CBSE Test Paper-05

Chapter 04 Government Budget and the Economy

1. Disinvestment is a **(1)**
    a. Revenue Expenditure
    b. Revenue Receipts
    c. Capital Receipts
    d. Capital Expenditure
2. One of the two components of government expenditure in the budget are **(1)**
    a. Revenue receipts
    b. Revenue Expenditure
    c. Budget receipts
    d. Expenditure receipts
3. Public expenditure can be Development and Non-development **(1)**
    a. Insufficient information
    b. Can’t say
    c. True
    d. False
4. A source to finance the govt. Deficit is **(1)**
    a. Borrowing from public
    b. Borrowing from private sector
    c. Borrowing from banks
    d. Borrowing from govt.
5. What is venture capital in international money market? **(1)**
6. Give two examples of indirect taxes. **(1)**
7. Name two parts of a government budget. **(1)**
8. Define Balanced Budget. **(1)**

9. What is tax? Why we should pay taxes? Mention any two ways through which people can be encouraged to pay taxes. **(3)**

10. Distinguish between Revenue Expenditure and Capital Expenditure with the help of example. **(3)**

11. Does public (government) debt impose a burden? Explain. **(4)**

12. Distinguish between

    i. Capital receipts and revenue receipts
    ii. Direct tax and indirect tax **(4)**

13. Mention any four sources of demand of foreign currency. **(4)**

14. 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. **(6)**

15. Classify the following into revenue expenditure and Capital expenditure Give reasons.

    i. Repayment of loan to the World Bank
    ii. Salary paid to Army Officers.
    iii. Interest paid on National Debt
    iv. Construction of roads under the Pradhan Mantri's Gramin Sadak Yojnas
    v. Financial grant given to Nepal for earthquake tragedy.
    vi. Expenditure on constructions of Bullet train. **(6)**

Answers

1. c. Capital Receipts
   Explanation: Disinvestment is a capital receipt since it causes reduction in the assets of the govt. For eg., the money received by the govt by selling its shares (say of Maruti Udyog) causes reduction in the assets of the govt.
2. b. Revenue Expenditure
   Explanation: Revenue expenditure refers to estimated expenditure of the government in a fiscal year which does not create any assets or cause a reduction in the liabilities. The other component is capital expenditure
3. c. True
   Explanation: Yes. Public expendiute can be both Plan and Non-plan expenditure. The expenditure relating to specific plans and programmes of developemnt is plan expenditure and non plan expenditure is not related to any specific plan or programme. Expenditure on defence and subsidies, salaries and pensions are examples of non-plan expenditure.
4. a. Borrowing from public
   Explanation: The government can finance its deficit either by borrowing from the public or from the RBI.
5. It refers to investment in the purchase of Foreign exchange in the international money market with a view to earn profits. Fixed exchange rate system does not allow such investments.
6. Indirect taxes are imposed on goods and services its examples are GST and Value Added Tax.
7. i. Revenue budget
   ii. Capital budget.
8. Balanced budget is that budget in which estimated government receipts are equal to

the estimated government expenditure, i.e. taxes are equal to government spending.
or
Balanced budget = estimated expenditure = estimated Receipts.

9. A tax is a compulsory payment to the government by the households, firms or other institutional units. We should pay taxes because these are the main sources of revenue of the government and the revenue of the government is used for public welfare. People can be encouraged to pay more taxes :

   i. By making the tax procedure simplified.
   ii. By lowering the rate of tax.

10.

Revenue Expenditure	**Capital Expenditure**
1. These expenditure do not increase govwrnment assets.	1. These expenditure increase the government assets.
2. These expenditure do not cause any reduction in government liability.	2. These expenditure cause reduction in government liability.
3. Example: Transfer payment by government, expense on health and education, expense on security.	3. Example: Repayment of loan by government, establishment of factories.

11. Public debt is not always a blessing. Excessive use of it creates a lot of crisis in an economy; such as,

   a. Hampers economic development of a country: Loans are easily borrowed but it is very difficult to repay them. Generally, government imposes more taxes. It brings instability and is an obstacle in the economic development of a country.
   b. Poses threat to political freedom: Foreign loans and assistance lead to deep conflict among countries. The friction among countries challenges the political freedom.
   c. Proves a burden on common man: Loans taken for unproductive are a burden on common man in the form of higher taxes.
   d. Leads to extravagant spending: Public debt leads to unplanned spending. This provides incentive to the government to implement the schemes that require excessive expenditure.

e. Results in drain of national wealth: Repayment of foreign loans results in drain of wealth out of the country.

12. Revenue receipt doesn't create liability whereas capital receipt creates liability.
Differences between revenue receipts and capital receipts are as below:

Basis	Revenue Receipts	Capital Receipts
Meaning	The receipts which neither create any liability for the government nor reduce assets of the government is called revenue receipts.	The receipts which either create a liability for the government or reduce assets of the government is called capital receipts
Nature	Revenue receipts are recurring in nature.	Capital receipts are non-recurring in nature.
Example	Tax receipts: Income tax, corporate tax etc. Non-tax receipts: Interest.	Borrowings of the government, disinvestment of PSUs, recovery of loans.

Differences between a direct tax and Indirect tax are

Basis	Direct tax	Indirect tax
Meaning	A direct tax is one, the burden of that falls on the same person and cannot be shifted on other.	An indirect tax is one, the burden of that can be shifted on to another person.
Nature	It is Progressive in nature.	It is Regressive in nature.
Example	Examples of direct tax are Income tax, corporation tax, wealth tax etc.	Examples of indirect tax are Value Added Tax and Goods and Service Tax(GST) etc.

13. i. Imports
ii. Tourism
iii. Repayment of International loans.
iv. Speculations

14. Differences between revenue expenditure and capital expenditure are given below:

Basis	Revenue Expenditure	Capital Expenditure
Meaning	An expenditure which neither creates assets nor reduces liability is called Revenue Expenditure.	An expenditure which either creates an asset (e.g., school building) or reduces liability (e.g., repayment of a loan) is called capital expenditure.
Purpose	Revenue expenditure is spent on normal functioning of government departments and for providing various provisions for social welfare.	Capital expenditure is spent on acquisition of assets, repayment of borrowings and granting of loans and advances.
Nature	It is recurring in nature and incurred regularly.	It is non-recurring in nature.
Time	It is a short period of expenditure.	It is generally a long period expenditure.
Example	Examples of revenue expenditure are salaries of government employees, interest payment on loans taken by the government, pensions, subsidies, grants, rural development, education and health services, etc.	Expenditure on the construction of national highways, re-payment of government loans, establishment of factories etc.

Distribution of income in society: Reducing inequality is a major objective of government's budget especially in developing country like India, where inequality of income and wealth is very high.
Government uses its financial tools of taxation and subsidies to enhance equal distribution of income and wealth. In order to ensure equity of income, the progressive tax structure is followed in India, which imposes a higher burden of taxes on higher income group and a lesser burden on lower income group. Also, those who earn below a substantial limit are exempted from payment of taxes. The additional income generated from the higher income group is re-distributed by the government

in the form of subsidies to the poor sections of the society, to ensure the objective of welfare. LPG subsidy is a good example of such re-distribution of income.

15. Salary paid to Army Officers, interest paid on National Debt, construction of roads under the Pradhan Mantri's Gramin Sadak Yojnas and financial grant given to Nepal for earthquake tragedy are revenue expenditures because they neither create assets nor reduce any liability.
    Repayment of loan to the World Bank and expenditure on constructions of Bullet train are capital expenditures because first one reduces the liability and the second one leads to the creation of an asset.