Gov Bud. - M & O - R & U - Very Short (Info & Con)

Q.1. Define government budget

Ans. Government budget is a statement of estimated receipts and expenditure of the government during a financial year.

Q.2. What is meant by the fiscal year in India?

Ans. In India, fiscal year is the year which begins on April 1 and ends on March 31 of the following year.

Q.3. Name the two parts of a government budget.

Ans. (i) Revenue budget, and

(ii) Capital budget.

Q.4. Define revenue budget.

Ans. Revenue budget is the statement of estimated revenue receipts and estimated revenue expenditure during a fiscal year.

Q.5. Define capital budget.

Ans. Capital budget is the statement of estimated capital receipts and estimated capital expenditure during a fiscal year.

Q.6. What is meant by balanced budget?

Ans. Balanced budget is that budget in which government receipts are equal to government expenditure.

Q.7. What is meant by surplus budget?

Ans. Surplus budget is that budget in which government receipts are more than the government expenditure.

Q.8. What is meant by deficit budget?

Ans. Deficit budget is that budget in which government receipts are less than government expenditure.

Q.9. Define public goods.

Ans. Public goods are those goods which satisfy collective needs of the people. Example: Law & Order and Defence of the country.

Q.10. What is meant by fiscal discipline?

Ans. Fiscal discipline refers to a situation when fiscal deficit is within the manageable limits and it does not lead to high rate of inflation in the country.

Gov Bud. - M & O - Reason-Based (Comp. of Sub)

Q.1. Government budget is a statement of actual receipts and actual expenditure of the government during the past year.

Ans. False. Government budget is a statement of estimated receipts and estimated expenditure of the government during the next fiscal year.

Q.2. Government budget is presented only by the central government in India.

Ans. False. Government budget is presented by the central government as well as the state governments in India.

Q.3. The budget reveals the financial performance of the government as well as financial programmes and policies of the government over the past one year.

Ans. False. The budget reveals the financial performance of the government over the past one year, but the financial programmes and policies of the government for the next one year.

Q.4. Budget shows monetary policy of the government.

Ans. False. Budget shows fiscal policy (or budgetary policy) of the government for the year to come.

Q.5. Budget is in surplus when the last year receipts of the government > last year expenditure of the government.

Ans. False. Budget is in surplus when the estimated receipts of the government > estimated expenditure of the government for the next fiscal year.

Q.6. In India, the government budget does not relate itself to the problem of economic divide.

Ans. False. In India, the government budget does relate itself to the problem of economic divide (the gulf between the rich and the poor). The problem is combated by the revenue and expenditure policy of the government. On the revenue side, the government offers tax exemption to poorer sections of the society. On the expenditure side, the government offers free education and healthcare to those who are below the poverty line.

Q.7. In India, SEZ promotes development of backward regions.

Ans. True. In India, SEZ promotes development of backward regions because taxes are moderate in SEZ compared to other parts of the domestic economy. Moderate taxes along with infrastructural development make SEZ an attractive destination for investment. This contributes to balanced regional growth.

Q.8. Inclusive growth is not within the ambit of budgetary policy of the government.

Ans. False. Inclusive growth implies that the benefits of growth accrue to all sections of the society. ‘Taxes and subsidies’ are an important element of budgetary policy, and these are meant to promote inclusive growth.

Rec & Exp of Gov - R & U - Very Short (Info & Con)

Q.1. Define revenue receipts.

Ans. Revenue receipts are those receipts of the government which neither create a liability for the government nor lead to reduction in assets of the government.

Q.2. Define capital receipts.

Ans. Capital receipts are those receipts of the government which either create a liability for the government or lead to reduction in assets of the government.

Q.3. What do you mean by tax receipts?

Ans. Tax receipts are receipts of the government from all types of direct as well as indirect taxes levied by the government on the individuals, households, institutions or corporations.

Q.4. What do you mean non-tax receipts?

Ans. Non-tax receipts are those receipts of the government which arise from sources other than taxes. These include receipts from fees, fines, interest, dividend, grants, donations, etc.

Q.5. Give two examples of tax revenue.

Ans. (i) Income tax, and

(ii) Gift tax.

Q.6. Give two examples of non-tax revenue.

Ans. (i) Fees, and

(ii) Fines.

Q.7. What is a tax?

Ans. A tax is a compulsory payment made by an individual, household or a firm to the government without reference to anything in return.

Q.8. Define direct tax.

Ans. A direct tax is a tax the final burden of which falls on that very person who is liable to pay it to the government.

Q.9. Define indirect tax.

Ans. Indirect tax is a tax on goods and services. Those who are liable to pay this tax need not bear the final burden of this tax. The burden of this tax can be shifted to others.

Q.10. Give two examples of direct tax.

Ans. (i) Income tax, and

(ii) corporation tax.

Q.11. Give two examples of indirect tax.

Ans. (i) GST (Goods and Services Tax),

(ii) Excise duty.

Q.12. Why is income tax a direct tax?

Ans. Income tax is a direct tax because the final burden of this tax cannot be shifted to others.

Q.13. What is value added tax?

Ans. Value added tax is an indirect tax which is imposed on 'value added' at the various stages of production.

Q.14. What is a progressive tax?

Ans. Progressive tax is a tax that causes relatively less real burden on the poor and more on the rich.

Q.15. Define regressive tax.

Ans. Regressive tax is a tax that causes relatively more real burden on the poor and less on the rich.

Q.16. What is a proportional tax?

Ans. Proportional tax is a tax in which the rate of taxation remains constant with increase or decrease in income.

Q.17. Give two examples of capital receipts.

Ans. (i) Recovery of loans, and

(ii) Borrowings.

Q.18. Classify public expenditure.

Ans. The public expenditure may be classified in three ways:

(i) Revenue expenditure and capital expenditure.

(ii) Plan expenditure and non-plan expenditure.

(ii) Development expenditure and non-development expenditure.

Q.19. Define revenue expenditure.

Ans. Revenue expenditure refers to that expenditure which does not lead to asset creation or reduction in liability for the government.

Q.20. Define capital expenditure.

Ans. Capital expenditure refers to that expenditure which leads to asset creation or reduction in liability for the government.

Q.21. Give two examples of revenue expenditure.

Ans. (i) Expenditure on law and order.

(ii) Expenditure on old-age pensions.

Q.22. Give two examples of capital expenditure.

Ans. (i) Expenditure on purchasing land.

(ii) Loans granted to state governments.

Q.23. What is meant by plan expenditure?

Ans. Plan expenditure refers to that expenditure which relates to plans and programmes of development, as well as assistance of the central government to the state governments.

Q.24. What is meant by non-plan expenditure?

Ans. Non-plan expenditure refers to that expenditure which does not relate to plans and programmes of development, or assistance of the central government to the state governments.

Q.25. Give two examples of plan expenditure.

Ans. (i) Expenditure on the construction of canals for irrigation.

(ii) Expenditure on the construction of a hospital building.

Q.26. Give two examples of non-plan expenditure.

Ans. (i) Expenditure as a relief to the earthquake victims.

(ii) Expenditure on subsidies.

Rec & Exp of Gov - Reason-based (Comp. of Sub)

Q.1. Tax received by the government is a capital receipt.

Ans. False. Tax received by the government is not a capital receipt, it is a revenue receipt because it neither leads to creation of liability nor to reduction in assets.

Q.2. Capital receipts do not reduce assets of the government.

Ans. False. Capital receipts are those receipts of the government which either create a liability for the government or cause a reduction in its assets.

Q.3. Money received through disinvestment is treated as revenue receipt.

Ans. False. Money received through disinvestment is treated as capital receipt because it causes reduction in assets of the government.

Q.4. Gift tax is a revenue receipt.

Ans. True. Gift tax is a revenue receipt because it does not involve any corresponding liability for the government.True. Gift tax is a revenue receipt because it does not involve any corresponding liability for the government.

Q.5. Wealth tax is a direct tax.

Ans. True. Wealth tax is a direct tax because its burden cannot be shifted to other persons.

Q.6. Recovery of loans is a revenue receipt.

Ans. False. Recovery of loans is a capital receipt because it leads to reduction in assets.

Q.7. Borrowings by the government are capital receipts.

Ans. True. Borrowings by the government are capital receipts because they create a liability for the government.

Q.8. When the rate of taxation increases with increase in income, it is called regressive tax

Ans. False. When the rate of taxation increases with increase in income, it is called progressive tax.

Q.9. When sales tax is imposed on a baker, he himself bears the final burden of it.

Ans. False. When sales tax is imposed on a baker, he does not bear the final burden of it. The baker charges this tax from the customers by adding it to the price of the goods sold. Thus, the impact of sales tax is finally borne by the customers, not the baker.

Q.10. Revenue expenditure does not create assets for the government.

Ans. True. Revenue expenditure refers to that expenditure of the government which neither creates assets nor causes a reduction in liabilities for the government.

Q.11. Shares purchased by the government is an example of revenue expenditure.

Ans. False. Shares purchased by the government is an example of capital expenditure because it creates assets for the government.

Q.12. Expenditure on interest payment is a capital expenditure.

Ans. False. Expenditure on interest payment is a revenue expenditure because it neither creates assets nor causes a reduction in liabilities for the government.

Q.13. Expenditure as a relief to the flood victims is a plan expenditure.

Ans. False. Expenditure as a relief to the flood victims is a non-plan expenditure because it is not related to plans and programmes of development.

Q.14. Expenditure related to assistance of the central government to the state governments is a non-plan expenditure.

Ans. False. Expenditure related to assistance of the central government to the state governments is a plan expenditure.

Bud Def & Est - R & U - Very Short (Info & Con)

Q.1. Define budget deficit.

Ans. Budget deficit (or government deficit) is the excess of total expenditure over total receipts of the government.

Q.2. Define revenue deficit.

Ans. Revenue deficit is the excess of total revenue expenditure over the total revenue receipts.Revenue Deficit = Revenue receipts – Revenue expenditure

Q.3. What does revenue deficit indicate?

Ans. Revenue deficit indicates that the current expenditure of the government is greater than its current receipts. It points to the need for borrowing.

Q.4. What is the significance of revenue deficit?

Ans. Revenue deficit can be corrected only through borrowing or disinvestment. Accordingly, revenue deficit points to compulsions of the government either to borrow or to disinvest. While borrowing adds to liabilities of the government, disinvestment leads to reduction in assets. Thus, revenue deficit is a pointer to fiscal indiscipline in the country, particularly when the economy is in aninflationary spiral.

Q.5. What are the two ways of reducing revenue deficit?

Ans. Two ways of reducing revenue deficit are the following:

(i) Borrowing from the general public, RBI or rest of the world.

(ii) Disinvestment by way of selling its shares of public enterprises.

Q.6. Define fiscal deficit.

Ans. Fiscal deficit is the excess of total expenditure over the sum of revenue receipts and capital receipts excluding borrowing.Fiscal Deficit = Total expenditure – (Revenue receipts + Capital receipts - Borrowing)

Q.7. What does gross fiscal deficit show?

Ans. Gross fiscal deficit shows estimated borrowing by the government during the financial year. It includes borrowing for the purpose of making revenue expenditure as well as capital expenditure. It also accounts for the payment of interest on the existing public debt.

Q.8. What is the significance (or implications) of fiscal deficit?

Ans. Fiscal deficit measures borrowing requirement of the government. Higher fiscal deficit is a sign of fiscal indiscipline, particularly when there is inflationary spiral in the country. Higher fiscal deficit compounds the rate of inflation. High rate of inflation leads to high rate of interest, implying high cost of investment. Accordingly, inducement to invest is curbed and growth process is hindered.

Q.9. What problems can the fiscal deficit create?

Ans. Fiscal deficit creates these problems:

(i) It leads to a rise in public debt.

(ii) It compounds the problem of interest payment on accumulated loans by the government.

(iii) Higher fiscal deficit leads to higher rate of inflation. Implying high cost of investment and therefore, low inducement to invest. Ultimately, it retards the process of growth.

Q.10. Define primary deficit.

Ans. Primary deficit is the difference between fiscal deficit and interest payment.Primary Deficit = Fiscal deficit – Interest payment

Q.11. What does primary deficit indicate?

Ans. Primary deficit indicates borrowing requirement of the government owing to fiscal deficit net of interest payment.

Q.12. What is the significance of primary deficit?

Ans. Primary deficit indicates borrowing requirement of the government on account of the excess of current year expenditure over current year receipts, when interest payments for the past loans are not accounted for. It thus highlights the need to borrow unmindful of that accumulated debt burden of the government.

Q.13. What does zero primary deficit mean?

Ans. Zero primary deficit means the government resorts to borrowing only to clear the existing backlog of interest payments. It is a sign of fiscal discipline. High primary deficit, on the other hand, reflects fiscal irresponsibility of the government.

Q.14. How can the gulf between capital expenditure and capital receipts be reduced without borrowing? Suggest two ways.

Ans.

- **i.** The government can resort to disinvestment, by selling its stake in public sector enterprises.
- **ii.** The government can sell some of its land.

Bud Def & Est - Reason-based (Comp. of Sub)

Q.1. Budget deficit refers to a situation when revenue expenditures of the government are greater than the revenue receipts.

Ans. False. Budget deficit refers to a situation when budget expenditures of the government are greater than the budget receipts.

Q.2. Revenue deficit includes capital receipts and capital expenditure.

Ans. False. Revenue deficit is related to revenue expenditure and revenue receipts of the government. This does not include items of capital receipts and capital expenditure.

Q.3. Fiscal deficit is the difference between primary deficit and interest payment.

Ans. False. Fiscal deficit is the sum total of primary deficit and interest payment.

Q.4. Fiscal Deficit = Total expenditure – Total receipts.

Ans. False. Fiscal Deficit = Total expenditure (revenue + capital) – Total receipts other than borrowings (revenue + capital other than borrowings).

Q.5. Borrowing from the general public leads to increase in revenue deficit.

Ans. False. Borrowing from the general public leads to decrease in revenue deficit.

Q.6. Fiscal deficit is measured in terms of disinvestment.

Ans. False. Fiscal deficit is measured in terms of borrowings.

Q.7. Revenue deficit is met only through borrowings by the government.

Ans. False. Revenue deficit is met through (i) borrowings by the government, and (ii) disinvestment.

Q.8. Primary Deficit = Fiscal deficit + Interest payment.

Ans. False. Primary Deficit = Fiscal deficit – Interest payment.

Q.9. When total expenditure = ₹ 42,350, total receipts = ₹ 36,600, revenue receipts = ₹ 12,350 and borrowing = ₹ 5,000, then fiscal deficit = ₹ 5,750.

Ans. False. Fiscal deficit is equal to borrowing = ₹ 5,000.

Q.10. When total expenditure = ₹ 55 lakh, revenue receipts = ₹ 19 lakh, capital receipts = ₹ 36 lakh, capital receipts net of borrowings = ₹ 14 lakh, fiscal deficit will be ₹ 14 lakh.

Ans. False. Fiscal deficit will be ₹ 22 lakh. Fiscal Deficit = Total expenditure – Revenue receipts – Capital receipts net of borrowings= ₹ 55 lakh – ₹ 19 lakh – ₹ 14 lakh= ₹ 22 lakh Therefore, fiscal deficit will be ₹ 22 lakh.

Bud Def & Est - HOTS & Applications

Q.1. Can a huge budgetary deficit cause bankruptcy of the government?

Ans. No, the government never goes bankrupt, no matter how large are its liabilities.

Q.2. Is deficit budget a sign of government inefficiency?

Ans. No, a deficit budget is not a sign of government inefficiency. Infact, budgetary deficit may be a planned strategy of the government during periods of depression when the government needs to increase expenditure. It is only when expenditure increases that there is an increase in AD which is required to combat depression.

Q.3. It is said that fiscal deficit is a reflection of fiscal indiscipline. How?

Ans. Fiscal deficit is a reflection of fiscal indiscipline. It is particularly true when fiscal deficit is incurred on account of non-development expenditure (like expenditure on freebies to garner votes during elections). Such expenditures only contribute to inflationary spiral in the country, leading to economic instability.

Q.4. Balanced budget is recommended as a useful policy instrument when the economy is close to the level of full employment. How?

Ans. Balanced budget causes a modest increase in the level of AD. Because: expenditure by the government raises AD by the same amount, while tax receipts reduce AD by 'MPC times' the tax receipts. A modest increase in AD would push the economy towards the point of full employment when it is marginally away from this point. [**Note:** Balanced budget (additional revenue being equal to additional expenditure) is a good strategy during periods of modest recession when aggregate demand needs a modest rise.]

Q.5. Explain the implications of fiscal deficit.

Ans. Two serious implications of fiscal deficit are as these:

- **i.** Fiscal deficit highlights the extent to which the government resorts to borrowing to cope with its expenditures. Higher borrowing implies higher burden of repayment of loans. As this burden cumulates year after year, net availability of resources (net of the accumulated past payments) for future generations tends to shrink. This retards the process of growth.

ii. Inflation is the other serious implication of fiscal deficit. Rising fiscal deficit to finance rising expenditure (on non-productive activities) generally causes a greater stress of demand on the existing flow of goods and services. Inflation is the obvious consequence in such a situation. It is bad as it widens the gulf between the rich and the poor. Also, inflation leads to a rise in the rate of interest. Accordingly, investment is reduced and GDP growth is impeded.

Q.6. "Governments across nations are too much worried about the term fiscal deficit". Do you think that fiscal deficit is necessarily inflationary in nature? Support your answer with valid reasons.

[*CBSE Sample Paper 2016*]

Ans. Fiscal deficit indicates 'borrowings' by the government. Borrowing from RBI is an important component of government borrowing. This increases money supply in the economy. Increase in money supply leads to increase in the general price level. A persistent increase in the general price level (over a period of time) leads to inflationary spiral. It is like wage-price spiral: wages catch prices and prices catch wages. This hinders the process of growth as it raises (i) the cost of raw material, (ii) the cost of credit for investment (the rate of interest), and (iii) the cost of labour (wage rate). However, fiscal deficit is not necessarily inflationary in nature. Keynes recommends deficit budget (fiscal deficit) as a key instrument to correct the state of depression. According to him, depression is that phase of economic activity when the level of investment is low owing to the low level of AD. Consequently, the level of output (and therefore, the level of income) remains low, and resources remain under-utilised. Unemployment becomes a serious problem. It is in such situations that deficit budget can serve as a useful policy instrument.

Deficit budget (fiscal deficit) raises the level of AD in two ways:

i. Directly by way of high government expenditure, and

ii. Indirectly by inducing greater (investment and consumption) expenditure by the people.