CBSE Class–12 Economics

Important Questions - Macro Economics 05

The Government: Functions & Scope

VERY SHORT ANSWER QUESTIONS (1 MARK)

Q1. Direct tax is a tax which is imposed on

a) Corporations only

b) None of these

c) Individuals only

d) Individuals and corporations

Ans. (d)

Q2. An example of a direct tax is

a) Entertainment tax

b) Sales tax

c) VAT

d) Income tax

Ans. (d)

Q3. The major source of Revenue receipts for the government is not

a) Tax Revenue

b) Income tax

c) Wealth tax

d) Profits

Ans. (d)

Q4. The policies useful to reduce inequalities of income are the

a) Monetary policies

b) Public distribution policies

c) Budgetary policies

d) Foreign policies

Ans. (c)

Q5. Budgetary policies are implemented by the

a) Foreign sector
b) Finance Ministry
c) Government
d) Private sector

Ans. (c)

Q6. Capital Receipts

a) Create liability for the private sector
b) Create liability for the government
c) Do not create liability for the private sector
d) Do not create liability for the government

Ans. (b)

Q7. Disinvestment is a

a) Capital Expenditure
b) Revenue Expenditure
c) Capital Receipts
d) Revenue Receipts

Ans. (c)

Q8. Define a Budget.

Ans. Budget is an annual statement of the Government's estimated receipts and expenditures over the fiscal year. A particular fiscal year in an economy (mainly India) runs from 1st April to 31st March.

Q9. What are the two type of taxes?

Ans. There are mainly two important type of taxes - Direct and Indirect taxes.

1. **Direct Taxes include income tax, interest tax, wealth tax, etc**
2. **Indirect Taxes include customes duties, excise duties, sales tax, etc.**

Q10. What are the main items of Capital Receipt?

Ans. The main item are:-

1. **Market Loans (raised by government from the public)**
2. **Borrowings by the government**
3. **Loans received from international financial institutions and foreign governments.**

Q11. What are the four different concepts of Deficits?

Ans. The four different concepts of Deficits are budget deficit, revenue deficit, primary deficit and fiscal deficit.

Q12. Give two examples of Developmental Expenditure.

Ans. Two examples are economic services of Railways and Postal Services and grants in aid to state and union territories.

Q13. Define Surplus Budget.

Ans. A surplus budget happens when estimated revenues are greater than the estimated expenditures in a particular year.

Q14. Give two examples of Non – Developmental expenditures.

Ans. Two examples are expenditure on defence and interest on payments.

Q15. What are the two types of Revenue Receipts?

Ans. Two types of revenue receipts are Tax revenue and Non Tax revenue.

SHORT ANSWER QUSTIONS (3 / 4 Marks)

Q16. Define Direct taxes and Indirect taxes. Also give two examples of each.

Ans. Direct taxes are those taxes which are levied immediately on the property and person's income. These taxes are paid directly to the government by the public. Examples are income tax, wealth tax, corporation tax, etc.

Indirect taxes are those taxes which affect the income and property of persons through their consumption expenditure. These taxes are levied on one person but paid by another person. Examples are customs duties, excise duties, sales tax, service tax, etc.

Q17. What are the three major ways of Public Expenditure?

Ans. Three major ways of Public Expenditure are as follows:

1. **Revenue and Capital expenditures**
2. **Plan and Non plan expenditures**
3. **Development and Non developmental expenditures**

Q18. Explain the four different concepts of Budget deficit.

Ans. The four different concepts of Budget deficit are as follows:

1. **Budget Deficit: It is the difference between the total expenditure, current revenue and net internal, external captial receipts of the state. It is calculated by B.D = B.E. >B.R. (where B.D is budget deficit, B.E is budget expediture and B. R is budget revnue).**
2. **Fiscal Deficit: It is the difference between the total expenditure of the government, the rvenue receipts + government's accrued captial**

receipts. It is callculated by F.D = B.E – B.R (B.E > B.R other than borrowings). F.D is fiscal deficit, B.E is budget expenditure, B.R is budget receipts.

3. Revenue Deficit: It is the excess of governments revenue expenditures over revenue receipts. It is calculated as R.D = R.E – R.R. (when R.D is revenue deficit, R.E is revenue expenditure, R.R is revenue recipts).
4. Primary Deficit: It is the fiscal defcit which is subtracted from interest payments. It is calculated as P.D = F.D. – I.P. (when P.D is primary deficit, F.D is fiscal deficity and I.P is interest payment).

Q19. Explain the objectives of the Government Budget.

Ans. Mentioned below the main objectives of the Government Budget:

1. <u>Activities to secure reallocation of resources</u> – The government has to reallocate resources with social and economic considerations.
2. <u>Redistribution activities</u> – The government redistributes incomes and wealth to reduce inequalities
3. <u>Stabilizing activities</u> - The government tries to prevent business fluctuations and maintain economic stability.
4. <u>Management of public enterprises</u> – Government undertakes commercial activities that are of the nature of natural monopolies, heavy manufacturing etc., through its public enterprises.

Q20. What are the Non Tax Revenue receipts?

Ans. Below mentioned are the Non tax revenue receipts:-

1. Commercial Revenue – it comprises of postage payments, tolls, interest on funds borrowed from government, credit corporations, railways, and postal department, also electricity services.
2. Interest and dividends
3. Administrative revenue like fees, penalties, fines, etc.

LONG ANSWER QUSTIONS (6 Marks)

Q21. The following figures are based on budget estimates of Govt. of India for the year 2016-17. Calculate

1. **Fiscal deficit**
2. **Revenue deficit**
3. **Primary deficit**

ITEMS	RS. BILLIONS
A) Revenue receipts	2,31,745
i) Tax Revenue	1,63,031
ii) Non-tax Revenue	68,714
B) Capital receipts	1,43,478
i) Recoveries of loans	15,164
ii) Other receipts	12,000
iii) Borrowings and other liabilities	1,16,314
C) Revenue expenditure	3,10,566
i) Interest payments	1,12,300
ii) Major subsidies	27,845
iii) Defence Expenditure	1,70,421
D) Capital Expenditure	64,657
E) Total Expenditure	3,75,223
i) Plan expenditure	1,00,100
ii) Non-plan expenditure	2,75,123

Ans.

1. **Fiscal deficit = total expenditure – revenue receipts – non debt receipts**
   = 3, 75,223-2, 31,745-(15,164+12,000)
   = Rs. 1, 16,314 billion

2. **Revenue deficit = revenue expenditure – revenue receipts**
   = 3, 10,566-2, 31,745
   = Rs. 78,821 billion

3. **Primary deficit = fiscal deficit – interest payments**
   = 1, 16, 314-1, 12, 300
   = Rs. 4014 billion

Q22. What is a balanced government budget? Explain the multiplier effect of a balanced budget.

Ans. The government budget balance, also alternatively referred to as general government balance, public budget balance, or public fiscal balance, is the overall difference between government revenues and spending. A balanced budget simply refers to a budget in which expenses do not exceed revenues. This term can be used with any entity's budget, such as that of a business, non-profit organization or even a family. However, the term is most often associated with a government budget. A successfully balanced budget demonstrates a measure of fiscal health, showing a level of spending that remains in step with costs.

The multiplier effect of a balanced budget are as follows:

1. The balanced-budget multiplier measures the change in aggregate production triggered by an autonomous change in government taxes.
2. This multiplier is useful in the analysis of fiscal policy changes that involves both government purchases and taxes.
3. The balanced-budget multiplier is equal to one. The "positive" impact on aggregate production caused by a change in government purchases is largely, but not completely, offset by the "negative" impact of the change in taxes.
4. The only part of the impact of the change in government purchases not offset by the change in taxes is the purchase of aggregate production made by the initial injection. Hence, the change in aggregate production is equal to the initial change in government purchases.

Q23. Explain the objectives of resource allocation and income distribution in a government budget.

Ans. Government prepares the budget for fulfilling certain objectives. These objectives are the direct outcome of government's economic, social and political policies.

1. Allocation of resources: Through the budgetary policy, Government aims to reallocate resources in accordance with the economic (profit maximisation) and social (public welfare) priorities of the country. To encourage investment, government can give tax concession, subsidies etc. to the producers.
2. Reducing inequalities in income and wealth: Government aims to reduce such inequalities of income and wealth, through its budgetary policy. Government aims to influence distribution of income by imposing taxes on the rich and spending more on the welfare of the poor.
3. Economic Growth: The growth rate of a country depends on rate of saving and investment. For this purpose, budgetary policy aims to mobilise sufficient resources for investment in the public sector.
4. Reducing regional disparities: The government budget aims to reduce regional disparities through its taxation and expenditure policy for encouraging setting up of production units in economically backward regions.
5. Management of Public Enterprises: There are large numbers of public sector industries, which are established and managed for social welfare of the public. Budget is prepared with the objective of making various provisions for managing such enterprises and providing those financial help.

Q24. How is tax revenue different from administrative revenue?

Ans. The income of the government through all sources is called public income or public revenue.

<u>Tax Revenue</u> - Taxes are compulsory contributions imposed by the government on its citizens to meet its general expenses incurred for the common good, without any corresponding benefits to the tax payer. A tax is levied to meet public spending incurred by the government in the general interest of the nation. It is a payment for an indirect service to be made by the government to the community as a whole. Taxes constitute a significant part of public revenue in modern public finance. Taxes have macro-economic effects. Taxation can affect the size and mode of

consumption, pattern of production and distribution of income and wealth.

<u>Administrative Revenue</u> - Under public administration, public authorities can raise some funds in the form of fees, fines and penalties, and special assessments. Fees are charged by the government or public authorities for rendering a service to the beneficiaries. Court fees, passport fees, etc., fall under this category. Similarly, licence fees are charged to confer a permission for something by the controlling authority, e.g., driving licence fee, import licence fee, liquor permit fee, etc. Fines and penalties are levied and collected from offenders of laws as punishment. Here the main object of these levies is not so much to earn an income as to prevent the commission of offences and infringement of laws of the country.

Q25. Explain the concept of fiscal deficit in a government budget. What does it indicate?

Ans. A fiscal deficit occurs when a government's total expenditures exceed the revenue that it generates, excluding money from borrowings. Deficit differs from debt, which is an accumulation of yearly deficits. The difference between total revenue and total expenditure of the government is termed as fiscal deficit. It is an indication of the total borrowings needed by the government. While calculating the total revenue, borrowings are not included. India's fiscal deficit in the year ended March 2018 came in at 3.53% of gross domestic product. India revised its fiscal deficit target in February to 3.5% of GDP from 3.2% of GDP for the 2017/18 fiscal year. For the current fiscal year, the government estimates to trim the deficit to 3.3% of GDP.

Implication of fiscal deficit are as follows:

1. It indicates borrowing requirements of government
2. It also indicates high interest payment by government
3. It implies high level of inflation due to high government expenditure
4. It indicates increased foreign dependence of the economy.