CBSE Test Paper-03

Chapter 04 Government Budget and the Economy

1. Public expenditure can be planned only **(1)**
    a. Can't say
    b. True
    c. Insufficient information
    d. False
2. One of the other two components of Revenue budget are **(1)**
    a. Revenue expenditure
    b. Income budget
    c. Budget Expenditure
    d. Investment Expenditure
3. Public expenditure can be Development only **(1)**
    a. True
    b. Insufficient information
    c. Can't say
    d. False
4. An Unbalanced budget is one where **(1)**
    a. Estimated revenues < estimated Receipts of the govt.
    b. All of them
    c. Estimated revenues are not equal to the estimated expenditure
    d. Estimated revenues = estimated expenditure
5. Give two examples of capital receipts in a government budget. **(1)**
6. Give two examples of non-tax revenue receipts. **(1)**
7. What is 'primary deficit'? **(1)**

8. State three objectives of a government budget. **(1)**

9. From the following data about a government budget, find out the following: **(3)**

    i. Revenue deficit
    ii. Fiscal deficit
    iii. Primary deficit

S.no.	Contents	(Rs. in arab)
(a)	Capital Receipts Net of Borrowings	95
(b)	Revenue Expenditure	100
(c)	Interest Payments	10
(d)	Revenue Receipts	80
(e)	Capital Expenditure	110

10. Give meanings of revenue receipts and capital expenditures with one example for each. **(3)**

11. What is parity value? **(4)**

12. Give the meaning of revenue deficit and fiscal deficit. What problems can the fiscal deficit create? **(4)**

13. How is fixed rate of exchange determined? **(4)**

14. Distinguish between the following **(6)**

    i. Revenue receipts and capital receipts
    ii. Revenue deficit and fiscal deficit.

15. Classify the following taxes into direct and indirect tax. Give reasons for your answer. **(6)**

    i. Corporation tax
    ii. Entertainment tax
    iii. Excise duty
    iv. Income tax

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Answers

1. d. False
   Explanation: Public expenditure can be planned as well as non plan expenditure. Plan expenditure refers to the expenditure which is directly related to the economic and social development of the country whereas non plan expenditure refers to the expenditure which is not directly related to the economic and social development of the country.
2. a. Revenue expenditure
   Explanation: Revenue budget has two components. Revenue receipts and reveneue expenditure.

   Revenue expenditure refers to the estimated expenditure of the government in a fiscal year which does not create assets or cause a reduction in liabilities.
3. d. False
   Explanation: Public expenditure can be developmental as well as non-developmental expenditure.
4. c. Estimated revenues are not equal to the estimated expenditure
   Explanation: Unbalanced budget is one when estimated revenues are not equal to the estimated expenditures. It may be a deficit or surplus budget. When estimated expenditure is greater than estimated revenues, it is a deficit budget and when estimated revenues are greater than estimated expenditure, then it is a surplus budget.
5. Two examples of capital receipts which either creates liability or causes reduction of assets of government:

   i. Proceeds from disinvestment of public sector units.
   ii. Borrowings from World Bank.

6. Two sources of non-tax revenue receipts which are generated in addition to tax

receipt are fees and fines.

7. i. Primary Deficit is the difference between fiscal deficit and payment of interest.
   ii. Primary Deficit = Fiscal Deficit - Interest Payments.

8. Objectives of a government budget are as follows:

   i. Economic stability
   ii. Re-allocation of resources
   iii. Re-distribution of income and wealth.
9. i. We know that Revenue Deficit = Revenue Expenditure - Revenue Receipts = 100 - 80 = Rs. 20 Arab.
   ii. Fiscal Deficit = (Revenue Expenditure + Capital Expenditure) - (Revenue Receipt + Capital Receipt Net of Borrowing) = (100 + 110) - (80 + 95) = 210 - 175 = Rs. 35 Arab.
   iii. Primary Deficit = Fiscal Deficit - Interest Payments. Here Fiscal Deficit is equal to 35 Arab and Interest Payments are equal to 10, therefore Primary Deficit = 35 - 10 = 15 Arab.

10. **Revenue receipts**: The receipts of the government which neither create any corresponding liability to the government nor do they create any reduction in assets are termed as revenue receipts, e.g. tax receipts of the government, sale proceeds of goods, interest received etc.

    Capital expenditure: The expenditure of the government which leads to an increase in government assets or reduction in government liabilities is termed as capital expenditure. Capital expenditures include large purchases of fixed assets that can be used for a longer duration. e.g. expenses on the construction of national highways, dams and re-payment of loans etc.

11. In the context of exchange rate in foreign exchange market, parity value refers to the value of one currency under the fixed exchange rate system which is fixed in terms of another currency or in terms of gold. If a US dollar buys 40 times the goods and services in India compared to a rupee, the parity value of a dollar should be 40 : 1. Accordingly, the exchange rate between rupee and a dollar ought to be Rs.40: $1. Any change in parity value would imply a corresponding change in exchange rate.

12. **Revenue deficit:-** Revenue Deficit is a situation where the revenue does not match with the expenses to be incurred. A dissimilarity in the expected revenue and expenditure can result in revenue deficit. The shortage of total revenue receipts compared to total revenue expenditure is defined as Revenue deficit.

    Fiscal deficit:- The difference between total revenue and total expenditure of the government is called as fiscal defici. It is also defined as the excess of total budget expenditure over total budget receipts excluding borrowings during a fiscal year.

    Fiscal Deficit is justified as long as the expenditures are being incurred to finance activities leading to creation of national asset. High Fiscal deficit becomes a matter of worry, for if incurred year after year, they cumulatively create a huge debt for the government. Further it also leads to high trade deficit.

13. Fixed rate of exchange is not determined by the forces of demand and supply in the market. It is fixed or declared officially by the govt, of the country concerned. Such a rate of exchange has been associated with standard system during 1880-1914. According to this system, value of every currency is determined in terms of gold. Accordingly, the ratio be the two currencies was fixed as exchange rate between those currencies.
    Illustration:
    Value of one dollar = 20 gms of gold.
    Value of Rs. = 5 gm of gold.
    Then, 1 dollar = 20/5 = Rs.4.

14. i. Difference between revenue receipts and capital receipts:

Basis	Revenue Receipts	Capital Receipts
Meaning	All government receipts which neither create liability nor reduce assets of Government are called revenue receipts.	All Government receipts which either create liability or reduce assets are treated as capital receipts.
Nature	Revenue receipts are recurring in nature.	Capital receipts are non-recurring in nature.

Term	These are short term receipts.	These are long term receipts.
Example	Tax receipts and non-tax receipts, i.e. fees, grants, donations etc.	Loans are taken by the government and disinvestment of PSUs etc.

ii. Difference between revenue deficit and fiscal deficit are:

Basis	Fiscal Deficit	Revenue Deficit
Meaning	It is the difference between total revenue and total expenditure of the government (excluding borrowings).	It refers to an excess of revenue expenditure over revenue receipts during the given fiscal year.
Indicator	It is an indicator of the total borrowings needed by the government.	It indicates the dependency on loans in near future.
Arises	It arises due to the hike in capital expenditure.	It arises when the government's actual net receipts are lower than the projected receipts.

15. i. **Corporation tax** It is a direct tax as its impact and incidence are on the same person (Company).In other words, it's burden cannot be shifted. The burden remains on the same person.

ii. **Entertainment tax** It is an indirect tax as its impact and incidence are on different people. In other words, it's a burden is shifted to the consumer.

iii. **Excise duty** It is an indirect tax as the burden of its payment can be shifted to another person.

iv. **Income tax** It is a direct tax as its impact and incidence are on the same person. So, the burden cannot be shifted.