4 Government Budget and the Economy

Fastrack Revision

- **Government Budget:** Government budget is an annual statement of the estimated receipts and expenditures of the government during a financial year.

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The term 'Annual Financial Statement' of a nation is often used to define government budget.

- **Types of Government Budget**

There are three types of government budget:

- **Balanced Budget:** A government budget is said to be a balanced budget if the estimated government expenditures are equal to expected government receipts in a particular fiscal year.

$$\boxed{\text{Total Receipts} = \text{Total Expenditures}}$$

- **Surplus Budget:** A government budget is said to be a surplus budget if the expected government revenue exceeds the estimated government expenditures in a particular fiscal year.

$$\boxed{\text{Total Receipts} > \text{Total Expenditures}}$$

- **Deficit Budget:** A government budget is said to be a deficit budget if the estimated government expenditures exceeds the expected government revenue in a particular fiscal year.

$$\boxed{\text{Total Receipts} < \text{Total Expenditures}}$$

- **Objectives of Government Budget**
  - **Redistribution of Income and Wealth (Distribution Function):** According to this objective, the government uses its fiscal tools of taxation and subsidies in order to improve the distribution of income and wealth in the economy. The government can use a progressive taxation policy in order to reduce the inequalities in income and wealth. The government should try to impose a higher rate of taxation on rich people. And the government should give subsidies to the weaker section of the society. This will help the government to reduce the gap between rich and poor in the economy.
  - **Reallocation of Resources (Allocation Function):** According to this objective, the government should try to allocate the resources in such a manner that there is a balance between the goals of profit maximisation and social welfare. The government should try to impose a higher rate of taxation on harmful products such as cigarette, liquor, etc., in order to decrease their production. And the government should give subsidies to the essential products like kerosene, LPG, etc., in order to increase their production.
  - **Economic Stability:** According to this objective, the government should try to maintain economic stability in the economy. Government budget helps to prevent economic fluctuations such as inflation and deflation in the economy. In order to overcome inflation in the economy, government should go for surplus budgetary policy and in order to overcome deflation in the economy, government should go for deficit budgetary policy.
  - **Controls and Manages Public Enterprises:** According to this objective, the government tries to control and manage the public sector undertakings such as Bharat Heavy Electrical Limited (BHEL), Steel Authority of India Limited (SAIL), etc. Government budget helps the government to make investments in profit making and employment generating Public Sector Undertakings (PSUs) and disinvestment in the sick or loss incurring Public Sector Undertakings (PSUs). This helps the government to reduce the fiscal deficit in the economy.
  - **Economic Growth:** Economic growth is the main objective of government budget. According to this objective, government, through its budgetary policy, gives importance to both the sectors namely public sector as well as private sector. Government makes policies and provisions in such a manner that encourages private sector to make investments in the economy. For this purpose, government provides tax rebates and gives subsidies to the private sector. Also, government spends money for the development of education, health, housing, infrastructure, etc., in the economy.

    Because of this, the level of productivity and production increases in the economy. This helps the government to achieve higher economic growth through public as well as private sectors.
  - **Employment Opportunities:** According to this objective, government tries to create new employment opportunities in the country. Through budget, government makes investments in public enterprises in order to create new employment opportunities. Also, budgetary provisions are made for various job oriented schemes like MGNREGA offering employment to the weaker sections of the society.

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Every economy strives to attain a society where inequality of income and wealth should be minimum.

- **Components of Government Budget**

There are two components of government budget namely budgetary receipts and budgetary expenditures.

- **Budgetary Receipts:** These are the estimated money receipts of the government from all sources during a fiscal year. Budgetary receipts are the sum total of revenue receipts and capital receipts.

Budgetary Receipts = Revenue Receipts + Capital Receipts

- **Classification of Budgetary Receipts**

There are two types of budgetary receipts, which are as follows:

- **Revenue Receipts:** Revenue receipts which do not create a liability for the government or do not lead to reduction in assets are known as revenue receipts. These are divided as follows:
    - **Tax Revenue:** It consists of proceeds from taxes and other duties levied by the Central Government.

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A tax is a legally compulsory payment imposed by the government on income and property of persons and companies without any benefit in exchange.

These can be further classified as:

(i) **Direct Tax Revenue:** The tax which is imposed on one person and is paid by the same person is known as a Direct tax, such as income tax, wealth tax, etc.

(ii) **Indirect Tax Revenue:** The tax which is imposed on one person and is actually paid by the other person is known as an Indirect tax such as GST, VAT, etc.

(iii) **Non-tax Revenue:** Non-tax revenue refers to receipts of the government from all sources other than those of tax receipts. The main sources of non-tax revenue are interest, profit and dividend, fees, fines and penalties, escheat, gifts and grants, forfeitures, special assessment, etc.

- **Capital Receipts:** Capital receipts refers to those receipts which either create a liability or reduce an asset of the government. The following sources are the generators capital receipts:
    - Borrowings
    - Disinvestment
    - Recovery of loans and advances
    - National saving certificates\Kisan Vikas Patras

- **Budgetary Expenditures:** These are the estimated money payments of the government during a fiscal year. Budgetary expenditures are the sum total of revenue expenditures and capital expenditures.

Budgetary Expenditures = Revenue Expenditures + Capital Expenditures

- **Classification of Budgetary Expenditures**

There are two types of budgetary expenditures which are as follows:

- **Revenue Expenditures:** Revenue expenditures are those expenditures which neither reduce any liability nor create any asset of the government. It can be classified as:
    - **Plan Revenue Expenditure:** This expenditure relates to central plans and central assistance for state and union territory plans.
    - **Non-plan Revenue Expenditure:** This expenditure covers a vast range of economic and social services of the government.
- **Capital Expenditures:** Capital expenditures are those expenditures which either reduce a liability or create an asset of the government. This includes expenditure on the acquisition of land, building, machinery, equipment, investment in shares, loans and advances by the Central Government to State and Union Territory Government, PSUs and other parties.

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- ***Development Expenditure:*** *It relates to the growth and development activities of the government.*
- ***Non-development Expenditure:*** *It relates to the non-development activities like payment of pensions, interest on loan, etc., of the government.*

- **Measures of Government Deficit**

- **Budgetary Deficit :** It refers to a situation in which the budgetary expenditures is more than the budgetary receipts of the government during a fiscal year.

It can be classified as:

- **Revenue Deficit:** It refers to a situation in which the revenue expenditures is more than the revenue receipts of the government during a fiscal year. Revenue deficit signifies that revenue receipts fall short of the revenue expenditure. The government's own revenue is insufficient to meet the expenditures on normal functioning of government departments and provisions for various services.

Revenue Deficit = Revenue Expenditures – Revenue Receipts

- **Measures to Reduce Revenue Deficit**
    - Government should try to reduce its expenditure and avoid unproductive or unnecessary expenditure.
    - Government should increase its receipts from various sources of tax and non-tax revenue.

- **Fiscal Deficit:** It refers to a situation in which the budgetary expenditures is more than the budgetary receipts (excluding borrowings and other liabilities of the government) during a fiscal year.

Fiscal Deficit = Total Expenditures – Total Receipts Excluding Borrowings

- **Sources of Financing Fiscal Deficit:** The two sources of financing fiscal deficit are as follows:
    - Borrowings
    - Deficit financing
- **Primary Deficit:** Primary deficit refers to difference between fiscal deficit of the current year and interest payments on the previous borrowings. Primary deficit reflects the extent to which interest commitments on earlier loans have compelled the government to borrow in the current period.

Primary Deficit = Fiscal Deficit – Interest Payments

Practice Exercise

Multiple Choice Questions

Q 1. Budget is presented as on:

a. 28th February b. 15th February
c. 1st February d. 31st March

Q 2. The government can achieve its budget objective of 'Redistribution of income' by ....

a. managing the general price level in the economy to the desired level
b. increasing the Gross Domestic Product (GDP) of the economy
c. bringing the production of goods and services under its direct and absolute control
d. rationalisation of taxes in pro-poor direction

Q 3. Tax and non-tax receipts are the components of:

a. Capital receipts b. Revenue receipts
c. Both a. and b. d. None of these

Q 4. "Free distribution of LPG connection to poor people is a sign of social justice."

Identify the 'Objective of Government Budget' from the above mentioned statement. *(CBSE 2021, Term-1)*

a. Promote economic growth
b. Management of public enterprises
c. Create equitable distribution of income
d. Create fluctuation in revenue of the government

Q 5. The payment made by owners of those properties whose value has appreciated due to developmental activities of the government:

a. Penalties b. Escheat
c. Special assessment d. Challan

Q 6. "In the Annual Budget 2022-23, the Government of India set up disinvestment targets of ₹ 65,000 crore."

Such proceeds from disinvestment can be classified as .... receipts in the government budget as it leads to .... of the government.

(Choose the correct alternative) *(CBSE 2023)*

a. capital, decrease in assets
b. revenue, increase in assets
c. capital, increase in liabilities
d. revenue, decrease in liabilities

Q 7. The burden of a .... tax cannot be shifted *i.e.,* impact and incidence is on the same person.

a. direct b. indirect
c. Both a. and b. d. None of these

Q 8. The burden of a .... tax can be shifted *i.e.,* impact and incidence is on different persons.

a. direct b. indirect
c. Both a. and b. d. None of these

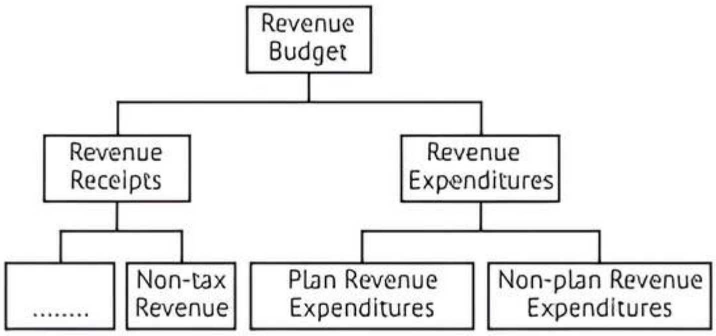
Q 9. They are generally progressive in nature:

a. Direct tax b. Indirect tax
c. Both a. and b. d. None of these

Q 10. They are generally proportional in nature.

a. Direct tax b. Indirect tax
c. Both a. and b. d. None of these

Q 11. Read the following chart carefully and choose the correct alternative.



a. Tax Revenue b. Subsidies
c. Revenue Plan d. Direct Tax

Q 12. The government should try to impose a higher rate of taxation on harmful products such as cigarette, liquor, etc., in order to decrease their production. And the government should give subsidies to the essential products like kerosene, LPG, etc., in order to increase their production.

a. Economic stability
b. Reallocation of resources
c. Redistribution of income and wealth
d. None of the above

Q 13. In order to tackle the problem of rising general price level in an economy, government may come up with a surplus budget to achieve the budget objective of .... *(CBSE 2023)*

(i) reallocation of resources

(ii) price stability

(iii) redistribution of income

Alternatives:

a. Only (i) b. Only (ii)
c. Only (iii) d. (i) and (iii)

Q 14. Government budget helps the government to provide investment in profit making PSUs and disinvestment in the sick PSUs:

a. Controls and manages PSUs
b. Reallocation of resources
c. Redistribution of income and wealth
d. None of the above

Q 15. Which one of the following is not a capital expenditure? *(CBSE 2019)*

a. Loans advanced by World Bank
b. Construction of school building
c. Repayment of loans
d. None of the above

Q 16. Dividends received from Public Sector Undertakings (PSUs) are a part of the government's............ .

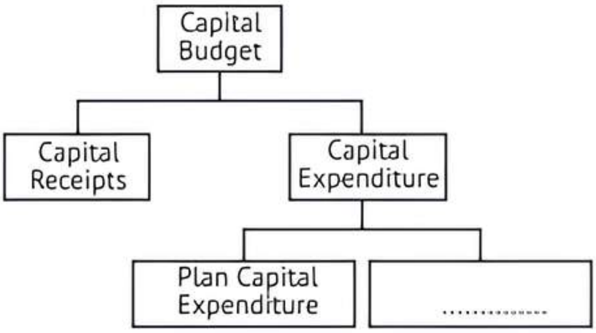
(CBSE 2019)

a. non-tax revenue receipts
b. tax receipts
c. capital receipts
d. capital expenditures

Q 17. The Government of India has decided to vaccinate the adult population of India (with Covaxin/ Covishield), without any charge. This would be categorised as ....

a. revenue nature income
b. capital nature expenditure
c. revenue nature expenditure
d. capital nature income

Q 18. Read the following chart carefully and choose the correct alternative:



a. Non-capital
b. Capital investment
c. Non-plan capital expenditure
d. Plan investment

Q 19. .... deficit indicates how much government should borrow to meet expenses other than interest.

a. Revenue
b. Budgetary
c. Fiscal
d. Primary

Q 20. A low or zero,............ deficit indicates that interest commitments (on earlier loans) have compelled the government to borrow.

a. revenue
b. budgetary
c. fiscal
d. primary

Q 21. ....deficit refers to excess of total expenditures over total receipts during the given fiscal year.

a. Revenue
b. Budgetary
c. Fiscal
d. Primary

Q 22. .... deficit indicates inability of the government to meet its regular and recurring expenditures.

a. Revenue
b. Budgetary
c. Fiscal
d. Primary

Q 23. The sources of financing fiscal deficit are borrowings and deficit financing (printing of new currency notes). Which is a better source and do not increase money supply (inflation)?

a. Deficit financing
b. Borrowings
c. Both a. and b.
d. None of these

Q 24. Primary deficit in a government budget will be zero, when .... *(CBSE 2019)*

a. revenue deficit is zero
b. net interest payments are zero
c. fiscal deficit is zero
d. fiscal deficit is equal to interest payments

Q 25. .... deficit refers to excess of revenue expenditure over revenue receipts during the given fiscal year.

a. Revenue
b. Budgetary
c. Fiscal
d. Primary

Statement Based Questions

Q 26. Read the following statements carefully:

Statement I: Recovery of loans is a non-debt creating capital receipt.

Statement II: Recovery of loans cause a reduction in assets of the government.

In the light of the given statements, choose the correct alternative from the following:

(CBSE 2021,Term-1)

a. Statement I is true and statement II is false.
b. Statement II is true and statement I is false.
c. Both statements are true.
d. Both statements are false.

Q 27. Read the following statements carefully:

Statement I: The government budget is the statement showing actual receipts and expenditures of the government in the coming financial year.

Statement II: The government budget is presented by the Finance Minister of India.

In the light of the given statements, choose the correct alternative from the following:

a. Statement I is true and statement II is false.
b. Statement II is true and statement I is false.
c. Both statements are true.
d. Both statements are false.

Q 28. Read the following statements carefully:

Statement I: Government budget is a detailed economic statement presented by Finance Minister.

Statement II: Government budget consists of financial programmes and policies of the government for the next year.

In the light of the given statements, choose the correct alternative from the following:

(CBSE 2021, Term-1)

a. Statement I is true and statement II is false.
b. Statement II is true and statement I is false.
c. Both statements are true.
d. Both statements are false.

Fill in the Blank Type Questions

Q 29. The government uses .... taxation policy to reduce the inequalities of income and wealth in the country.

(Choose the correct alternative to fill up the blank)

a. progressive
b. regressive
c. fixed
d. zero

Q 30. The tax which is imposed on one person but actually paid by another person is called ....

(Choose the correct alternative to fill up the blank)

a. Direct tax
b. Excise duty
c. Indirect tax
d. GST

Q 31. The tax which imposed on one person and is paid by the same person is called ....

(Choose the correct alternative to fill up the blank)

a. Direct tax
b. Excise duty
c. Indirect tax
d. GST

Q 32. Fiscal Deficit = ... – ....

(Choose the correct alternative to fill up the blanks)

a. Total Receipts, Total Expenditures
b. Total Expenditures, Total Receipts
c. Total Expenditures, Total Receipts Excluding Borrowings
d. Interest Rate, Borrowings

Q 33. Revenue Receipts = ... + ... Receipts.

(Choose the correct alternative to fill up the blanks)

a. Tax, Non-tax
b. Capital, Borrowing
c. Direct, Indirect
d. Borrowing, Capital

Q 34. If in an economy, the estimated receipts of the government are less than the estimated expenditure, of that year, then the budget would be called .... budget.

(Choose the correct alternative to fill up the blank)

a. Surplus
b. Primary
c. Balance
d. Deficit

Q 35. The claims of government on the property of a person who dies without making a will or without having any legal heir is called ....

(Choose the correct alternative to fill up the blank)

a. Escheat
b. Property tax
c. Indirect tax
d. Direct tax

True/False Type Questions

Q 36. Budget is presented on 1st February in the Parliament by Home Minister.

Q 37. Taxation is an effective tool to reduce the inequalities of income. *(CBSE 2019)*

Q 38. Goods and services tax cannot be avoided.

Q 39. Non-debt creating capital receipts include recovery of loans and disinvestment.

Q 40. Direct taxes have unlimited reach whereas Indirect taxes have limited scope.

Q 41. Expenditure on COVID-19 pandemic is a capital expenditure of the government.

Q 42. Expenditure on mid-day meal is a revenue expenditure.

Q 43. Revenue deficit increases when government fails to recover loans forwarded to different nations. *(CBSE 2019)*

Q 44. Fiscal deficit can be zero in the economy.

Q 45. Primary deficit indicates government's inability to meet its regular and recurring expenditure.

Match the Column Type Questions

Q 46. From the following statements given in Column I and Column II, choose the correct pair of statements:

Column I	Column II
A. Budget	1. Parliament
B. Budget presented in	2. 1st February
C. Budget presented on	3. Finance Minister
D. Budget presented by	4. Annual statement of estimated receipts and estimate expenditure by the government

	A	B	C	D
a.	3	2	1	4
b.	4	1	2	3
c.	1	2	4	3
d.	2	3	4	1

Q 47. From the following statements given in Column I and Column II, choose the correct pair of statements:

Column I	Column II
A. Escheat	1. Union Budget
B. Goods and Services Tax	2. Direct Tax
C. Income Tax	3. Indirect Tax
D. Budget of Central Government	4. Non-tax Receipt

	A	B	C	D
a.	4	3	2	1
b.	3	2	4	1
c.	3	4	2	1
d.	1	4	2	3

Q 48. From the following statements given in Column I and Column II, choose the correct pair of statements:

Column I	Column II
A. Repayment of loans and advances	1. Revenue Expenditure
B. Special assessment	2. Capital Expenditure
C. Borrowings	3. Revenue Receipts
D. Expenditure on mid-day meal	4. Capital Receipts

	A	B	C	D
a.	3	2	1	4
b.	4	3	2	1
c.	1	3	2	4
d.	2	3	4	1

Q 49. From the following statements given in Column I and Column II, choose the correct pair of statements:

Column I	Column II
A. Fiscal Year	1. Revenue Expenditure > Revenue Receipts
B. Fiscal Deficit	2. 1st April to 31st March
C. Revenue Deficit	3. Fiscal Deficit – Interest Payments
D. Primary Deficit	4. Borrowings

	A	B	C	D
a.	1	2	3	4
b.	4	2	3	1
c.	2	4	1	3
d.	4	3	2	1

Q 50. From the following statements given in Column I and Column II, choose the correct pair of statements:

Column I	Column II
A. Equitable Distribution of Income	1. MGNREGA
B. Reallocation of Resources	2. Tax on rich, subsidy to poor
C. Balanced Regional Growth	3. Tax on liquor, subsidy on LPG
D. Employment Opportunities	4. Rebate on electricity, tax holidays to new industrial units opened in backward regions

	A	B	C	D
a.	1	2	3	4
b.	3	4	2	1
c.	2	3	4	1
d.	1	3	2	4

Q 51. From the following statements given in Column I and Column II, choose the correct pair of statements:

Column I	Column II
A. Imposed and paid by the same person	1. Escheat
B. Imposed on one but paid by other person	2. Non-taxable Receipts
C. Claim on property having no will or legal heir	3. Indirect Tax
D. Court fee, License fee	4. Direct Tax

	A	B	C	D
a.	4	3	1	2
b.	2	3	4	1
c.	1	3	2	4
d.	3	2	1	4

Q 52. From the following statements given in Column I and Column II, choose the correct pair of statements:

Column I	Column II
A. Policy of surplus budget	1. Capital expenditure
B. Policy of deficit budget	2. Capital receipt
C. Creates liability of the government	3. To overcome inflation in the economy
D. Creates assets of the government	4. To overcome deflation in the economy

	A	B	C	D
a.	1	2	3	4
b.	3	4	2	1
c.	3	2	4	1
d.	2	3	1	4

Q 53. From the following statements given in Column I and Column II, choose the correct pair of statements:

Column I	Column II
A. Primary deficit	1. Borrowings
B. Zero primary deficit	2. Revenue deficit
C. Primary deficit + Interest payments	3. Fiscal deficit = Interest payments
D. Revenue expenditure – Revenue receipts	4. Fiscal deficit – Interest payments

	A	B	C	D
a.	4	3	1	2
b.	1	2	3	4
c.	3	1	4	2
d.	2	1	4	3

Q 54. From the following statements given in Column I and Column II, choose the correct pair of statements:

Column I	Column II
A. GDP growth	1. All revenue receipts other than taxes.
B. Direct tax	2. Impact and incidence on different persons.
C. Indirect tax	3. Impact and incidence on the same person.
D. Non-tax receipt	4. Investment in both public and private sector's increases.

	A	B	C	D
a.	1	2	3	4
b.	4	3	2	1
c.	3	2	4	1
d.	2	3	1	4

Q 55. From the following statements given in Column I and Column II, choose the correct pair of statements:

Column I	Column II
A. Challan	1. Indirect tax
B. Purchase of metro rail engine	2. Non-tax receipt
C. Disinvestment	3. Capital expenditure
D. Goods and services tax	4. Capital receipt

	A	B	C	D
a.	4	3	2	1
b.	1	3	4	2
c.	3	1	4	2
d.	2	3	4	1

Assertion & Reason Type Questions

Directions (Q.Nos 56-65): *There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below:*

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, but 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.

Q 56. Assertion (A): If the receipts and payments on the current account are equal to each other, it depicts a situation of current account surplus.
Reason (R): A surplus current account means that the nation is a lender to other countries and a deficit current account means that the nation is a borrower from other countries.

Q 57. Assertion (A): Escheat is a revenue receipt.
Reason (R): Because it increases the assets of the government.

Q 58. Assertion (A): Disinvestment is a capital expenditure of the government.
Reason (R): Because disinvestment decreases the assets of the government.

Q 59. Assertion (A): Recoveries of loans and advances are capital receipts of the government.
Reason (R): Because they decrease the assets of the government.

Q 60. Assertion (A): Fiscal Deficit = Total expenditures > Total Receipts excluding borrowings and other liabilities of the government.
Reason (R): Because fiscal deficit reflect the borrowing requirements of the government.

Q 61. Assertion (A): Primary Deficit = Fiscal deficit – Interest payments.
Reason (R): Because primary deficit reflect the borrowing requirements of the government other than interest payments.

Q 62. Assertion (A): Government imposes taxes on wealthy section and gives subsidies to the weaker section of the society.
Reason (R): Because government wants to decrease the gap between haves and have not.

Q 63. Assertion (A): Budget is presented on the first day of February.
Reason (R): It is presented by the Home Minister.

Q 64. Assertion (A): Government imposes heavy taxes on harmful products like tobacco and gives subsidies on LPG.
Reason (R): In order to achieve goals of profit maximisation and social welfare.

Q 65. Assertion (A): Budget is prepared at centre, state and local level.
Reason (R): State budget is known as Union Budget.

Answers

1. (c) 1st February
2. (d) rationalisation of taxes in pro-poor direction
3. (b) Revenue receipts
4. (c) Create equitable distribution of income
5. (c) Special assessment
6. (a) capital decrease in assets
7. (a) direct
8. (b) indirect
9. (a) Direct tax
10. (b) Indirect tax
11. (a) Tax Revenue
12. (b) Reallocation of resources
13. (b) Only (ii)
14. (a) Controls and manages PSUs
15. (a) Loans advanced by World Bank
16. (a) non-tax revenue receipts
17. (c) revenue nature expenditure
18. (c) Non-plan capital expenditure
19. (d) Primary
20. (d) primary
21. (b) Budgetary
22. (a) Revenue
23. (b) Borrowings
24. (d) fiscal deficit is equal to interest payments
25. (a) Revenue
26. (a) Statement I is true and statement II is false.
27. (b) Statement II is true and statement I is false.
28. (c) Both statements are true.

29. (a) progressive
30. (c) Indirect tax
31. (a) Direct tax
32. (c) Total Expenditures. Total Receipts Excluding Borrowings
33. (a) Tax. Non-tax
34. (d) Deficit
35. (a) Escheat
36. False: Budget is presented by Finance Minister.
37. True: Government imposes a high tax rate on rich people to reduce the gap between rich and poor people.
38. False: Goods and Services Tax is an indirect tax and it can be avoided by not entering the transactions in the books of accounts.
39. True: Non-debt creating capital receipts means all capital receipts excluding borrowings.
40. False: Direct taxes have limited reach whereas indirect taxes have unlimited reach or scope as they cannot be avoided.
41. False: It is a revenue expenditure of the government because there is neither reduction in liability nor creation of asset.
42. True: Because it neither reduces liability nor creates assets of the government.
43. False: Revenue deficit increases when government's spending (revenue expenditure) is more than its revenue receipts. Recovery of loans is a capital receipt and does not affect revenue deficit.
44. True: FD can be zero when TE = TR and borrowings are zero.
45. False: Primary deficit indicates borrowings requirements other than interest payments.

		A	B	C	D
46.	(b)	4	1	2	3
47.	(a)	4	3	2	1
48.	(d)	2	3	4	1
49.	(c)	2	4	1	3
50.	(c)	2	3	4	1
51.	(a)	4	3	1	2
52.	(b)	3	4	2	1
53.	(a)	4	3	1	2
54.	(b)	4	3	2	1
55.	(d)	2	3	4	1

56. (d) Assertion (A) is false. but Reason (R) is true.
57. (c) Assertion (A) is true, but Reason (R) is false.
58. (d) Assertion (A) is false. but Reason (R) is true.
59. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
60. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
61. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
62. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
63. (c) Assertion (A) is true. but Reason (R) is false.
64. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
65. (c) Assertion (A) is true. but Reason (R) is false.

Case Study Based Questions

Case Study 1

Read the extract given below and answer the questions on the basis of the same:

India has scaled back expenditure, including on productive assets that aid economic growth, as the government is confronted with the risk of its budget deficit blowing out. Capital expenditure is the money spent on creating, maintaining or improving fixed assets like roads and factories – stood at 40% of the budgeted amount in the six months to September, down from 55.5% in the year-ago period, data from the government's Controller General of Accounts show. The overall spending during the period was 49% of the budget aim compared to 53% last year. That's despite Prime Minister Narendra Modi's Government outlining measures worth more than 21 trillion rupees ($281 billion) to counter the economic and social fallout of the COVID-19 outbreak. A closer look at the numbers shows the bulk of the spending was directed towards the poor and the farmers, with crucial sectors such as coal, power, shipping and steel receiving less than a third of their annual budget allocation. Spending on capital assets has so far trailed the so-called revenue expenditure that includes interest payments and overheads such as salaries, the data released last week showed. Modi's Government placed spending curbs on some ministries from April through December to manage its cash flow.

Source: *Business Standard, Nov. 5, 2020*

Q 1. Capital expenditure of the government .... the assets of the government.

a. increases b. decreases
c. Both a. and b. d. None of these

Q 2. Expenditure on health due to COVID-19 is .... expenditure of the government.

a. direct
b. revenue
c. Both a. and b.
d. None of these

Q 3. The overall spending has .... as compared to last year.

a. increased
b. decreased
c. Both a. and b.
d. None of these

Q 4. A closer look at the numbers shows the bulk of spending was directed towards the poor and the ....

a. farmers
b. labour
c. manager
d. None of these

Answers

1. (a) 2. (b) 3. (b) 4. (a)

Case Study 2

Read the extract given below and answer the questions on the basis of the same:

In the Government of India's budget for the year 2018-19, 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.

Q 1. Identify the taxes proposed to be increased by the Budget 2018-19. The taxes proposed are:

a. Goods and Service Tax on cigarettes
b. Income tax on individuals earning ₹ 1 crore or above
c. Both a. and b.
d. None of the above

Q 2. What was the objective(s) behind the proposals put forth in the Budget 2018-19?

a. Revenue generation
b. Social welfare
c. Both a. and b.
d. None of these

Q 3. What welfare objective the government wishes to achieve by increasing GST on cigarettes?

a. This will discourage their cigarettes
b. This will encourage their cigarettes
c. Both a. and b.
d. None of the above

Q 4. What would be the effect of increase in direct tax on the rich?

a. It will reduce the gap between rich and the poor, thereby reducing inequalities in income.
b. It will increase the gap between rich and the poor.
c. Both a. and b.
d. None of the above

Answers

1. (c) 2. (c) 3. (a) 4. (a)

Case Study 3

Read the extract given below and answer the questions on the basis of the same:

The Finance Minister Nirmala Sitharaman has proposed a sharp 34.5 per cent hike in capital expenditure to ₹ 5.54 lakh crore in the financial year 2022 in order to push growth. The massive increase comes at a time when the country is looking to recover from the COVID-19 pandemic, as rising government spending is key to bringing the economy back on track.

The government will also provide an additional ₹ 2 lakh crore to states for capital expenditure over and above its own commitment. "We will also work out a specific mechanism to nudge states to spend more of their budget on creation of infrastructure", Mrs. Sitharaman said.

The Finance Minister said that the government will launch a national asset monetisation pipeline which includes the sale of oil and gas pipelines, power transmission lines and operation of toll roads under the National Highway Authority of India.

This year's budget, according to the government, rests on six pillars: health and well-being, physical and financial capital and infrastructure, inclusive development for aspirational India, reinvigorating human capital, innovation and research and development and 'minimum government, maximum governance,' the Finance Minister had asserted. And capital expenditure is an important component that drives the growth.

Q 1. Which objective of the government budget does the increase in capital expenditure serve?

a. Encouragement of economic growth
b. Stability in the economy
c. Generation of employment
d. All of the above

Q 2. Why has the Finance Ministry hiked the capital expenditure?

a. To recover from the COVID-19 pandemic
b. To bring the economy back on track
c. Both a. and b.
d. Neither a. nor b.

Q 3. What problem can the increase in this capital expenditure create?

a. Fiscal deficit
b. Revenue deficit
c. Primary deficit
d. Budgetary deficit

Q 4. .... is an important component that drives the growth.

a. Revenue expenditure
b. Capital expenditure
c. Capital receipts
d. Revenue receipts

Answers

1. (d) 2. (c) 3. (a) 4. (b)

Case Study 4

Following questions are to be answered on the basis of given data:

S.No.	Items	Budget Expenditure 2020-21 (Percentage of GDP)
(i)	Revenue Receipts	20.21
(ii)	Gross Tax Receipts	24.23
(iii)	Net Tax Receipts	16.36
(iv)	Non-tax Receipts	3.85
(v)	Non-debt Capital Receipts	2.25
(vi)	Non-debt Receipts	22.46
(vii)	Total Expenditure	30.42
(viii)	Revenue Expenditure	26.30
(ix)	Capital Expenditure	4.12

Q 1. Identify the value of fiscal deficit. *(CBSE 2021, Term-1)*

a. 6.09 b. 7.96
c. 3.85 d. 4.12

Q 2. If primary deficit is 0.88, the value of interest payment would be ....

a. 7.96 b. 7.08
c. 4.12 d. 3.85

Q 3. Revenue deficit in the government budget is:

a. Fiscal deficit + Interest payments
b. Total expenditure – Total receipts
c. Total receipts – Total expenditure
d. Revenue expenditure – Revenue receipts

Q 4. Which of the following is a non-tax receipt?

a. Gift tax b. Sales tax
c. Dividend d. Excise duty

Answers

1. (b) **2.** (b) **3.** (d) **4.** (c)

Case Study 5

Following questions are to be answered on the basis of given data:

S. No.	Items	2019-2020 Actual
(i)	Revenue Receipts	16,84,059
(ii)	Tax Revenue (Net to Centre)	13,56,902
(iii)	Non-tax Revenue	3,27,157
(iv)	Capital Receipts	10,02,271
(v)	Recovery of Loans	18,316
(vi)	Other Receipts	50,304
(vii)	Borrowings and other Liabilities	9,33,651
(viii)	Total Receipts (1+4)	26,86,330
(ix)	Total Expenditure (10+13)	26,86,330
(x)	On Revenue Account	23,50,604

(CBSE SQP 2021, Term-1)

Q 1. The value of recovery of loans has .... crore between 2019-20 (Actual) and 2020-21.

a. fallen by ₹ 3,349 b. risen by ₹ 3,349
c. fallen by ₹ 3,439 d. risen by ₹ 3,439

Q 2. The percentage change in the non-tax revenue, between 2019-20 (Actual) and 2020-21 (Budgeted Estimate), taking the 2019-20 as base, would be ....

a. 15.02% b. 16.20%
c. 17.68% d. 20.01%

Q 3. Identify which of the following is not an example of tax revenue for the government ?

a. Wealth tax b. Special assessments
c. Income tax d. Corporate tax

Q 4. Identify the correct formula to calculate Fiscal deficit.

a. Total expenditure – Total receipt (other than borrowings)
b. Revenue expenditure – Revenue receipt
c. Capital expenditure – Capital receipt
d. Revenue expenditure + Capital expenditure – Revenue receipt

Answers

1. (a) **2.** (c) **3.** (b) **4.** (a)

Case Study 6

Read the extract given below and answer the questions on the basis of the same:

Investors were relieved as the Finance Minister Nirmala Sitharaman avoided an increase in the long-term capital gains tax on equity investments and securities transaction tax in the Union Budget for 2021-22 announced today.

Heading into the Budget, most investors were concerned that the government may look at increasing the long-term capital gains tax or the securities transaction tax in order to boost its revenues, especially as the stock market has witnessed a breakneck rally since the beginning of April. In her budget speech in July 2019, the Finance Minister had reintroduced the long-term capital gains tax after 15 years. Currently, individuals who make capital gains of more than ₹ 1 lakh on their equity investment after a holding period of more than one year have to pay a tax of 10 % on the capital gains.

However, the capital gains tax for individuals in the highest bracket of earnings comes around 15 % inclusive of a cess/tax.

Money managers had said that the government needed to bring out on equity friendly budget, implying no changes in taxations related to the stock market, in order to ensure that its disinvestment plans went smoothly in the next fiscal year.

"Budget 2021: Investors breathe a sign of relief as FM skips LTCG, STT hike." —The Economic Times—February 1st, 2021.

Q 1. What type of tax is the capital gain tax?

Ans. A capital gain tax is a type of tax applied to the profits earned on the sale of an asset.

Q 2. What is the reason for the government to increase taxes?

Ans. Government can collect tax from the rich and exempt the poor from income tax. Money so collected can be spent on proving free services to the poor. It will reduce disposable income of the rich and increase that of the poor.

Case Study 7

Read the extract given below and answer the questions on the basis of the same:

"We are in July at about 91 % export level of July 2019 figures. Imports are still at about 70-71 % level of July 2019. So, broadly our balance of payments this year is going to be very-very strong, which is why we feel confident that Indian industry will see opportunities for themselves, will see opportunities of growth", Commerce and Industry Minister Piyush Goyal said at a FICCI Webinar.

India's exports fell for the fourth straight month in June as shipments of key segments like petroleum and textiles declined but the country's trade turned surplus for the first time in 18 year's as imports dropped by a steeper 47.59 %.

The country posted a trade surplus of USD 0.79 billion in June.

Q 1. Why is India having a very strong balance of payment?

Ans. A balance of payments surplus means the country exports more than it imports.

Q 2. What is the situation of trade deficit?

Ans. Trade deficit is the situation when the imports of goods are more than the export of goods.

Very Short Answer Type Questions

Q 1. Define government budget. *(CBSE 2017)*

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

Q 2. What is a fiscal financial year?

Ans. The year which starts from 1st April of the current year and ends on 31st March of the following year is called fiscal financial year.

Q 3. Who prepare budget?

Ans. Budget is prepared by the government at all levels namely central government, state government and local government.

Q 4. What is union budget?

Ans. Budget of central government is known as union budget.

Q 5. Where is budget presented?

Ans. Budget is presented in the Parliament to get approved, before it can be implemented.

Q 6. Who presents the budget?

Ans. Finance minister of the country presents the annual budget of the government.

Q 7. When is budget presented?

Ans. Budget is presented on the 1st February each year.

Q 8. What does budget reveal?

Ans. Budget reveals the financial performance of the government in the previous year and financial policies for the following year.

Q 9. What do you mean by components of budget?

Ans. Components of budget refers to the structure of budget. It includes receipts and expenditures.

Q 10. State the two components of budget.

Ans. The two components of budget are budgetary receipts and budgetary expenditures.

Q 11. What are budgetary receipts?

Ans. Budgetary receipts are the estimated money receipts of the government from all sources during a fiscal year. Budgetary receipts are the sum total of revenue receipts and capital receipts.

Budgetary receipts = Revenue receipts + Capital receipts

Q 12. What are revenue receipts? *(CBSE 2016)*

Ans. Receipts which do not create a liability for the government or do not lead to reduction in assets are known as Revenue Receipts.

Q 13. What are the two sources of revenue receipts?

Ans. The two sources of revenue receipts are as follows:

(i) Tax receipts

(ii) Non-tax receipts

Q 14. What is a tax? *(CBSE 2019)*

Ans. A tax is a legally compulsory payment imposed by the government on income and property of persons and companies without any benefit in exchange.

Q 15. What are the two main types of taxes?

Ans. The two main types of taxes are as follows:

(i) Direct tax (ii) Indirect tax

Q 16. What is a direct tax? *(CBSE 2019)*

Ans. The tax which is imposed on one person and is paid by the same person is known as a Direct Tax.

Q 17. Give two examples of direct tax.

Ans. The two examples of direct tax are as follows:

(i) Income tax

(ii) Corporate tax

Q 18. What is an indirect tax? *(CBSE 2019)*

Ans. The tax which is imposed on one person and is actually paid by the other person is known as an Indirect Tax.

Q 19. Give two examples of an indirect tax.

Ans. The two examples of an indirect tax are as follows:

(i) Goods and Services Tax (GST)

(ii) Value Added Tax (VAT)

Q 20. What are non-tax receipts?

Ans. Non-tax receipts refers to all revenue receipts of the government other than taxes.

Q 21. What is escheat?

Ans. Escheat refers to the claim of government on those properties whose owners die without making any will or without having any legal heir.

Q 22. What is special assessment?

Ans. Special assessment refers to the payment made to the government by the owners of those properties whose value has increased due to infrastructural expenditure construction of highways.

Q 23. What are capital receipts? *(CBSE 2016)*

Ans. Capital receipts are those receipts which either create a liability or reduce assets of the government.

Q 24. What are the sources of capital receipts?

Ans. The main sources of capital receipts are as follows:

(i) Borrowings
(ii) Disinvestment
(iii) Recovery of loans and advances
(iv) National Saving Certificates/Kisan Vikas Patra

Q 25. What are budgetary expenditures?

Ans. Budgetary expenditures are the estimated money payments of the government during a fiscal year. It is the sum total of revenue expenditure and capital expenditure.

Budgetary expenditures = Revenue expenditures + Capital expenditures

Q 26. What are the two categories of budgetary expenditures?

Ans. The two categories of budgetary expenditure are as follows:

(i) Revenue expenditure
(ii) Capital expenditure

Q 27. What are revenue expenditures? *(CBSE 2016)*

Ans. Revenue expenditures are those expenditures which neither reduce any liability nor create any asset of the government.

Q 28. What are capital expenditures?

Ans. Capital expenditures are those expenditures which either reduce a liability or create an asset of the government.

Q 29. What is budgetary deficit?

Ans. It refers to a situation in which the budgetary expenditures are more than the budgetary receipts of the government during a fiscal year.

Q 30. What is revenue deficit? *(CBSE 2019)*

Ans. It refers to a situation in which the revenue expenditures are more than the revenue receipts of the government during a fiscal year.

Q 31. What is fiscal deficit? *(CBSE 2016)*

Ans. It refers to a situation in which the budgetary expenditures are more than the budgetary receipts (excluding borrowings and other liabilities of the government) during a fiscal year.

Q 32. What is primary deficit? *(CBSE 2019)*

Ans. Primary deficit refers to difference between fiscal deficit of the current year and interest payments on the previous borrowings.

Q 33. Give two examples of non-tax revenue receipts. *(CBSE 2019)*

Ans. The two examples of non-tax revenue receipts are as follows:

(i) Escheat (ii) Special assessment

Q 34. Why are borrowings a capital receipt?

Ans. Borrowings are capital receipt because they increase the liability of the government.

Q 35. Why are taxes received by government not capital receipt?

Ans. Taxes are not capital receipt because they neither increase the liability of the government nor reduce any asset of the government.

Q 36. Why is payment of interest a revenue expenditure?

Ans. Because they neither reduces any liability nor creates any asset of the government.

Q 37. Why are subsidies treated as revenue expenditure?

Ans. Because it neither reduce any liability nor create any asset of the government.

Q 38. Why is repayment of loan a capital expenditure?

Ans. Because it reduces liability of the government.

Q 39. Why is recovery of loan a capital receipt?

Ans. Because it reduces assets of the government.

Q 40. Why are receipts from taxes categorised as revenue receipt?

Ans. Taxes are revenue receipt because they neither increase the liability of the government nor reduce any asset of the government.

Q 41. State any two features of public goods. *(CBSE SQP 2023-24)*

Ans. The two features of public goods are as follows:

(i) Non-excludability (ii) Non-rivalrous

Short Answer Type-I Questions

Q 1. Explain 'redistribution of income and wealth' as an objective of government budget.

Ans. According to this objective, the government uses its fiscal tools of taxation and subsidies in order to improve the distribution of income and wealth in the economy. The government can use a progressive taxation policy in order to reduce the inequalities in income and wealth. The government should try to impose a higher rate of taxation on rich people. The government should give subsidies to the weaker section of the society. This will help the government to reduce the gap between rich and poor in the economy.

Q 2. Explain 'reallocation of resources' as an objective of government budget.

OR

Elaborate the objective of 'allocation of resources' in the government budget. *(CBSE SQP 2022-23)*

Ans. According to this objective, the government should try to allocate the resources in such a manner that there is a balance between the goals of profit maximisation and social welfare. The government should try to impose a higher rate of taxation on harmful products such as cigarette, liquor, etc., in order to decrease their production. The government should give subsidies on the essential products like kerosene, LPG, etc., in order to encourage or increase their production.

Q 3. Explain the 'economic stability' as an objective of Government Budget. *(CBSE SQP 2023-24)*

Ans. According to this objective, the government should try to maintain economic stability in the economy. Government budget helps to prevent economic fluctuations such as inflation and deflation in the economy. In order to overcome inflation in the economy, government should go for surplus budgetary policy. On the other hand, in order to overcome deflation in the economy, government should go for deficit budgetary policy. This will help the government to control business cycles and to bring economic stability in the country.

Knowledge BOOSTER

Surplus budgetary policy, government's income exceeds its expenditure, there by reducing money supply while in a deficit budgetary policy, government's expenditure exceeds its income thereby increasing money supply.

Q 4. Explain 'controls and manages public enterprises' as an objective of government budget.

Ans. According to this objective, the government tries to control and manage the public sector undertakings such as Bharat Heavy Electrical Limited (BHEL), Steel Authority of India Limited (SAIL), etc. Government budget helps the government to make investments in profit making and employment generating Public Sector Undertakings (PSUs) and disinvestment in the sick or loss incurring Public Sector Undertakings (PSUs). This helps the government to reduce the fiscal deficit in the economy.

Q 5. Explain 'economic growth' as an objective of government budget.

Ans. Economic growth is the main objective of government budget. According to this objective, government, through its budgetary policy, gives importance to both the sectors namely public sector as well as private sector. Government makes policies and provisions in such a manner that encourages private sector to make investments in the economy. For this purpose, government provides tax rebates and gives subsidies to the private sector. Also, government spends money for the development of education, health, housing, infrastructure, etc., in the economy.

Because of this, the level of productivity and production increases in the economy. This helps the government to achieve higher economic growth through public as well as private sectors.

Q 6. Explain 'employment opportunities' as an objective of government budget.

Ans. According to this objective, government tries to create new employment opportunities in the country.

Through budget, government makes investments in public enterprises in order to create new employment opportunities.

Also, budgetary provisions are made for various job oriented schemes like MGNREGA offering employment to the weaker sections of the society.

Q 7. What are capital receipts? State the sources of capital receipts.

Ans. Capital Receipts: It refers to those receipts which either create a liability or reduce an asset of the government.

Sources of Capital Receipts: These are as follows:

(i) Borrowings
(ii) Recovery of loans
(iii) Disinvestment
(iv) Small savings such as National Saving Certificates, Kisan Vikas Patra, etc.

Q 8. Write short note on revenue deficit. State two measures to reduce revenue deficit.

Ans. Revenue deficit refers to a situation in which the revenue expenditures are more than the revenue receipts of the government during a fiscal year.

Revenue deficit = Revenues expenditures – Revenue receipts

Revenue deficit signifies that revenue receipts fall short of the revenue expenditures. The government own revenue is insufficient to meet the expenditures on normal functioning of government departments and provisions for various services.

Measure to Reduce Revenue Deficit

(i) Government should try to reduce its expenditure and avoid unproductive or unnecessary expenditure.
(ii) Government should increase its receipts from various sources of tax and non-tax revenue.

Q 9. What does fiscal deficit signify? Can there be fiscal deficit without revenue deficit?

Ans. Fiscal Deficit: It refers to a situation in which the budgetary expenditures are more than the budgetary receipts (excluding borrowings and other liabilities of the government) during a fiscal year.

Fiscal Deficit = Total expenditures – Total receipts excluding borrowings

There can be a fiscal deficit in a government budget without a revenue deficit. It is possible in the following situation:

(i) When revenue budget is balanced and capital budget shows a deficit.
(ii) When there is a surplus in the revenue budget but the deficit in capital budget greater than this surplus.

Q 10. Write short note on primary deficit.

Ans. Primary deficit refers to difference between fiscal deficit of the current year and interest payments on the previous borrowings.

Primary deficit = Fiscal deficit – Interest payments

The total borrowings requirement of the government includes interest commitments on accumulated debts.

Primary deficit reflects the extent to which interest commitments on earlier loans have compelled the government to borrow in the current period.

Q 11. Distinguish between primary deficit and fiscal deficit.

Ans. Difference between primary deficit and fiscal deficit are:

S. No.	Basis of Difference	Primary Deficit	Fiscal Deficit
(i)	Meaning	It shows the difference between fiscal deficit and interest payments.	It shows the excess of total expenditure over total receipts excluding borrowings.
(ii)	Indicator	It indicates the total borrowing requirements of the government, excluding interest.	It indicates the total borrowing requirements of the government, including interest.
(iii)	Formula	Primary deficit = Fiscal deficit – Interest payments	Fiscal deficit = Total expenditures – Total receipts excluding borrowings

COMMON ERROR

Many students fail to explain the difference between primary deficit and fiscal deficit.

TiP

Students should learn primary deficit and fiscal deficit separately.

Q 12. "Fiscal deficit is necessarily inflationary in nature." Do you agree, support your answer with valid reasons? *(CBSE 2017)*

Ans. No, fiscal deficit is not always inflationary. If government borrows money for infrastructural development, then it will not create inflation. However, if government borrows money and/or raises money through deficit financing (printing of new currency), then it will be inflationary.

Q 13. Suppose you are a member of 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. *(CBSE 2019)*

Ans. Measures to control revenue deficit are as follows:

(i) To reduce government administrative expenses.

(ii) To reduce the burden of subsidy.

(iii) To increase taxation.

Q 14. Compare the trends depicted in the figures given below:

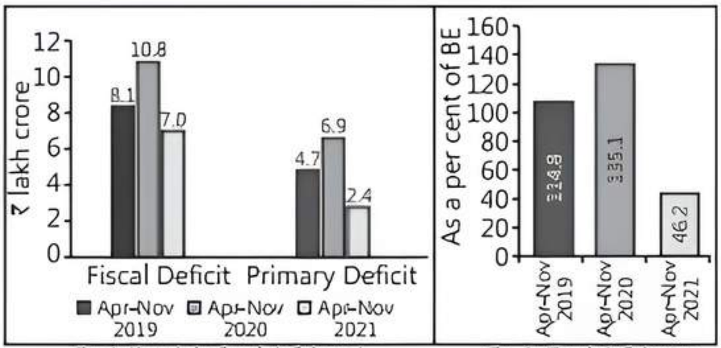


Fig. 1: Trends in fiscal deficit and primary deficit

Fig. 2: Fiscal deficit as a per cent of budget estimate

Source : CGA Monthly Accounts

(CBSE SQP 2022-23)

Ans. Considering the data represented in the given diagram, trend of year-on-year deficit (reporting for April to November) may be stated as follows:

(i) Fiscal deficit in 2020 increased to 10.8 lakh crore from 8.1 lakh crore in 2019. In 2021, it has gone down to 7 lakh crore.

(ii) Primary deficit in 2020 increased to 6.9 lakh crore from 4.7 lakh crore in 2019. In 2021, it has gone down to 2.4 lakh crore.

(iii) Fiscal deficit in 2020 increased to 135.1% of Budget Expenditure from 114.8% in 2019. In 2021, it is 46.2% of budget expenditure.

Q 15. 'Under the *Ayushman Bharat* Scheme, the government provides free medicines to the economically backward section of the society'.

Identify and discuss the nature of the government expenditure indicated in the given statement.

(CBSE SQP 2023-24)

Ans. Expenditure incurred by the government under *Ayushman Bharat* Scheme for providing free medicines to the economically backward section of the society is a social welfare expenditure.

This expenditure is a form of transfer payment, it does not lead to any creation of assets or reduction in liabilities.

Hence, it can be classified as revenue expenditure.

Short Answer Type-II Questions

Q 1. Distinguish between revenue receipts and capital receipts.

OR

Distinguish between revenue receipts and capital receipts of the government, with suitable example.

(CBSE SQP 2022-23)

Ans. Difference between revenue receipts and capital receipts are as follows:

S. No.	Basis of Difference	Revenue Receipts	Capital Receipts
(i)	Meaning	These are those receipts which neither create any liability nor reduce any asset of the government.	These are those receipts which either create a liability or reduce an asset of the government.
(ii)	Nature	They are regular and recurring in nature.	They are irregular and non-recurring in nature.
(iii)	Obligation	There is no future obligation to return the amount.	In case of certain capital receipts (like borrowings), there is future obligation to return the principal amount along with interest.
(iv)	Examples	Tax revenue (like Income Tax, GST, etc.) and Non-tax revenue (like interest, fees, etc.)	Borrowings, disinvestment, recovery of loans and advances, etc.

Q 2. Distinguish between revenue expenditure and capital expenditure.

Ans. Difference between revenue expenditure and capital expenditure are:

S. No.	Basis of Difference	Revenue Expenditure	Capital Expenditure
(i)	Meaning	These are those expenditures which neither reduce any liability nor create any asset of the government.	These are those expenditures which either reduce a liability or create an asset of the government.
(ii)	Nature	They are regular and recurring in nature.	They are irregular and non-recurring in nature.
(iii)	Purpose	It is incurred for normal running of government departments and provision of various services.	It is incurred mainly for acquisition of assets and granting of loans and advances.
(iv)	Examples	Salary of government employees, pension, interest, etc.	Repayment of loans/ borrowings, expenditure on acquisition of capital assets, etc.

Q 3. What are non-tax revenue? State the sources of non-tax revenue.

Ans. **Non-tax Revenue:** All revenue receipts other than taxes are called non-tax revenue.

Sources of Non-tax Revenue: The main sources of non-tax revenue are:

(i) Interest
(ii) Profits and dividends
(iii) Fees
(iv) Fines and penalties
(v) Escheat
(vi) Gifts and grants
(vii) Forfeitures
(viii) Special assessment

Q 4. Distinguish between tax revenue and non-tax revenue.

Ans. Difference between tax revenue and non-tax revenue are:

S. No.	Basis of Difference	Tax Revenue	Non-tax Revenue
(i)	Meaning	Tax revenue refers to all revenue receipts of the government from all types of taxes.	Non-tax revenue refers to all revenue receipts of the government from sources other than taxes.
(ii)	Compulsory	It is a legal compulsory payment made by individuals and firms to the government.	Non-tax revenue is not a compulsory payment made by individuals and firms to the government.
(iii)	Benefit	No direct benefit is received by individuals and firms in exchange of tax paid.	Direct benefit or service is received by individuals and firms in exchange of non-tax revenue.
(iv)	Examples	Income Tax, GST, etc.	Licence fee, Special assessment, etc.

Q 5. Distinguish between direct taxes and indirect taxes.

OR

Distinguish between direct taxes and indirect taxes, with suitable examples. *(CBSE SQP 2022-23)*

OR

With suitable examples, distinguish between direct taxes and indirect taxes. *(CBSE 2023)*

Ans. Difference between direct tax and indirect taxes are:

S. No.	Basis of Difference	Direct Taxes	Indirect Taxes
(i)	Impact	Direct taxes are levied on individual and companies.	Indirect taxes are levied on goods and services.
(ii)	Shift of burden	The burden of a direct tax cannot be shifted *i.e.* impact and incidence is on the same person.	The burden of an indirect tax can be shifted *i.e.* impact and incidence is on different persons.
(iii)	Nature	Progressive in nature.	Proportional in nature.
(iv)	Coverage	They have limited reach as they do not reach all the sections of the economy.	They have a wide coverage as they reach all the sections of the society.
(v)	Example	Income tax	GST

Long Answer Type Questions

Q 1. Which objective of the government is trying to fulfil through the following:

(i) Government provides essential things like food grains almost free to the families below poverty line.

(ii) The government under *Ujjwala Yojana* is providing free LPG kitchen gas connections to the families below poverty line.

(iii) Government imposes heavy taxes on liquor and ban on smoking at public places.

(iv) Setting up production units in the backward regions.

Ans. (i) **Equitable Distribution of Income:** Government is trying to reduce the gap between rich and poor.

(ii) **Equitable Distribution of Income:** Government is trying to reduce income of rich and increase that of poor.

(iii) **Allocation of Resources:** Discourage production of harmful goods.

(iv) **Balanced Regional Growth:** Giving tax rebate and other incentives to the firms.

TiP

Students should always try to make the explanation brief and to the point.

Q 2. Explain the budgetary measures for achieving the following objectives:

(i) Setting up of production units in backward regions.

(ii) Reducing inequalities of income and wealth.

Ans. (i) The possible budgetary incentives that a government might decide to give to investors for making investments in backward region are as follows:

(a) **The Government might give a Tax-holiday for a Stipulated Period for such Investors:** The reason behind this is that the incentive of tax-holiday might motivate the investors to invest in backward region.

(b) **The Government may offer Subsidy on Loans for such Investors:** The provision of subsidy implies that the investors will not be required to pay back a certain percentage of the loan taken by them. This might induce them to invest.

(c) **The Government might Waive-off the Excise Duty on Goods Manufactured by Investors in these Regions:** Excise duty is levied on goods manufactured or produced in India. Waiving of the excise duty will ensure that the price of the good is less and this will increase the demand for the good and ensure a ready market for the production. This will motivate the investors to invest in backward region.

(ii) For reducing inequalities of income and wealth, the government can initiate the following budgetary measures:

(a) **High Taxes on Higher Income:** The government may levy higher taxes on people with higher incomes.

(b) **Providing Subsidies to Lower Income:** To reduce inequalities, the government may provide subsidies on necessary consumption items to lower income groups.

(c) **Improving Social Infrastructure:** The government can increase it's expenditure on social infrastructure, such as construction of schools and hospitals, so that the lower income group can avail of such facilities and improve their standard of living.

Q 3. What is government budget? Explain its major components.

Ans. Government budget is a financial statement of estimated receipts and expenditures of the government during a financial year (*i.e.*, 1st April to 31st March).

Components of Government Budget: The components of government budget are as follows:

(i) **Budgetary Receipts:** It refers to estimated money receipts of the government from all sources during the fiscal year.

These are classified as:

(a) **Revenue Receipts:** Revenue receipts which do not create a liability for the government or do not lead to reduction in assets are known as revenue receipts.

Constituents of revenue receipts:

- Tax revenue *i.e.*, income tax, GST, etc.
- Non-tax revenue *i.e.*, fees, grants, fines, etc.

(b) **Capital Receipts:** Capital receipts refers to those receipts which either create a liability or reduce an asset of the government.

Constituents of capital receipts:

- Recovery of loan
- Borrowing
- Disinvestment

(ii) **Budgetary Expenditures:** Budgetary expenditures are the estimated money payments of the government during a fiscal year. Budgetary expenditures are the sum total of revenue expenditures and capital expenditures.

In short:

Budgetary expenditures = Revenue expenditures + Capital expenditures

These are classified as:

(a) **Revenue Expenditures:** Revenue expenditures are those expenditures which neither reduce any liability nor create any asset of the government, *e.g.*, interest payment, defence purchases, subsidies, etc.

(b) **Capital Expenditures:** Capital expenditures are those expenditures which either reduce a liability or create an asset of the government *e.g.*, purchase of machine, loans to state government, etc.

Q 4. Define revenue receipts in a government budget. Explain how government budget can used to bring in price stability in the economy?

Ans. Receipts which do not create a liability for the government or do not lead to reduction in assets, are known as Revenue Receipts. Revenue receipts are receipts of the government which are non-redeemable *i.e.*, they cannot be re-claimed from the government. These are divided into tax and non-tax revenue.

(i) **Tax Revenue:** It consists of the proceeds of taxes and other duties levied by the Central and the State Governments. Tax revenues comprise of direct taxes and Indirect Taxes.

(a) **Direct Tax Revenue:** The tax which is imposed on one person and is paid by the same person is known as a Direct Tax.

(b) **Indirect Tax Revenue:** The tax which is imposed on one person and is actually paid by the other person is known as an Indirect Tax.

(ii) **Non-tax Revenue:** Non-tax revenue refers to receipts of the government from all sources other than those of tax receipts.

The main sources of non-tax revenue are interest, profits and dividends, fees, fines and penalties, escheat, gifts and grants, forfeitures, special assessment, etc.

The government budget is a statement of estimated receipts and expenditures of the government during financial year. One of the objective, of the government budget is to achieve 'Price stability'. Government tries to establish price stability by its budgetary policies related to income and expenditure. Price stability refers to a situation without fluctuations in price levels and stability of exchange rate in an economy. Price stability is achieved by protecting the economy from harmful effects of various trade cycles and its phases *i.e.*, boom, recession, depression and recovery.

COMMON ERROR

Many students tend to give comprehensive explanation.

Q 5. Distinguish between:

(i) Revenue receipts and capital receipts.

(ii) Revenue deficit and fiscal deficit.

Ans. (i) Difference between revenue receipts and capital receipts are:

S. No.	Basis of Difference	Revenue Receipts	Capital Receipts
(i)	Meaning	These are those receipts which neither create any liability nor reduce any asset of the government.	These are those receipts which either create a liability or reduce an asset of the government.
(ii)	Nature	They are regular and recurring in nature.	They are irregular and non-recurring in nature.
(iii)	Obligation	There is no future obligation to return the amount.	In case of certain capital receipts (like borrowings), there is future obligation to return the principal amount along with interest.

(ii) Difference between revenue deficit and fiscal deficit are:

S. No.	Basis of Difference	Revenue Deficit	Fiscal Deficit
(i)	Meaning	It refers to the excess of revenue expenditures over revenue receipts of the government.	It is the excess of total expenditures over total receipts other than borrowings.
(ii)	Borrowings	It tells about the need for borrowings by the government to manage its budgetary expenditure (regular and recurring).	It tells about the borrowings requirements of the government including interest payments.
(iii)	Formula	Revenue deficit = Revenue expenditures – Revenue receipts	Fiscal deficit = Total expenditure – Total receipts – Borrowings and other liabilities of the government

Q 6. Distinguish between:

(i) Direct taxes and Indirect taxes.

(ii) Primary deficit and Revenue deficit.

Ans. (i) Difference between direct taxes and indirect taxes are:

S. No.	Basis of Difference	Direct Taxes	Indirect Taxes
(i)	Impact	Direct taxes are levied on individual and companies.	Indirect taxes are levied on goods and services.
(ii)	Shift of burden	The burden of a direct tax cannot be shifted *i.e.*, impact and incidence is on the same person.	The burden of an indirect tax can be shifted *i.e.*, impact and incidence is on different persons.
(iii)	Nature	Progressive in nature.	Proportional in nature.
(iv)	Coverage	They have limited reach as they do not reach all the sections of the economy.	They have a wide coverage as they reach all the sections of the society.

(ii) Difference between primary deficit and revenue deficit are:

S. No.	Basis of Difference	Primary Deficit	Revenue Deficit
(i)	Meaning	It refers to the difference between fiscal deficit and interest payments.	It refers to the excess of revenue expenditures over revenue receipts of the government.
(ii)	Borrowings	It tells about the extent of borrowings by the government exclusive of interest payments.	It tells about the borrowings by government to manage its budgetary expenditure (regular and recurring).
(iii)	Formula	Primary Deficit = Fiscal Deficit – Interest Payments	Revenue Deficit = Revenue Expenditures – Revenue Receipts

Q 7. Classify the following taxes into direct and indirect tax. Give reasons for your answer.

(i) Corporation tax **(ii) Entertainment tax**
(iii) Excise tax **(iv) Income tax**

Ans. **(i) Corporation Tax:** It is a direct tax as its impact and incidence is on the same person (company).

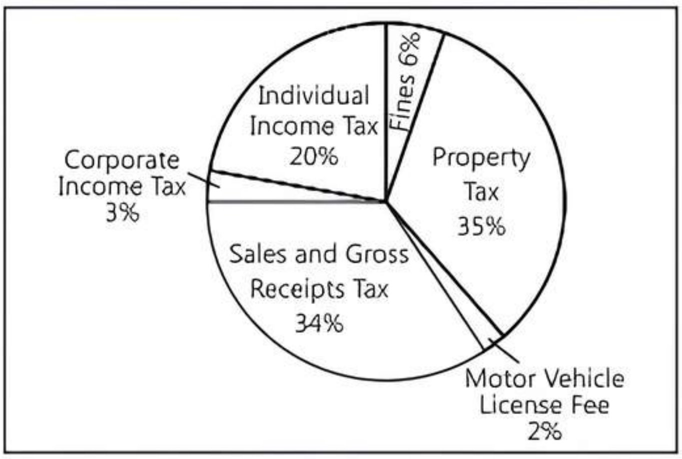
(ii) Entertainment Tax: It is an indirect tax as its impact and incidence is on the same person (company).

(iii) Excise Tax: It is an indirect tax as the burden of its payment can be shifted to another person.

(iv) Income Tax: It is a direct tax as its impact and incidence are on the same person.

Q 8. Study the given picture carefully:

Sources of State and Local Government Tax Revenues for a Financial Year



Answer the following questions based on common knowledge and picture:

(i) Categorise the given items in the picture into tax/non-tax receipts.

(ii) "Government has started spending more on providing free services like education and health to the poor."

In the light of above statements, explain how the government can use the budgetary policy in reducing 'inequalities of income'. *(CBSE 2023)*

Ans. (i) **(a) Tax Receipts:**

- Individual Income Tax (20%)
- Corporate Income Tax (3%)
- Sales and Gross Receipts Tax (34%)
- Property Tax (35%)

(b) Non-tax Receipts:

- Fines (6%)
- Motor Vehicle License Fee (2%)

(ii) Increasing government expenditure by providing free services to the poor like education and health facilities, etc. This will raise the disposable income of the poor. Thus, the gap between rich and poor can be reduced.

Numerical Type Questions

Q 1. In a government budget, revenue deficit is ₹ 70 crore. If revenue receipts are ₹ 140 crore and capital expenditures is ₹ 240 crore, then how much is the revenue expenditures?

Sol. Revenue Deficit = ₹ 70 crore

Revenue Receipts = ₹ 140 crore

Capital Expenditures = ₹ 240 crore

Revenue Expenditures = ?

Now, Revenue Deficit = Revenue Expenditures – Revenue Receipts

70 = Revenue Expenditures – 140

Revenue Expenditures = 140 + 70 = ₹ 210 crore

Q 2. In a government budget, primary deficit is ₹ 24,000 crore and interest payment is ₹ 14,000 crore. How much is the fiscal deficit?

Sol. Primary Deficit = ₹ 24,000

Interest Payment = ₹ 14,000 crore

Fiscal Deficit = ?

We know that, Primary Deficit = Fiscal Deficit – Interest Payments

24,000 = Fiscal Deficit – 14,000

Fiscal Deficit = 24,000 + 14,000

Fiscal Deficit = ₹ 38,000 crore

Q 3. From the following data, calculate fiscal deficit:

S. No.	Particulars	(₹ in billion)
(i)	Capital Receipts	68
(ii)	Revenue Expenditures	160
(iii)	Interest Payment	20
(iv)	Borrowings	32
(v)	Tax Revenue	50
(vi)	Non-tax Revenue	10

Sol. Fiscal Deficit = Borrowings = ₹ 32 billion.

As Fiscal Deficit are equal to borrowings.

Q 4. From the following data about the government budget, determine: (i) Non-debt Creating Capital Receipts, (ii) Fiscal Deficit and (iii) Primary Deficit.

S. No.	Particulars	(₹ in crore)
(i)	Total Receipts excluding Borrowings	40,000
(ii)	Revenue Deficit	16,000
(iii)	Capital Expenditures	44,000
(iv)	Revenue Expenditures	30,000
(v)	Interest Payments	30% of Revenue Deficit

Sol. (i) Revenue Deficit = Revenue Expenditures − Revenue Receipts

16,000 = 30,000 − Revenue Receipts

Revenue Receipts = 30,000 − 16,000 = ₹ 14,000 crore

Non-debt Capital Receipts = Total Receipts excluding Borrowings − Revenue Receipts

= 40,000 − 14,000

= ₹ 26,000 crore

(ii) Fiscal Deficit = Total Expenditures − [Total Receipts − Borrowings]

= (Capital Expenditures) + (Revenue Expenditures) − (40,000)

= (44,000 + 30,000) − (40,000)

= ₹ 34,000 crore

(iii) Interest Payments = 30% of Revenue Deficit

$= \frac{30}{100} \times 16{,}000 =$ ₹ 4,800 crore

Primary Deficit = Fiscal Deficit − Interest Payments

= 34,000 − 4,800

= ₹ 29,200 crore

Q 5. From the following information, determine:

(i) Capital Expenditures, (ii) Total Expenditures and (iii) Interest Payments.

S. No.	Particulars	(₹ in crore)
(i)	Fiscal Deficit	24,000
(ii)	Revenue Deficit	18,000
(iii)	Primary Deficit	10,000
(iv)	Revenue Receipts	12,000
(v)	Non-debt Creating Capital Receipts	20,000

Sol. (i) Fiscal Deficit = Revenue Deficit + [Capital Expenditures − Non-debt Creating Capital Receipts]

24,000 = 18,000 + [Capital Expenditures − 20,000]

24,000 = 18,000 − 20,000 + Capital Expenditures

24,000 = − 2,000 + Capital Expenditures

Capital Expenditures = 24,000 + 2,000

= ₹ 26,000 crore

(ii) Total Expenditures = Revenue Expenditures + Capital Expenditures

Revenue Deficit = Revenue Expenditures − Revenue Receipts

and thus, (18,000 = Revenue Expenditures − 12,000)

∴ Revenue Expenditures = 30,000

Total Expenditures = Revenue Expenditures + Capital Expenditures

= 30,000 + 26,000

= ₹ 56,000 crore

(iii) Primary Deficit = Fiscal Deficit − Interest Payments

10,000 = 24,000 − Interest Payments

Interest Payments = 24,000 − 10,000

= ₹ 14,000 crore

Q 6. From the following data about a government budget, find out (i) Revenue deficit, (ii) Fiscal deficit and (iii) Primary deficit: *(CBSE 2011)*

S. No.	Particulars	(₹ in arab)
(i)	Capital Receipts net of Borrowings	95
(ii)	Revenue Expenditures	100
(iii)	Interest Payments	10
(iv)	Revenue Receipts	80
(v)	Capital Expenditures	110

Sol. (i) Revenue Deficit = Revenue Expenditures − Revenue Receipts

= (100 − 80) = ₹ 20 arab

(ii) Fiscal Deficit = Total Expenditures > Total Receipts excluding Borrowings

= (100 + 110) − (80 + 95)

= ₹ 35 arab

(iii) Primary Deficit = Fiscal Deficit − Interest Payments

= 35 − 10 = ₹ 25 arab

Knowledge BOOSTER

RE = Revenue Expenditures

CE = Capital Expenditures

TE = Total Expenditures

TR = Total Revenue

RR = Revenue Receipts

CR = Capital Receipts

Q 7. From the given information, calculate: (i) Revenue Receipts, (ii) Fiscal Deficit and (iii) Primary Deficit.

S. No.	Particulars	(₹ in crore)
(i)	Non-debt Creating Capital Receipts	50,000
(ii)	Revenue Expenditures	24,000
(iii)	Interest Payments	14,000
(iv)	Revenue Expenditures	40,000
(v)	Capital Expenditures	70,000

Sol. (i) RD = RE − RR

24,000 = 40,000 − RR

RR = 40,000 − 24,000

RR = ₹ 16,000 crore

(ii) Fiscal Deficit = TE > TR excluding Borrowings

= (RE + CE) − (RR + CR − Borrowings)

= (40,000 + 70,000) − (16,000 + 50,000)

= 1,10,000 − 66,000

= ₹ 44,000 crore

(iii) Primary Deficit = Fiscal Deficit − Interest Payments

= 44,000 − 14,000

= ₹ 30,000 crore

Q 8. From the following data, calculate (i) Revenue deficit and (ii) Fiscal deficit. *(CBSE 2020)*

S. No.	Particulars	(₹ in crore)
(i)	Tax Revenue	1,200
(ii)	Revenue Expenditures	3,700
(iii)	Non-tax Revenue	2,000
(iv)	Recovery of Loans	145
(v)	Capital Expenditures	500
(vi)	Disinvestment	120
(vii)	Interest Payments	1,070

Sol. (i) Revenue Receipts = Tax + Non-tax Receipts
= 1,200 + 2,000 = ₹ 3,200 crore
Revenue Expenditures = ₹ 3,700 crore
Revenue Deficit = (RE – RR)
= 3,700 – 3,200
= ₹ 500 crore
(ii) TE = (RE + CE) = 3,700 + 500 = ₹ 4,200 crore
TR = (RR + CR) = 3,200 + 120 + 145
= ₹ 3,465 crore
Here, borrowings are not given.
∴ FD = TE – TR excluding borrowings
= 4,200 – 3,465
= ₹ 735 crore

Q 9. From the following data, calculate (i) Revenue deficit and (ii) Fiscal deficit. *(CBSE 2020)*

S. No.	Particulars	(₹ in crore)
(i)	Tax Revenue	1,000
(ii)	Revenue Expenditures	3,821
(iii)	Non-tax Revenue	2,000
(iv)	Recovery of Loans	135
(v)	Capital Expenditures	574
(vi)	Disinvestment	100
(vii)	Interest Payments	1,013

Sol. (i) Revenue Receipts = Tax Revenue + Non-tax Revenue
= 1,000 + 2,000 = ₹ 3,000 crore
Revenue Expenditures = ₹ 3,821 crore
RD = RE – RR = 3,821 – 3,000 = ₹ 821 crore
(ii) Fiscal Deficit = TE – (TR – Borrowings)
= (RE + CE) – (RR + CR – Borrowings)
= 3,821 + 574 – (3,000 + 100 + 135)
= 4,395 – 3,235 = ₹ 1,160 crore

Q 10. The interest payments as per the government budget during a year are ₹ 2,80,000 crore. If total borrowing requirements of the government are estimated at ₹ 5,40,000 crore, then how much is primary deficit?

Sol. Interest Payments = ₹ 2,80,000 crore
Borrowings = ₹ 5,40,000 crore
Fiscal Deficit = Borrowings = ₹ 5,40,000 crore
Primary Deficit = Fiscal Deficit – Interest Payments
Primary Deficit = 5,40,000 – 2,80,000
= ₹ 2,60,000 crore

Q 11. Given the following data estimate the values of: (i) Revenue deficit and (ii) Fiscal deficit. *(CBSE 2019)*

S. No.	Particulars	(₹ in crore)
(i)	Tax Revenue	1,000
(ii)	Non-tax Revenue	150
(iii)	Net Borrowings by Government	780
(iv)	Disinvestment Proceeds	50
(v)	Revenue Expenditures	1,500
(vi)	Capital Expenditures	480

Sol. (i) RD = RE – RR
RR = Tax + Non-tax Revenue
= 1,000 + 150 = ₹ 1,150 crore
RD = 1,500 – 1,150 = ₹ 350 crore
(ii) Fiscal Deficit = TE – (TR – Borrowings)
= (RE + CE) – (RR + CR – Borrowings)
= (1,500 + 480)
– (1,150 + Disinvestment Proceeds)
= (1,500 + 480) – (1,150 + 50)
= 1,980 – 1,200
= ₹ 780 crore

Q 12. On the basis of the given information, calculate the value of:
(i) Fiscal deficit (ii) Primary deficit

S. No.	Particulars	2021-22 (₹ in crore)
(i)	Revenue Receipts	20
(ii)	Capital Expenditures	15
(iii)	Revenue Deficit	10
(iv)	Non-debt Creating Capital Receipts	50% of Revenue Receipts
(v)	Interest Payments	4

(CBSE SQP 2023-24)

Sol. (i) Fiscal deficit = Revenue deficit
+ Capital expenditures
– (Non-debt creating capital receipts)
= 10 + 15 – (50% of 20)
= 25 – 10
Fiscal deficit = ₹ 15 crore
(ii) Primary deficit = Fiscal deficit – Interest payments
= 15 – 4
Primary deficit = ₹ 11 crore

Chapter Test

Multiple Choice Questions

Q 1. The non-tax revenue in the following is:
a. Export duty b. Import duty
c. Dividends d. Excise duty

Q 2. Which of the following is a source of capital receipt?
a. Foreign donations b. Disinvestments
c. Dividends d. Indirect taxes

Fill in the Blank Type Questions

Q 3. .... is a tax whose impact and incidence fall on the same person.
(Choose the correct alternative to fill up the blank)
a. Indirect tax b. Service tax
c. Direct tax d. Sale Tax

Q 4. The loans taken by government represent a situation of ....
(Choose the correct alternative to fill up the blank)
a. fiscal deficit b. revenue deficit
c. primary deficit d. borrowing

True/False Type Questions

Q 5. Expenditure on *Ujjwala Yojana* launched by the government is an example of capital expenditure.

Q 6. The difference between total planned expenditures and total planned receipts is called fiscal deficit.

Match the Column Type Question

Q 7. Match the items in Column I to those in Column II and choose the correct option:

Column I	Column II
A. GST	1. Indirect Tax
B. Income Tax	2. Burden can be shifted
C. Fine	3. Direct Tax
D. Tax Receipt	4. Capital Receipts

	A	B	C	D		A	B	C	D
a.	4	3	2	1	b.	1	2	3	4
c.	3	1	2	4	d.	2	4	1	3

Assertion and Reason Type Question

Q 8. *There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below:*

Assertion (A): Fiscal deficit is measured in terms of borrowings.

Reason (R): External borrowings increases the fiscal deficit.

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, but 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.

Case Study Based Questions

Q 9. Read the extract given below and answer the questions on the basis of the same:

Government budget can be used as a great tool to influence the distribution of income in the economy. The government can follow the progressive tax system where in the government can tax the rich at a higher rate. Plus, more taxes such as wealth tax, property tax, etc., can be imposed on the rich. This will bring down the personal disposable income of the rich class and the amount so collected could be used to provide free or subsidised services to the poor, like education, food, health facilities, etc. This will help to reduce the income disparity between the rich and the poor.

(i) Which of the following budget is more suitable for developing economies like India?
a. Deficit Budget b. Balanced Budget
c. Surplus d. None of these

(ii) Which of the following is a direct tax?
a. Corporation tax b. Entertainment tax
c. Excise duty d. Service tax

(iii) .... is a tax that causes relatively less burden on the lower income people and more on the higher income people.
a. Income tax b. Corporation tax
c. Progressive tax d. None of these

(iv) Which objective of government budget increases equality in the society?
a. Economic stability
b. Redistribution of income and wealth
c. Allocation of resources
d. Economic growth

Q 10. Read the extract given below and answer the questions on the basis of the same:

The government of a country, through its budgetary policy, directs the allocation of resources in a manner such that there is a balance between the goals of profit maximisation and social welfare, e.g., there should be production of necessity goods as well as comfort and luxury goods.
The goods which cannot be provided through market mechanism and hence must be provided by the government are called public goods, e.g., roads, parks, street lights, etc.

(i) Explain, why public goods must be provided by the government?
(ii) State any two objectives of government.

Very Short Answer Type Questions

Q 11. Is borrowing by the government a revenue receipt?

Q 12. Give two examples of capital receipts.

Short Answer Type-I Question

Q 13. A person claims that he should be exempted from tax payment as he does not use any government services in general. Should the person be allowed to do so?

Short Answer Type-II Question

Q 14. What is dept trap? Suggest measures to control such situation.

Long Answer Type Question

Q 15. Discuss the objectives of government budget.

Numerical Type Question

Q 16. A government budget shows a primary deficit of ₹ 5,000 crore. The revenue expenditure on interest payment is ₹ 200 crore. How much is the fiscal deficit?