CBSE Test Paper-04

Chapter 04 Government Budget and the Economy

1. The "actual" value of the variables like consumption, investment, output, etc, is known as: **(1)**
   a. ex ante measures
   b. none of these
   c. ex pre measures
   d. ex post measures
2. The government budget is an **(1)**
   a. Half yearly statement
   b. Five yearly statement
   c. Weekly statement
   d. Annual statement
3. The government budget shows the government's **(1)**
   a. Estimated receipts and expenditure
   b. Estimated receipts only
   c. Actual receipts and expenditure
   d. Estimated expenditure only
4. Primary deficit is **(1)**
   a. Fiscal deficit less interest payments
   b. Fiscal deficit including interest payments
   c. Fiscal deficit including interest payments
   d. Interest payments less Fiscal deficit
5. What is 'revenue deficit'? **(1)**
6. What is Indirect tax? Give two examples. **(1)**
7. Define Government Budget. **(1)**
8. Define Capital Receipts. **(1)**
9. Explain the 'redistribution of income' objective of a government budget. **(3)**

10. Give meanings of revenue expenditures and capital receipts in a government budget. Give one example of each. **(3)**

11. From the following data about a government budget find (a) revenue deficit, (b) fiscal deficit and (c) primary deficit. **(4)**

	(Rs. arab)
(i) Plan capital expenditure	120
(ii) Revenue expenditure	100
(iii) Non-plan capital expenditure	80
(iv) Revenue receipts	70
(v) Capital receipts net of borrowing	80
(vi) Interest payments	30

12. Distinguish between the following. Also, give an example of each. **(4)**

    i. Direct tax and indirect tax
    ii. Revenue expenditure and capital expenditure.

13. Calculate (1) Revenue deficit (2) Fiscal Deficit (3) Primary Deficit by following Data: **(4)**

	(Rs. Crore)
1. Capital Receipts other than borrowings	95
2. Revenue Expenditure	100
3. Interest payment	10
4. Revenue Receipts	80
5. Capital Expenditure	110

14. What is the difference between direct tax and indirect tax? Explain the role of government budget in influencing allocation of resources. **(6)**

15. Distinguish between revenue expenditure and capital expenditure. **(6)**

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Answers

1. a. ex ante measures
   Explanation: ex ante measures
2. d. Annual statement
   Explanation: Government budget is an annual statement of the estimates of the governemnt receipts and government expenditure during the period of the financial year.
3. a. Estimated receipts and expenditure
   Explanation: It is a statement of the estimates of the government receipts and government expenditure during the period of a financial year.
4. a. Fiscal deficit less interest payments
   Explanation: Primary deficit means excess of total expenditure of the government excluding interest payments over sum total of its revenue receipts and non debt capital receipts. Primary deficit is a narrower concept and a part of fiscal deficit.

5. When the revenue receipts are less than the revenue expenditures in a government budget, this shortfall is called as revenue deficit.
   This means that the government's own earnings are not sufficient to meet the day-to-day functioning of its departments and other provisions of services.
   Revenue Deficit = Revenue Expenditure - Revenue Receipts.

6. An Indirect tax is that tax which is initially imposed on and paid by one individual, but the burden of which is passed over to some other person who ultimately bears it. In other words we can say that these are the taxes for which the incidence and impact fall on separate persons. Examples : (i) Sales tax (ii) VAT.

7. A government budget is an annual financial statement showing itemwise estimates of expected revenue and anticipated expenditure during a fiscal year.

8. The receipts which either create a liability or reduce the financial assets are called capital

receipts. e.g.,loan from other countries, loan from public.

9. Budgetary policies are useful medium to reduce inequalities of income or the fair distribution of income. Government can use tax policy and public expenditure as a tool. People with higher incomes are levied higher rate of tax and people with lower income are levied lower rate of tax. People with income below a certain level are not levied any direct tax altogether.
   On the other hand, the government spent these tax receipts on granting subsidies and providing other public services such as health and education free of cost, to people with lower income groups.It raise the disposable income and welfare of the poor.

10. **Revenue expenditure:** The expenditure of the government which neither cause an increase in the government assets nor cause any reduction in government liabilities are termed as revenue expenditures, e.g. salaries of government employees, interest payment on loans taken by the government, pensions, subsidies, grants, rural development, education and health services, etc.
    Capital receipts: The receipts which create corresponding liability for the government or lead to a reduction in assets of the government are termed as capital receipts, eg. disinvestment of PSUs.

11. a. Revenue deficit = revenue expenditure - revenue receipts = 100 - 70 = 30 arabs.
    b. Fiscal deficit = total expenditure (revenue expenditure + capital expenditure) - (revenue receipts + non debt capital receipts) = 100 + 120 + 80 - 70 - 80 = 150 arabs .
    c. primary deficit = fiscal deficit - interest payments = 150 - 30 = 120 arabs.
12. Differences between direct tax and indirect tax are as under:

Basis	**Direct tax**	**Indirect tax**
Meaning	A direct tax is one which is directly levied on the individuals and firms and its burden is borne by those on whom it is levied.	An indirect tax is one in which the burden of tax can be shifted.
Nature	It is progressive in nature.	It is regressive in nature.
Example	Income tax, wealth tax and corporation tax are examples of direct tax.	Value Added Tax, sales tax and Goods and Service Tax are examples of indirect tax.

Differences between revenue expenditure and capital expenditure are as under:

Basis	Revenue Expenditure	Capital Expenditure
Meaning	Revenue expenditure is the expenditure of government which neither cause increase in government assets nor cause any reduction in government liabilities.	Capital expenditure is the expenditure of government which leads to increase in government assets or reduction in government liabilities.
Example	Expenditure on old age pensions, expense on administrative services, expense on national security, expense on health and education etc.	Expenditure on the construction of national highways, re-payment of government loans, establishment of factories etc.

13. i. Revenue deficit : It is equal to revenue expenditure - revenue receipts
    = 100 - 80 = Rs. 20 Crore.
    ii. Fiscal Deficit: It is equal to (revenue expenditure + capital expenditure) - revenue receipts - capital receipts other than borrowings
    = 100 + 110 - 80 - 95 = Rs. 35 Crore.
    iii. Primary deficit: It is equal to fiscal deficit - interest payments
    = 35 - 10 = Rs. 25 Crore.

14.

Basis	Direct tax	Indirect tax
Meaning	A direct tax is one which is levied directly on individuals and firms and the burden of which is borne by those on whom it is levied. Therefore in case of direct taxes burden cannot be shifted to others.	An indirect tax is one in which the burden of tax can be shifted so that those who pay this tax to the government do not bear the whole burden but pass it on wholly or partly to others.
Nature	Direct taxes are progressive in nature.	Indirect taxes are regressive in nature.
Escape	Direct taxes cannot be escaped because we have to pay the tax on an income.	Indirect taxes can simply be escaped by not purchasing the goods on which tax is imposed.

Example	Income tax, wealth tax and corporation tax are examples of direct tax.	Value Added Tax, sales tax and Goods and Service Tax are examples of indirect tax.

Government Budget is a statement of the estimates of the government's expected receipts and government's expected expenditure during the financial year or fiscal year which runs from 1st April to 31st March. One of the important objective of the government budget is 're-allocation of resources'.

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 by ensuring that there should be production of necessity goods as well as comfort and luxury goods and the goods which cannot be provided through market mechanism e.g. roads, parks, street lights (public goods) etc are provided by the government. So, the government levies a tax on the richer sections of society. The money collected from taxes is spent on providing public goods and giving subsidies on necessary goods to the poorer section of society. So, the government re-allocates resources by collecting taxes from the rich and giving subsidies to the poor and tries to achieve equitable distribution of income.

15.

Revenue Expenditure	**Basis**	**Capital Expenditure**
An expenditure that: Neither creates any assets, nor causes any reduction of liability	Meaning	Capital expenditure that: Ether creates assets for the government or causes reduction in liabilities of the government.
It is of a recurring nature. It is incurred regularly. Its purpose is to keekp the government machinery running.	Nature	It is a non-recurring type of expenditure. Its purpose is to add capital stock of the economy and raise production capacity.
Expenditure incurred on civil administration, defence forces, public health and education.	Example	Expenditure incurred on construction of building, dams, steel plants etc.
This is generally categorized as non-development expenditure.	Category	This is generally categorized as development expenditure.