

Government Budget And The Economy

1. Classify the following as Revenue receipts or Capital receipts. Give valid arguments in support of your answer : (2024)

(i) Interest received on loan.

(ii) Disinvestment receipts from the sale of a government company.

(iii) Financial assistance by the Government of USA for promoting girl education in India.

Ans.

(i) Interest received on loan is a revenue receipt because it neither creates any liability nor causes a reduction in assets of the government.

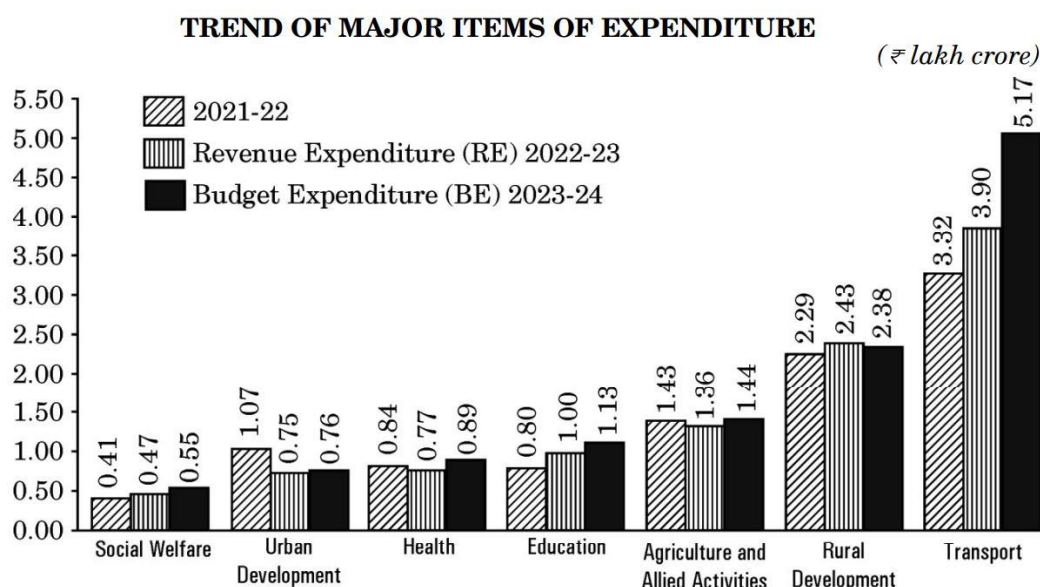
(ii) Disinvestment receipts from sale of a government company are capital receipts as it causes a reduction in assets of the government.

(iii) Financial assistance by the Government of USA for promoting girl education in India is a revenue receipt as it neither creates any liability nor causes a reduction in assets of the government.

2. Study the following chart carefully and analyse the changing trends in the government expenditure on : (2024)

(I) Transport

(II) Rural Development



Ans. As indicated in the given chart:



(I) Transport: The expenditure on transport accounted for ₹ 3.32 lakh crore in the year 2021-22. In the year 2022-23, a Revenue expenditure of ₹ 3.90 lakh crore was allocated for this sector. Out of the total budget expenditure of the year 2023-24, ₹ 5.17 lakh crore was allocated to transport.

(II) Rural Development: In the year 2021-22, the expenditure on rural development accounted for ₹ 2.29 lakh crore. In the year 2022-23, of the total revenue expenditure ₹ 2.43 lakh crore was allocated for rural development. ₹ 2.38 lakh crore was allocated for the development of rural sector from the total budget expenditure in the year 2023-24.

3. Distinguish between fiscal deficit and revenue deficit. (2024)

Ans. Fiscal deficit refers to excess of the government's total expenditure over its total receipts excluding borrowing for a fiscal year.

Whereas;

Revenue Deficit refers to the excess of government's revenue expenditure over revenue receipts for a fiscal year.

4. Explain the stabilisation function of the Government Budget. (2024)

Ans. If an economy is facing fluctuations in income, employment and prices (inflation/deflation), the government may push for correction of the situation using budgetary (taxes/public expenditure) policies. The same may be undertaken by working on the level of Aggregate Demand, relating to the spending decisions of households and firms.



Previous Years' CBSE Board Questions

5.1 Meaning, Objectives and Components of Government Budget

MCQ

- Read the following statements carefully and choose the correct alternative.
Statement I : Public goods are non-excludable.
Statement II : Consumption of public goods by people is of rivalrous nature.
 (a) Both the statements are true.
 (b) Both the statements are false.
 (c) Statement I is true but statement II is false.
 (d) Statement II is true but statement I is false.
 (Term-I, 2021-22)
- 'Budget is used as an important policy instrument to combat fluctuations in an economy'. The given line shows which of the following objectives of Government Budget
 (a) Allocation of resources
 (b) Stabilisation of prices
 (c) Growth of the economy
 (d) Redistribution of income (Term-I, 2021-22) **U**

VSA (1 mark)

- State whether the following statement is true or false: "Government Budget is an important monetary policy instrument." (2020) **U**
- Define a government budget. (Delhi 2014, AI 2014 C)

SA I (3 marks)

- How can budgetary policy be used in equalities of income? (AI 2015)

SA II (4 marks)

- "Government provides essential items like food grains almost free to the families below poverty line." Identify and explain the objective of the government budget indicated. (2023)

OR

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

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

- "Through its budgetary policy, the government allocates resources as per the requirements of the country."

- Explain how government budget can be used to influence distribution of income? (Delhi 2017)

OR

Tax rates on higher income group have been increased. Which economic value does it reflect? Explain. (AI 2014)

LA (5/6 marks)

- What is government budget? Explain its major components. (2018)
- Explain (a) allocation of resource and (b) economic stability as objectives of government budget. (2018)
- What is government budget? Explain how taxes and subsidies can be used to influence allocation of resources? (Delhi 2016) **AP**

5.2 Classification of Receipts in a Government Budget

MCQ

- Identify which of the following is an example of non-debt capital receipt?
 (a) Financial aid from MNC for victims in flood affected area.
 (b) Borrowings from International Monetary Fund (IMF).
 (c) Recovery of loans from State Governments.
 (d) Dividend paid by State Bank of India (SBI) to the Government. (Term-I, 2021-22)
- The non-tax revenue in the following is :
 (a) Export duty (b) Import duty
 (c) Dividend (d) Excise (Delhi 2015)
- Which one of the following is a combination of direct taxes?
 (a) Excise duty and wealth tax
 (b) Service tax and income tax
 (c) Excise duty and service tax
 (d) Wealth tax and income tax (Delhi 2015 C)
- Direct tax is called direct because it is collected directly from :
 (a) The producers on goods produced
 (b) The sellers on goods sold
 (c) The buyers of goods
 (d) The income earners (AI 2015)

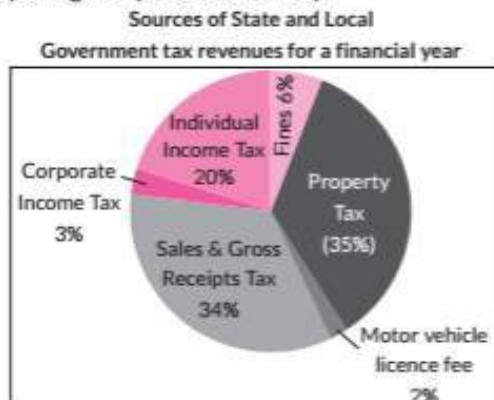
VSA (1 mark)

- Define the term 'tax'. (2021 C, 2019) **R**

18. What are capital receipts in a government budget? (AI 2016)
19. Give two examples of non-tax revenue receipts. (Delhi 2014 C)
20. Define an indirect tax. (AI 2014 C)
21. Give two examples of indirect taxes. (Delhi 2014 C)

SA I (3 marks)

22. Study the given picture carefully.



Categorise the given items in the picture into tax/

non-tax receipts.

(2023) (Ap)

23. Distinguish between Direct Tax and Indirect Tax. (2020)

OR

Explain the basis of classifying taxes into direct and indirect tax. Give examples. (Delhi 2017)

24. Categorise the following a revenue receipt or a capital receipt in the context of government budget and why?
- Tax receipts
 - Disinvestment
- (AI 2014)

SA II (4 marks)

25. How are capital receipts different from revenue receipts? Discuss briefly. (2019) (An)

LA (5/6 marks)

26. Define revenue receipts in a government budget. Explain, how government budget can be used to bring in price stability in the economy. (Delhi 2016)
27. The government decides to give budgetary incentives to investors for making investments in backward regions. Explain these possible incentives and the reasons for the same. (AI 2015 C) (U)

5.3 Classification of Expenditure in a Government Budget

VSA (1 mark)

28. Define 'Revenue Expenditure'. (2020, Delhi 2016, AI 2016)

29. Give two examples of revenue expenditure. (AI 2014 C)

SA I (3 marks)

30. Is the following revenue expenditure or capital expenditure in the context of government budget? Give reason.
- Expenditure on collection of taxes.
 - Expenditure on purchasing computers.
- (Delhi 2014) (An)

LA (5/6 marks)

31. What is the difference between revenue expenditure and capital expenditure? Explain, how taxes and government expenditure can be used to influence distribution of income in the society? (AI 2016)

5.4 Balanced, Surplus and Deficit Budget

MCQ

Question 32 to 37 are to be answered on the basis of given data and common knowledge: Budget 2021-22

S. No.	Items	Amount (Paisa/Rupee)
(i)	Corporation Tax	13
(ii)	Income Tax	14
(iii)	Customs	3
(iv)	Union Excise Duties	8
(v)	Goods and Services Tax	15
(vi)	Non-Tax Revenue	6
(vii)	Non-Debt Capital Receipts	5
(viii)	Borrowing and other liabilities	36

(Term-I, 2021-22) (Ap)

32. What is the percentage share of total tax revenue in government total receipts?
- 50%
 - 53%
 - 59%
 - 45%
33. Identify which of the following is not an example of non-tax revenue?
- Fees
 - Income Tax
 - Borrowings
 - Grants
- II only
 - II and III only
 - II, III and IV only
 - I and IV only
34. If government borrowings increase, which of the following statement will be incorrect for the current fiscal year?
- Primary deficit will increase.
 - Fiscal deficit will increase.
 - Revenue deficit will decrease.
 - Government burden for future payment will increase.

35. Which among the following is an example of Indirect Tax?

- (a) Income Tax (b) Corporation Tax
(c) Excise Duties (d) Gift Tax

36. If government borrowings for the fiscal year is ₹ 35,000 crore and interest payments are ₹ 5,000 crore then the value of fiscal deficit will be

- (a) ₹ 35,000 crore (b) ₹ 30,000 crore
(c) ₹ 40,000 crore (d) ₹ 7,000 crore

37. Match the items of Column I with Column II and choose the correct pair:

Column I		Column II	
A.	Revenue Receipt	i.	Interest Paid
B.	Capital Receipt	ii.	Grants received
C.	Revenue Expenditure	iii.	Profits of PSU
D.	Capital Expenditure	iv.	Loan repaid

- (a) A - i (b) B - ii (c) C - iii (d) D - iv

38. Fiscal deficit equals :

- (a) Interest payments
(b) Borrowings
(c) Interest payments less borrowings
(d) Borrowings less interest payments (Delhi 2016)

39. Primary deficit equals :

- (a) Borrowings
(b) Interest payments


(AI 2016)

40. Borrowing in government budget is :

- (a) Revenue deficit (b) Fiscal deficit
(c) Primary deficit (d) Deficit in taxes

(Delhi 2015)

41. Which of the following statements is true ?

- (a) Fiscal deficit is the difference between total expenditure and total receipts.
(b) Primary deficit is the difference between total receipt and interest payments.
(c) Fiscal deficit is the sum of primary deficit and interest payment.
(d) None of these (Delhi 2015 C) 

42. Primary deficit in a government budget is :

- (a) Revenue expenditure - Revenue receipts
(b) Total expenditure - Total receipts
(c) Revenue deficit - Interest payments
(d) Fiscal deficit - Interest payments (AI 2015)

VSA (1/2 mark)

43. Define the following :

- (i) Revenue deficit
(ii) Primary deficit. (2023)

44. Define fiscal deficit.

(AI 2016, 2014)

LA (5/6 marks)

45. State whether the following statements are true or false, with valid reasons:

- (i) High tax on higher income groups aims to achieve the 'reallocation of resources' objective of the Government.
(iii) Fiscal deficit always leads to inflation. (2023)

CBSE Sample Questions

5.1 Meaning, Objectives and Components of Government Budget

MCQ

1. 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 Products (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.


(Term-I, 2021-22)

2. Read the following statements carefully and choose the correct alternative from the following:

Statement I : Public goods are those goods and services that are collectively consumed by the public.

Statement II : Public goods are excludable and rivalrous in nature.

- (a) Both the statements are true.
(b) Both the statements are false.
(c) Statement I is true but statement II is false.
(d) Statement II is true but statement I is false.

(Term-I, 2021-22) 

3. Read the following statements carefully and choose the correct alternative given below:

Statement I : Subsidies do not add any burden on the financial health of a nation.

Statement II : Complete removal of subsidies may violate the aim of equitable distribution of income.

- (a) Both the statements are true.
 (b) Both the statements are false.
 (c) Statement I is true but statement II is false.
 (d) Statement II is true but statement I is false.

(Term-I, 2021-22)

Question 4 - 9 are to be answered on the basis of the following data: (in ₹ Crores)

	Items	2019-2020 Actual	2020-2021 Budget Estimate
(i)	Revenue Receipts	1,684,059	2,020,926
(ii)	Tax Revenue (Net to Centre)	1,356,902	1,635,909
(iii)	Non Tax Revenue	3,27,157	3,85,017
(iv)	Capital Receipts	1,002,271	1,021,304
(v)	Recovery of loans	18,316	14,967
(vi)	Other Receipts	50,304	2,10,000
(vii)	Borrowings and Other Liabilities	9,33,651	7,96,337
(viii)	Total Receipts [(i) + (iv)]	2,686,330	3,042,230
(ix)	Total Expenditure [(x) + (xiii)]	2,686,330	3,042,230
(x)	On Revenue Account of which	2,350,604	2,630,145
(xi)	Interest Payments	6,12,070	7,08,203
(xii)	Grants in Aid for creation of capital assets	1,85,641	2,06,500
(xiii)	On Capital Account	3,35,726	4,12,085

Source: indiabudget.gov.in

(Term-I, 2021-22)

4. The value of recovery of loans has _____ crore between 2019-20 (Actual) and 2020-21 (Budget Estimate).
 (a) fallen by ₹ 3349 (b) risen by ₹ 3349
 (c) fallen by ₹ 3439 (d) risen by ₹ 3439
5. The percentage change in the Non-Tax Revenue, between 2019-20 (Actual) and 2020-21 (Budget Estimate), taking the 2019-20 as base, would be _____.
 (a) 15.02% (b) 16.20%
 (c) 17.68% (d) 20.21%
6. 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
7. 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

8. Read the following statements carefully and choose the correct alternative given below:

Statement I : Revenue and Capital receipts are increasing but borrowings and other liabilities are reducing.

Statement II : Grants and aid for creation of capital assets decreased from 2019 to 2021.

- (a) Both the statements are true.
 (b) Both the statements are false.
 (c) Statement I is true but statement II is false.
 (d) Statement II is true but statement I is false.
9. The value of primary deficit for the year 2020-21, would be ₹ _____ crores.
 (a) 88,134 (b) 3,21,581
 (c) 96,133 (d) 6,09,219

SA I (3 marks)

10. Discuss briefly, how the Government budget can be used as an effective tool in the process of employment generation? (2020-21)

5.3 Classification of Expenditure in a Government Budget

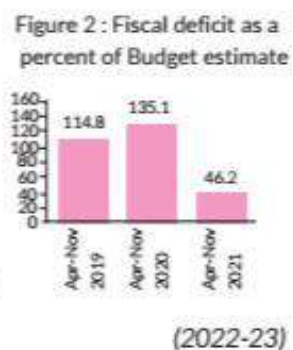
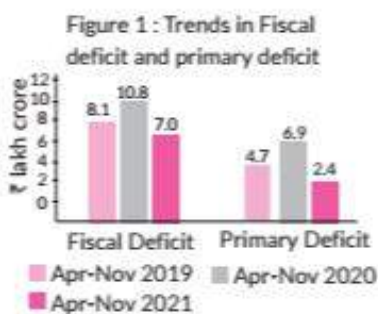
MCQ

11. 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 (Term-I, 2021-22)

5.4 Balanced, Surplus and Deficit Budget

SA II (4 marks)

12. Compare the trends depicted in the figures given below:



Previous Years' CBSE Board Questions

1. (c) : Statement I is true but statement II is false. Consumption of public goods by people is of non-rivalrous nature.

2. (b) : Stabilisation of prices

3. False.

Commonly Made Mistake

➤ Students must not confuse monetary policy with fiscal policy. Monetary policy refers to central bank activities that are directed towards influencing quantity of money and credit in an economy. But fiscal policy refers to government's decision about taxation and spending.

4. A budget (or a government budget) is an annual statement of the estimated receipts and expenditure of the government over the fiscal year, which generally runs from April 1st to March 31st every year.

5. In Government Budget, the Government puts a higher rate of taxation on rich people and lower rates of taxation on lower income group. It reduces the disparities between rich and poor people. The Government also provides subsidies and other amenities to people whose income levels are low. It shows equal distribution of wealth the government will follow different tax policies to reduce the inequality among the people in an economy.

Related Theory

➤ The 2005-06 Indian Budget introduced the Gender budgeting. It is an exercise to translate the stated gender commitments of the government into budgetary commitments, involving special initiatives for empowering women and examination of the utilisation of resources allocated for women and the impact of public expenditure and policies of the government on women. The 2006-07 budget enlarged the earlier statement.

6. Redistribution of Income and Wealth : Budget of the government shows its comprehensive exercise on the taxation and subsidies. The government uses fiscal instruments of taxation and subsidies with a view to improving the distribution of income and wealth in the economy. Equitable distribution of income and wealth is a sign of social justice which is the principal objective of any welfare state as in India. Distribution of income and wealth is improved in two ways:

- By imposing taxes on rich and giving subsidies to the poor, and
- By supplying food grains to BPL population at a low price. Example : Free distribution of LPG connection to the poor people.

7. Government seeks to allocate resources through its budgetary policies. It tries to allocate its available resources. The government may influence the allocation of resources through:

- Taxation policy - Heavy taxes may be imposed on harmful products to discourage their production and subsidies may be provided on the production of socially useful products to encourage their production.
- Government may directly undertake production of certain goods and services in the areas where the private sector may not be willing to participate in production activities.

8. The government through its budget and budgetary policy influences the distribution of income by attempting to promote fair and right distribution of income in an economy. This is done through taxation and expenditure policy. On one hand, through its taxation policy, the government taxes the higher income group and on the other hand, through the expenditure policy, it transfers the purchasing power in the hands of the poor sections of society. With the help of these policies, the government aims at fair distribution of income in the society.

9. A budget (or a government budget) is an annual statement of the estimated receipts and expenditure of the government over the fiscal year, which runs from April 1st to March 31st every year.

There are two components of the govt. budget :

(i) **Budget Receipt:** They are the estimated money receipts from all the sources during the government's fiscal year. The classification of budget receipts is as follows:

(a) **Revenue Receipts:** They are the receipts that neither create any liability nor cause any reduction in government assets. They are further divided into Tax Receipts, like Income Tax, Corporate Tax, Excise Duty, GST etc., and Non-Tax Receipts like Fines, Special Assessment, Grants, Donations etc.

(b) **Capital Receipts:** They are the receipts that either create liability or cause a reduction in assets for the government. They are paid in interest payments, recovery of loans and disinvestment of assets to the private sector.

(ii) **Budget Expenditure:** The estimated expense during the government's fiscal year. Following are the classifications of expenditure of the government:

(a) **Revenue Expenditure:** They are expenditures that neither creates any asset nor cause any reduction in liability of the government. For example, salaries, pensions, grants during calamities, etc.

(b) **Capital Expenditure:** They are the expenditures that either create an asset or cause reduction in liabilities for the government.

10. (a) The roles of government budget in allocation of resources are:

(i) The government aims to re-allocate resources according to economic and social priorities through its budgetary policy.

- (ii) Government encourages the production of certain commodities by giving subsidies or tax reliefs. For example, government encourages the use of 'Khadi products' by providing subsidies.
- (iii) Government can discourage the production of harmful goods like liquor or cigarettes, by imposing heavy excise duties or taxes.
- (iv) To encourage investment, government can give tax concession or subsidies to the producers.
- (v) If private sector does not take interest, government can directly undertake the production.
- (b) **Economic Stability :** Government budget is used to prevent business fluctuations of inflation or deflation to achieve the objective of economic stability. The government aims to control the different phases of business fluctuations through its budgetary policy. Policies of surplus budget during inflation and deficit budget during deflation helps to maintain stability of prices in the economy.

Related Theory

- Public goods are : (i) non-rivalrous means their benefits are available to all. They are not restricted to a particular consumer.
- (ii) Non-excludable means there is no possible way to exclude anyone from enjoying the benefits of the goods.

11. Government Budget is a yearly statement showing estimated receipts as well as estimated expenditures of the government for a financial/Fiscal year. Government through its budgetary policies frequently uses taxes and subsidies to influence allocation of

resources. It raises taxes on the rich thereby reducing their in-hand income. Government also charges higher taxes on sin goods like, tobacco, alcohol, cigarettes, etc. to discourage their production and consumption. These receipts or resources are then distributed through various welfare schemes for the poor and setting up of different production avenues. For example, Government is now promoting made in India toys and khadi products. Government is also providing subsidies on LPG cylinders, rice, wheat, etc. as a part of its welfare schemes for the poor.

- 12. (c) :** Recovery of loans from State Governments.
- 13. (c) :** Dividend
- 14. (d) :** Wealth tax and income tax
- 15. (d) :** The income earners
- 16.** Tax is a compulsory payment made by the individuals and the firms to the government.
- 17.** Revenue receipts refer to those receipts of the government which do not create any liability for the government or do not cause any reduction in the assets of the government. Revenue receipts consist of tax revenue and non-tax revenue (e.g., fees, license fees, fines and penalties, etc.)

18. Capital receipts refer to those receipts of the government which tend to create a liability for the government or cause reduction in its assets.

19. (i) Interest Receipts (ii) License Fees

20. When liability to pay a tax is on one person and the burden of that tax falls on some other person, the tax is called an indirect tax.

21. (i) Custom duties (ii) Excise duties

Tax Receipts	Non-Tax Receipts
Corporate income tax	Fines
Individual income tax	Sales and gross Receipt tax
Property tax	
Motor vehicle license fee.	

23. Taxes are classified as direct and indirect tax depending on their final burden.

(i) **Direct tax :** A direct tax is the one the final burden of which is borne by the person on whom it is imposed. For example, income tax is imposed on the income of a person and he bears its burden himself. The burden of tax cannot be shifted to any other person. Income tax, corporation tax, gift tax, wealth tax, are examples of direct tax.

(ii) **Indirect tax :** An indirect tax is the one in which the final burden of tax can be shifted to other persons. Sales tax, excise duty, custom duty are examples of indirect tax.

24. (i) Tax receipt : Tax receipts are the revenue receipts, as these receipts neither creates any liabilities nor increase assets.

(ii) **Capital receipt :** Disinvestment is treated as capital receipt because, it results in the reduction of government assets.

25.

Basis of difference	Capital Receipts	Revenue Receipts
Meaning	Capital Receipts are the income generated from investment and financing activities of the business.	Revenue Receipts are the income generated from the operating activities of the business.
Nature	Non-Recurring	Recurring
Term	Long Term	Short Term
Shown in	Balance Sheet	Income Statement
Received in exchange of	Source of income	Income
Value of asset or liability	Decreases the value of asset or increases the value of liability.	Increases or decreases the value of asset or liability.

26. Revenue Receipts are the receipts which do not create liabilities nor lead to reduction in assets. They are classified as tax and non-tax revenue.

Stability in the economy means keeping fluctuations in the general price level within limits.

(i) Government can also use taxes and subsidies to influence Personal Disposable Income and bring in economic stability in the country. Government budget can be used to bring in price stability in the economy.

(ii) During excess demand, the government imposes higher taxes and reduces its expenditure to correct excess demand. This implies that government follows the policy of surplus budget during inflation.

(iii) During deficient demand, the government increases its expenditure and reduces taxes. This implies that the government follows the policy of deficit budget during deflation. Thus the government through its budgetary policy tries to achieve price stability in the economy.

27. To give budgetary incentives to investors for making investments in backward regions, the possible ways can be:

- Tax concessions
- Subsidies in electricity and raw material
- Property at low prices

The possible reason is to develop the area by reallocating the resources. There are many activities which are not undertaken by the private sector due to the lack of profits or huge investments involved. Provisions like water supply, sanitation etc., have to be taken charge of by the Government itself. The Government can encourage the private sector to take interest in the production of public goods by providing tax concessions and subsidies and this is how it helps in reallocating the resources.

28. Revenue expenditure is the expenditure incurred

for the normal running of government administrative departments, provision of various services, interest payments on debt incurred by the government functioning, subsidies granted by the government, defence expenditure etc.

29. (i) Subsidies (ii) Defence expenditure

30. (i) Revenue expenditure: This type of expenditure is included in the government revenue expenditure, which does not cause any reduction in government liabilities and also does not create any assets for the government.

(ii) Capital expenditure: This type of expenditure is included in government capital expenditure. It causes reduction in the government liabilities or creates assets for the government.

Related Theory

- After the abolition of planning commission, the government is also considering to abolish the classification of budgetary expenditure as plan and non-plan expenditure.

31.

Basis of difference	Revenue Expenditure	Capital Expenditure
Meaning	It is incurred for normal running of government departments and maintenance.	It is incurred for acquisition of capital assets.

Asset Creation	It does not result in creation of assets.	It results in creation of assets.
Duration	It is short-period expenditure.	It is generally a long-period expenditure.
Nature	It is recurring in nature and incurred regularly.	It is non-recurring in nature.
Example	Expenditure on medicines and salaries of doctors in a hospital for rendering services is Revenue Expenditure.	Construction of hospital building is Capital Expenditure.

In Budget, the Government puts a higher rate of taxation on rich people and lower rates of taxation on lower income group. It reduces the disparities between rich and poor people. The Government also provides subsidies and other amenities to people whose income levels are low.

32. (b): 53%

Concept Applied

Tax revenue of the government includes

(i) Corporation Tax	13	} 53%
(ii) Income Tax	14	
(iii) Goods and Services Tax	15	
(iv) Customs	3	
(v) Union tax	8	

33. (b): II and III only

34. (a): Primary deficit increases.

Primary deficit means the difference between the current year's fiscal deficit and interest payment on the earlier borrowings.

35. (c): Excise Duties

36. (a): ₹ 35,000 crore

Primary Deficit = Fiscal less interest payment since there are no revenue receipts in the question, the fiscal deficit stands as 35,000 crore.

37. (d): D - (iv)

38. (b): Borrowings

39. (c): Borrowing less interest payments

40. (b): Fiscal deficit

41. (c): Fiscal deficit is the sum of primary deficit and interest payment.

42. (d): Fiscal deficit-Interest payments

43. (i) Primary deficit is the difference between fiscal deficit and the interest payments made by the government.

(ii) Revenue deficit is the excess of revenue expenditure over revenue receipts. In terms of formula, Revenue deficit = RE - RR where, RE > RR (where RE = Revenue expenditure, RR = Revenue receipts).

44. Fiscal deficit is the excess of total expenditure (both on revenue and capital accounts) over revenue receipts and non-debt capital receipts, recovery of loans and

disinvestment of PSUs excluding borrowings. In terms of formula,
 $\text{Fiscal Deficit} = \text{TE} - \text{RR} - \text{Non-debt types capital receipts}$
 (Disinvestment of PSUs, Recovery of loans), where RR = Revenue Receipts, TE = Total Expenditure (revenue and capital).

45. (i) False. High tax on higher income groups aims to achieve the redistribution of income and wealth.
 (ii) False. Borrowings are a capital receipt of the government.
 (iii) False. If fiscal deficit is due to infrastructure activities or other Capital Project, then it will not prove to be inflationary.

CBSE Sample Questions

1. (d) : Rationalisation of taxes in pro-poor direction. (0.80)
2. (c) : Statement I is true but statement II is false. Public goods are non-excludable and non-rivalrous in nature. (0.80)
3. (d) : Statement II is true but statement I is false. Complete removal of subsidies may not violate the aim of equitable distribution of income. (0.80)
4. (a) : Fallen by ₹ 3349 (0.80)
5. (c) : 17.68% (0.80)
6. (b) : Special Assessments (0.80)
7. (a) : Total expenditure – Total Receipt (other than borrowings) (0.80)
8. (c) : Statement I is true but statement II is false. (0.80)
9. (a) : 88,134 (0.80)
10. Government budget can be used as an effective tool in the process of employment generation in various ways. For this government needs to promote labour intensive technology, investment in infrastructural projects like construction of flyovers, bridges, expansion of roads, etc. creates job for different sections of the workforce. In rural/urban generation schemes like MGNREGA, SJSRY, PMRY, etc. (3)
11. (c) : Revenue nature expenditure (0.80)
12. 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 year 2021, it is 46.2% of Budget Expenditure. (4)