CBSE Test Paper-02

Chapter 04 Government Budget and the Economy

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1. One of the two components of Revenue budget are **(1)**
   a. Expenditure receipts
   b. Income receipts
   c. Revenue receipts
   d. Investment receipts
2. One of the objectives of the government budget is **(1)**
   a. Management of foreign enterprises
   b. Balanced Regional Growth
   c. Management of domestic enterprises
   d. Management of private enterprises
3. The major source of Revenue receipts for the government is **(1)**
   a. Tax Revenue
   b. Interest
   c. Non Tax Revenue
   d. Profits
4. A surplus budget is one where
   a. Estimated revenues > estimated expenditure
   b. All of them
   c. Estimated revenues < estimated Receipts of the govt.
   d. Estimated revenues = estimated expenditure
5. What is capital budget? **(1)**
6. What is effective exchange rate? **(1)**
7. What is a direct tax? **(1)**
8. Why are borrowings a capital receipt? **(1)**

9. Distinguish between revenue expenditure and capital expenditure with an example of each. **(3)**

10. Distinguish between revenue receipts and capital receipts in a government budget. **(3)**

11. Explain the role that the government can play through the budget in influencing allocation of resources. **(4)**

12. Name any one step the government can take through its budget to reduce the gap between the rich and the poor. **(4)**

13. What are capital receipts? What are the main components of the capital receipts? **(4)**

14. Distinguish between **(6)**

    i. Direct tax and indirect tax
    ii. Primary deficit and revenue deficit

15. Name two sources each of non-tax revenue receipts. **(6)**

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Answers

1. c. Revenue receipts
   Explanation: Revenue receipts of the government may be defined as those money receipts which neither creates a liabilty nor reduces the assets of the government.
2. b. Balanced Regional Growth
   Explanation: The government focuses on the development of backward regions in the country. In India, establishment of SEZ(Special Economic Zones) is an important step towards the development of backward regions.
3. a. Tax Revenue
   Explanation: Tax receipts is a major revenue for the government. Tax receipts can be income tax, Goods and services tax, gift tax, wealth tax etc. Tax is a compulsory payment to the government by the households, firms or other institutional units.
4. a. Estimated revenues > estimated expenditure
   Explanation: surplus budget means a budget where the budgeted receipts > budgeted expenditure .
5. Capital Budget shows estimated capital receipts and capital expenditure during a fiscal year. It is an account of the assets as well as the liabilities of the Central Government, which takes into consideration changes in capital during a fiscal year.
6. Effective exchange rate is a measure of average relative strength of one currency in relation to other currencies in the international money market.
7. The taxes for which the incidence and impact of tax fall on the same person, i.e. actual burden of these taxes cannot be shifted are termed as Direct taxes. For e.g. Income tax, Corporation tax etc.
8. Borrowings lead to an increase in liabilities of the government, hence, it is a capital

Receipt. Increase in liability is the main feature of Capital Receipt.

9. Revenue expenditure is that expenditure that neither creates any assets nor cause reduction of liability. Aids given to states and others is an example of revenue expenditure. Capital expenditure is that expenditure of the government which either creates physical or financial assets or reduction of its liability. Acquisition of assets like land, machinery, equipment, its loans and advances to state governments etc. are its examples.

10. Government receipts are divided into two groups—revenue receipts and capital receipts. Differences between these two are given below:

Basis	Revenue Receipts	Capital Receipts
Meaning	Government receipts which neither create liabilities nor reduce assets are called revenue receipts.	Government receipts which either create liabilities for the government or reduce assets of the government are termed as capital receipts.
Nature	Revenue receipts are recurring in nature.	Capital receipts are non-recurring in nature.
Example	Tax receipts and non-tax receipts, i.e. fees, grants, donations etc.	Loans taken by the government and disinvestment of PSUs etc.

11. Budget refers to the annual financial statement of estimated revenue and an estimated expenditure of the government, during a fiscal year (1st April to 31st March). Allocation of resources is one of the major objectives of government budget. Government through its budget re-allocates resources so that social and economic objectives can be met.
In other words, the government 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.
Private enterprises work only with a profit motive, however, government pursues both the goals of profit and welfare side-by-side. Government tries to discourage production of those goods through heavy taxation which are socially undesirable (like

wine, tobacco) On the other hand, production of socially desirable goods are encouraged through subsidies (like LPG). Also in many areas where goods cannot be provided through a market mechanism, government undertakes production on its own like public parks, provision of good sanitation etc.
Government can influence the allocation of resources through:

i. Tax concessions or subsidies: To encourage investment, government can give tax concessions, subsidies to the producers. For example,government discourages the harmful consumption of goods(liquor, cigarette) through heavy taxes and encourages the use of 'khaki products by providing subsidies.
ii. Directly producing goods and services: If the private sector doesn't take interest, the government can directly undertake the production.

12. The government can levy high taxes on the rich thereby shifting purchasing power from them to the poor and use that money for the upliftment of the latter. On the other hand, the government spends these tax receipts on granting subsidies and providing other public services such as health and education, to people with lower income groups. As a result, the poor need to spend a minimum on basic necessities, thereby increasing their savings. Wealth gets re-distributed and reduction in inequalities are achieved.

13. Government receipts, that either create liabilities (of payment of loan) or reduce assets (on disinvestment) are called capital receipts.
In capital receipts any one of the conditions must be satisfied. Capital receipts include items which are non-repetitive and non-routine in nature.
Components:

i. Borrowing (Domestic and External): Borrowings are made to meet the financial requirement of the country. A government may borrow money domestically (general public) as well as externally (foreign government and international institutions).
ii. Recovery of Loans and Advances: Loans offered to others are assets of the government. It includes recovery of loans granted by the central government to state and union territory governments. It is a capital receipt because it reduces financial assets of the government.

iii. Disinvestmet: Government raises funds from disinvestment also. Disinvestment means selling whole or a part of the shares (i.e., equity) of selected public sector enterprises (like Indian Oil Corporation, Steel Authority of India) held by government to private sector. As a result, government assets are reduced. Sometimes, disinvestment is so termed as privatisation because it involves transfer of ownership of public sector enterprises to private enterprises.

14. i. The major points of difference between direct tax and indirect tax are given below:

Basis	Direct tax	Indirect tax
Meaning	Direct taxes refer to taxes that are imposed on the property and income of individuals and companies and are paid directly by them to the government. It is a tax which is levied directly on individuals and firms and the burden of tax (i.e. incidence) is to be borne by those on whom it is levied. Therefore in case of direct taxes burden cannot be shifted to others.	Indirect taxes refer to those taxes which affect the income and property of individuals and companies through their consumption expenditure. It is a tax whose burden can be shifted to others. This tax is imposed on goods and services. The liability to pay the tax and the actual burden of the tax lie on different persons. Indirect tax can be passed wholly or partly to others.
Nature	Direct taxes are progressive in nature.	These are 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.

ii. Differences between primary deficit and revenue deficit are given below:

Basic	Primary Deficit	Revenue Deficit
	Primary deficit is the difference	Revenue deficit is the

Meaning	between fiscal deficit of the current year and interest payments on the previous borrowings.	difference between revenue expenditure and revenue receipts.
Implications	Primary deficit indicates the total borrowing requirement of the government excluding interest. A low or zero primary deficit indicates that the interest commitments on earlier loans have forced the government to borrow.	Revenue deficit shows the inefficiency of the government to meet its current expenditure on the normal functioning of government departments and provisions for various services.
Scope	It has a narrow scope.	It has a wide scope.

15. Non-tax revenue refers to government revenue from all source other than taxes called non-tax revenue. These are incomes, which the government gets by way of sale of goods and services rendered by different government departments. Its two sources are:

    a. Commercial revenue (Profit and interest): It is the revenue received by the government by selling the goods and services produced by the government agencies. For example, profit of public sector undertakings like Railways, BHEL, LIC etc. Government gives loan to State Government, union territories, private enterprises and to general public and earns interest receipts from these loans. It also includes interest and dividends on investments made by the government.
    b. Administrative revenue: The revenue that arises on account of the administrative function of the government. This includes:
        i. Fee: Fee refers to a payment made to the government for the services that it renders to the citizens. Such services are generally in public interest and fees are paid by those, who receive such services. For example, passport fees, court fees, school fees in government schools.
        ii. License fee: License fee is a payment to grant a permission by a government authority. For example, registration fee for an automobile.