under BPL. Which objective of budget is government trying to achieve?

Ans. Reducing Inequalities of Income and Wealth

48. Define 'Revenue Expenditure'.

Ans. It refers to the expenditure which neither creates assets nor reduces the liability of the government.

49. Identify the following as revenue receipts and capital receipts. Give reason.

(i) Sale of shares of a Public Sector Undertaking (PSU) to a private company Y Ltd.

(ii) Financial help from a multinational corporation for victims in a flood affected area.

(iii) Dividends paid to the Government by the State Bank of India.

(iv) Borrowings from International Monetary Fund (IMF).

Ans.

(i) It is a capital receipt as it reduces assets of the government.

(ii) It is revenue receipt as it neither creates any liability nor reduces any asset of the government.

(iii) It is revenue receipt as it neither creates any liability nor reduces any asset of the govemment.

(iv) It is a capital receipt as it creates liability for the government.

50. Identify the following as revenue expenditure and capital expenditure. Give reasons.

(i) Repayment of loans.

(ii) Subsidies.

(iii) Expenditure on collection of taxes.

(iv) Expenditure on building a bridge.

Ans. (i) It is a capital expenditure as it reduces the liability of the government.

(ii) It is a revenue expenditure as it neither creates any asset nor reduces any liability of the government.

(iii) It is a revenue expenditure as it neither creates any asset nor reduces any liability of the government.

(iv) It is a capital expenditure as it increases asset of the government.

51. How can surplus budget be used during inflation?

Ans. Surplus budget refers to a budget where estimated total receipts are more than estimated total expenditure. In case of surplus budget, government takes more money from the economy than it injects into it. It results a fall in aggregate demand and price level in the economy and helps to combat inflationary situations.

**Based on the passage below, answer the following questions**. (52 to 55)

The Budget has given much-needed impetus to infrastructure development in regions like Bihar and Jharkhand. Infrastructure development is expected to reduce trade and transaction costs and improve factor productivity. The Budget has given emphasis to the development of metro rails in the PPP mode in different parts of the country. In a developing and infrastructure-deficient country like India, public investment in infrastructure, which is labor-intensive, crowds in private investment and is the best way to give a boost to demand. Overall, the infrastructure sector is the winner in this year's Budget. The government aims to cover the maintenance of such infrastructure from the revenue receipts collected during a given fiscal year.

52. ……………………. objective of Government Budget has been highlighted in the case above.

(a) Reallocation of resources

(b) Reducing inequalities in income and wealth

(c) Balanced regional development

(d) Economic growth

Ans. (c) Balanced regional development

53. Construction of metro lines is an example of …………………

(a) Revenue Receipts

(b) Capital Receipts

(c) Revenue Expenditure

(d) Capital Expenditure

Ans. (d) Capital Expenditure

54. Which of the following is not true for revenue receipts?

(a) They do not create liabilities of the government.

(b) They lead to reduction in the assets of the government.

(c) Tax receipts and non-tax receipts are a part of revenue receipts.

(d) None of the above

Ans. (b) They lead to reduction in the assets of the government,

55. Construction of infrastructure in the country is an example of capital expenditure because

(a) It leads to creation of assets.

(b) It leads to reduction in the liability of the government.

(c) Neither (a) nor (b)

(d) Either (a) or (b)

Ans. (a) It leads to creation of assets.

56. Differentiate between revenue budget and capital budget.

Ans. The main differences between the two are:

1. Revenue budget comprises only revenue receipts and revenue expenditures of the government, while capital budget comprises of capital receipts and capital expenditures of the government.
2. Revenue budget include all such financial transactions which do not create any asset or liability for the government. On the other hand, transactions in capital budget do create assets or liabilities for the government.

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

Ans. Yes, it is possible in the following situations:

1. When revenue budget is balanced and capital budget shows a deficit.
2. When there is a surplus in the revenue budget but the deficit in capital budget is greater than this surplus.

58. In the Government of a country's budget for the year 2013-14, the Finance Minister proposed to raise the tax on cigarettes. He also proposed to increase income tax on individuals earning more than rupees one crore per annum. Is the objective only to earn revenue for the government? What possible welfare objective can you think of from these proposals? Explain.

Ans. Besides the objective of raising more revenue, the proposals also serve some welfare objectives.

* Firstly, raising tax on cigarettes will make cigarettes costlier and discourage smoking. Less smoking will have positive influence on health and raise welfare of the people.
* Secondly, raising income tax on incomes above rupees one crore will help in reducing inequalities in income.
* Thirdly, the extra revenue raised from these proposals, if spent on health and education of the poor will also raise welfare of the poor.

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

Ans. Increased expenditure by government on public goods like defence, maintaining law and order etc. increases their availability to the people of the country. For example more expenditure on maintaining law and order raises the sense of security among the people. Any such expenditure raises welfare of the people.

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

Ans. This will reduce the inequalities of income as the difference between disposable incomes of higher income and lower income groups will fall. This will also provide more resource to the govemment for spending on welfare of the poor.

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

Ans. Spending on free services to the poor raises their standard of living and at the same time helps in reduction in Income Inequalities. It also helps in raising production potential of the country by raising the efficiency level of the working class among the poor.

62. In the government of India's budget for the year 2013-14, the Finance Minister proposed to raise the Goods and Services Tax (GST) on cigarettes. He also proposed to increase income tax on individual earning more than Rupee 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?

Ans. Goods and Services Tax (GST) - Indirect tax. Indirect tax is a tax where the payer and the bearer of the tax are different people.

Income tax-Direct tax. Direct tax is a tax where the payer and bearer of the tax is the same person. Besides the objective of raising more revenue, the proposals also serve some welfare objectives.

* Firstly, raising Goods and Services Tax (GST) on cigarettes will make them more expensive. The price rise is expected to discourage cigarette smoking, which will positively impact the health of people and raise their welfare.
* Secondly, raising income tax on income above Rupee one crore will reduce the gap between the rich and poor people. In other words, income inequalities will reduce.
* Thirdly, the extra revenue raised from these proposals could be spent on health education and other welfare enhancing schemes to improve the welfare of the poor.

63. Explain the need for reduction in inequalities of income and wealth. Explain any two budgetary measures by which it can be done.

Ans. Inequalities of income and wealth reflect a section of society being deprived of even basic necessities.

Thus, arises the need for reducing them in the society.

Two budgetary measures by which it can be done:

* Progressive taxation.
* Increasing government's expenditure.

64. 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.

Ans. Budgetary incentives refer to concession in taxation and granting subsidies to those production units which set up their units in economically backward areas. Tax concessions, like lower Goods and Services Tax (GST) aim at reducing cost and thus raising profits.

Subsidies aim at reducing prices of products to encourage sales and earning more profits. Thus, both aim at raising profits

65. The government budget of a hypothetical economy presents the following information. Which of the following value represents Budgetary Deficit? (all fig. in crores)

A. Revenue Expenditure = 25,000

B. Capital Receipts: = 30,000

C. Capital Expenditure = 35,000

D. Revenue Receipts = 20,000

E. Interest Payments = 10,000

F. Borrowings = 20,000

(i) 12,000 (ii) 10,000 (iii) 20,000 (iv) None of the above

Ans. (ii)10,000.

Budgetary Deficit = Revenue Expenditure + Capital Expenditure - (Revenue Receipts + Capital Receipts)

= 25,000 + 35,000 - (20,000 + 30,000) = 10,000 crores.

66. "Fiscal deficit is necessarily inflationary in nature". Do you agree? Support your answer with valid Q. reasons.

Ans. The term 'Fiscal Deficit’ is the difference between the government's total expenditure and its total receipts (excluding borrowing). Such borrowings are generally financed by issuing new currency which may lead to inflation. However, if the borrowings are for infrastructural development, this may lead to capacity building and may not be inflationary.

67. What are non-debt creating capital receipts? Give two examples such receipts.

Ans. Capital receipts are those receipts of government which either create liabilities or reduce assets. Capital receipts excluding borrowings are known as non-debt creating capital receipts.

Examples: Disinvestment, Recovery of loans.

68. The Government, under Ujjwala Yojana, is providing free LPG kitchen gas connections to the families ‘below the poverty line. What objective the government is trying to fulfil through the government budget and how? Explain.

Ans. Through Ujjwala Yojana, government is trying to reduce gap between the rich and the poor. Government sells LPG gas at a higher rate to those who can afford it. Revenue so collected is used to provide LPG gas connection free of cost and also at subsidized rates to the families below the poverty line. This reduces disposable income of the rich and increases that of the poor, reducing the gap between the two.

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

Ans. Government can influence allocation of resources through taxes, subsidies and expenditure.

* By Imposing taxes at higher rates, it can discourage those occupations which are not beneficial to society. By giving subsidies, it can encourage certain industries which are beneficial to people.
* By opening public undertakings in fields where the private sector is shy of investing, it can promote public utility services.

70. Government provides essential items of food grains almost free to the families below the poverty line. Which objective the government is trying to fulfil through the government budget and how? Explain.

Ans. By providing essential items of food grains almost free to the families below the poverty line, government is trying to reduce the gap between the rich and the poor. Government taxes the rich and spends the amount on the poor. This reduces disposable income of the rich and increases the disposable income of the poor.

71. Identify the 'Objectives of Government Budget from the following statements:

(i) Government increases taxes on liquor.

(ii) Government increases its own expenditure during deflation to increase aggregate demand.

(iii) Government increases taxes on super rich people.

(iv) Government increases expenditure on infrastructure.

Ans. (i) Reallocation of Resources.

(ii) Economic Stability

(iii) Reducing inequalities in income and wealth.

(iv) Economic Growth.

72. Suppose you are a member of the "Advisory Committee to the Finance Minister of India". The Finance Minister is concerned about the rising Revenue Deficit in the budget. Suggest three measures to control the rising Revenue Deficit of the government.

Ans. Measures to Control Revenue deficit:

(a) To reduce government administrative expenses.

(b) To reduce the burden of subsidy

(c) To increase taxation.

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

|  |  |
| --- | --- |
|  Particulars |  (₹ Arab) |
| (i) Capital Receipts net of Borrowings | 95  |
| (ii) Revenue Expenditure | 100 |
| (iii) Interest Payments | 10  |
| (iv) Revenue Receipts | 80  |
| (v) Capital Expenditure | 110 |

Solution:

(a) Revenue Deficit = Revenue Expenditure - Revenue Receipts

= 100 Arab - 80 Arab = ₹ 20 Arab

(b) Fiscal Deficit = (Revenue Expenditure + Capital Expenditure) - (Revenue Receipts + Capital Receipts net of Borrowings)

= (100 Arab + 110 Arab) - (80 Arab + 95 Arab) = 35 Arab

(c) Primary Deficit = Fiscal Deficit-Interest Payment

Primary Deficit = 35 Arab - 10 Arab = 25 Arab

74. Find (a) Fiscal Deficit and (b) Primary Deficit from the following:

|  |  |
| --- | --- |
|  Particulars |  (₹ in crore) |
| (i) Revenue Expenditure | 70,000 |
| (ii) Borrowings | 15,000 |
| (iii) Revenue Receipts | 50,000 |
| (iv) Interest Payments | 25% of Revenue Deficit |

Solution:

Revenue Deficit = Revenue Expenditure - Revenue Receipts

Revenue Deficit = 70,000 crores - 50,000 crores = 20,000 crores

Interest Payments = 25% of Revenue Deficit = 20,000 crores x $\frac{25}{100}$ = 5,000 crores

(a) Fiscal Deficit Borrowings = 15,000 crores

(b) Primary Deficit = Fiscal Deficit - Interest Payment

Primary Deficit = 15,000 crores - 5,000 crores = 10,000 crores

Q 75. From the following data, calculate Fiscal Deficit:

|  |  |
| --- | --- |
|  Particulars |  (₹ 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  |

Solution:

Fiscal Deficit = Borrowings = 32 Billion.

Q 76. Given the following data estimate the values of: (i) Revenue deficit, and (ii) Fiscal deficit:

|  |  |
| --- | --- |
|  Particulars |  (₹ in crores) |
| 1. Tax Revenue | 1,000 |
| 2. Non-Tax Revenue | 150  |
| 3. Net Borrowings by Government | 780  |
| 4. Disinvestment Proceeds | 50  |
| 5. Revenue Expenditure | 1,500 |
| 6. Capital Expenditure | 480  |

Solution:

(i) Revenue Deficit = Total Revenue Expenditure - Total Revenue Receipt

= Revenue Expenditure - (Tax Revenue + Non-Tax Revenue)

= 1,500 - (1,000 + 150)

Revenue Deficit = ₹ 350 crores

Fiscal Deficit = Total Expenditure - (Revenue Receipt + Disinvestment Proceeds)

= (1,500 + 480) - (1,000 + 150 + 50)

Fiscal Deficit = ₹ 780 crores

(Fiscal Deficit can also be directly given as value of net borrowings by government i.e. ₹ 780 crores}