Concept & Components of Government Budget

1 Mark Questions

1. Define government budget. (Delhi 2014 c)
or
What is government budget? (Delhi 2013, 2009; All India 2008)
Ans. Government budget is a statement of expected receipts and expenditures of the government over the period of a financial year, i.e. 1st April to 31st March.

2. Give two examples of indirect taxes.(Compartment 2014)
Ans. Two examples of indirect taxes are:
(i) Entertainment tax
(ii) Value added tax

3. What is a direct tax? (Compartment 2014)
or
Define a direct tax. (All India 2012)
Ans. Direct taxes are those taxes for which the incidence and impact of tax falls on the same person, i.e. actual burden of these taxes cannot be shifted, e.g. income tax, corporation tax, etc.

4. Give two examples of non-tax revenue receipts. (Compartment 2014)
or
State any two sources of non-tax revenue receipts. (Delhi 2011 C; All India 2008)
Ans. Two sources of non-tax revenue receipts are:
(i) Fees
(ii) Grants/donations

5. Define tax (Delhi 2012; All India 2010)
Ans. Tax is a compulsory payment made by an individual, household or a firm to the government without reference to anything in return.

6. Give two examples of direct tax. (All India 2010)
Two examples of direct tax are:
(i) Income tax (ii) Corporation tax

7. Define revenue receipts in a government budget. (All India 2010; Delhi 2009)
Ans. The receipts which neither create any corresponding liability for the government nor create any reduction in assets, are termed as revenue receipts, e.g. tax receipts of government.

8. What is revenue expenditure in government budget? (Delhi 2010c)
Ans. The expenditure of the government which neither cause any increase in the government assets nor cause any reduction in government liabilities, are termed as revenue expenditures, e.g. expenditure on old age pensions, salaries, etc.

9. Define capital expenditure. (Delhi 2010c, 2009 c)
Ans. The expenditure by the government which leads to an increase in government assets and reduction in government liabilities, is termed as capital expenditure, e.g. expenses on the construction of national highways, dams and repayment of loans, etc.

10. Why is repayment of loan a capital expenditure? (Delhi 2009)
Ans. Repayment of loan causes a decrease in the liabilities of the government. That is why, it is a capital expenditure.

11. Why are borrowings a capital receipt? (Delhi 2009)
Ans. Borrowings lead to increase in liabilities of the government, hence, it is a capital receipt.

12. Why the taxes received by government are not capital receipts? (All India 2009)
Ans. Taxes received by government are not capital receipts as taxes do not create any liability for government, nor lead to decrease in government assets.

13. State any one objective of government budget. (Delhi 2008)
Ans. Re-distribution of income and wealth is an objective of government budget.

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14. Is the following a revenue receipt or a capital receipt in the context of government budget and why?
(i) Tax receipts
(ii) Disinvestment (All India 2014)

Ans. (i) Tax receipts are revenue receipts for the government because neither they create a liability nor they lead to reduction in any assets.
(ii) Disinvestment refers to the withdrawal of existing investment, e.g. the government of India is undertaking disinvestment by selling its shares in Maruti Udyog Ltd. It is a capital receipt for the governments as it reduces the assets of the government.

15. Giving reason, state whether the following is a revenue expenditure or a capital expenditure in a government budget:
(i) Expenditure on scholarships
(ii) Expenditure on building a bridge (Foreign 2014)

Ans. (i) Expenditure on scholarships is a revenue expenditure because neither it lead to decrease in liabilities nor lead to an increase in assets.
(ii) Expenditure on building a bridge is a capital expenditure because it increases the assets of the country.

16. State three sources each of revenue receipts and capital receipts in government budget. (All India 2013)
Ans. Sources of revenue receipts are :
(i) Income from public enterprises
(ii) Tax revenue
(iii) Non-tax revenue
Sources of capital receipts are:
(i) Recovery of loans
(ii) Borrowing and other liabilities
(iii) Disinvestment

17. Explain any one objective of government budget. (Delhi 2013)
or
Explain the role of government budget in bringing economic stability.
(All India 2012)
or
Explain the economic stability objective of government budget.
(All India 2011)
Ans. Economic stability an objective of government budget Government tries to establish economic stability by its budgetary policies. It refers to a situation where there is no fluctuation in price level in an economy. Economic stability is achieved by saving the economy from harmful effects of various trade cycles and its phases, i.e. boom, recession, depression and recovery, through various budgetary tools.

18. How can budgetary policy be used to reduce inequalities of income? (All India 2013)
Ans. Even distribution of wealth and social welfare remains one of the main objective of budgetary policy. The government uses progressive taxation policy to reduce the inequalities of income and wealth in the country. 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. Thus, the wealth gets redistributed and reduction in inequalities is achieved.

19. Distinguish between revenue expenditure and capital expenditure in a government budget. Give an example. (Delhi 2013; All India 2013)
or
Distinguish between revenge expenditure and capital expenditure. (All India 2010)

Ans. Difference between revenue expenditure and capital expenditure

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.
Purpose	Revenue expenditure is spent on normal functioning of government departments and various provisions.	Capital expenditure is spent on acquisition of assets, repayment of borrowings and granting of loans and advances.
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, repayment of government loans, establishment of factories, etc.

20. Distinguish between revenue receipts and capital receipts in a government budget. (All India 2013,2012; Delhi 2010C)
Ans. Difference between revenue receipts and capital receipts

Basis	Revenue receipts	Capital receipts
Meaning	The receipts which neither create any corresponding liability for the government nor it create any reduction in assets, are termed as revenue receipts.	The receipts which create corresponding liability for the government or which lead to reduction in 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.

21. Explain the role of government in allocation of resources. (HOTS; Delhi 2012, 2011)
or
Explain the allocation function of government budget.(Delhi 2010)

Ans. The government does the allocation of resources in such a manner that there is a balance between the goals of profit maximisation of PSUs and social welfare in an economy. This allocation is done with the help of government budgetary policy. The government allocates the resources in accordance with the social and economic priorities of the country. Government encourages the production of certain commodities by giving tax reliefs and providing necessary infrastructural requirements. On the other hand, it discourages production of hazardous and harmful goods by imposing heavy taxes, e.g. government imposes tax on liquors and cigarettes.

22. Distinguish between direct tax and indirect tax. (All India 2011,2008; Delhi 2009)
Ans. Direct taxes are those taxes for which the incidence and impact of tax falls on the same person, i.e. actual burden of taxes cannot be shifted, e.g. income tax, corporation tax, etc. Whereas indirect taxes are those taxes for which the incidence and impact fall on separate persons, i.e. burden of these taxes can be shifted to other, e.g. service tax, entertainment tax, etc.

23. State three objectives of a government budget. (Delhi 2011c, 2009c)
Ans. Objectives of a government budget are as follows:
(i) Re-distribution of income and wealth.
(ii) Re-allocation of resources.
(iii) Economic stability.

24. On what basis is government expenditure classified into capital expenditure and revenue expenditure? Give an example of each. (Delhi 2011c; All India 2008)

Ans. Government expenditures are aimed at providing benefits to the people and enhancing the development of the country. On such basis expenditure is classified into :
(i) **Capital expenditure** The expenditure by the government which leads to an increase in government assets and reduction in government liabilities, is termed as capital expenditure, e.g. expenses on the construction of national highways, dams and repayment of loans, etc.
(ii) **Revenue expenditure** The expenditure of the government which neither cause any increase in the government assets nor cause any reduction in government liabilities, are termed as revenue expenditures, e.g. expenditure on old age pensions, salaries, etc.

25. How can the government budget be helpful in altering distribution of income in an economy? (Delhi 2010)
or
Explain how the government budget can help in fair distribution of income in the economy. (All India 2010; Delhi 2010C, 2009)

Ans. Government budget shows its comprehensive exercise on the taxation and subsidies. The government uses these fiscal instruments with a view to improve the distribution of income and wealth in the economy, e.g. in India progressive tax structure is followed (i.e. tax rate increases with increase in income) to redistribute income from rich to poor.

26.Give meanings of revenue expenditures and capital receipts m a government budget. Give one example of each. (All India 2009)

Ans. Revenue expenditures The expenditure of the government which neither cause any increase in the government assets nor cause any reduction in government liabilities, are termed as revenue expenditures, e.g. expenditure on old age pensions, salaries, etc.

Capital receipts The receipts which create corresponding liability for the government or lead to reduction in assets of the government are termed as capital receipts, e.g. disinvestment of PSUs. i

27. Give meanings of revenue receipts and capital expenditures with one example for each. (All India 2009) !

Ans. Revenue receipts The receipts of government which neither create any corresponding liability of the government, nor it create any reduction in assets, are termed as revenue receipts, e.g. tax receipts of the government.

Capital expenditure The expenditure by the government which leads to an increase in government assets and reduction in government liabilities, is termed as capital expenditure, e.g. expenses on the construction of national highways, dams and repayment of loans, etc.

28. Give meanings of capital receipts and revenue receipts with an example of each (Delhi 2008)

Ans. Capital receipts The receipts which create corresponding liability for the government or lead to reduction in assets of the government are termed as capital receipts, e.g. disinvestment of PSUs.

Revenue receipts The receipts of government which neither create any corresponding liability of the government, nor it create any reduction in assets, are termed as revenue receipts, e.g. tax receipts of the government.

29. Distinguish between balanced budget and surplus budget. (All India 2008)
Ans. When the expected receipts are equal to the expected expenditures in the government budget, the budget is said to be balanced (Expected receipts = Expected expenditures). Whereas when the expected receipts are more than the expected expenditures in the government budget, it is termed as surplus budget (Expected receipts > Expected expenditure).

30. Giving reasons to classify the following into direct tax and indirect tax.
(i) Wealth tax
(ii) Entertainment tax
(iii) Income tax (Delhi 2008C)

Ans. (i) **Wealth tax** It is a direct tax, as the burden of this tax cannot be shifted to someone else.

(ii) **Entertainment tax** It is an indirect tax, as the burden of this tax can be shifted to other's.

(iii) **Income tax** It is a direct tax, as the burden of this tax cannot be shifted to someone else.

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31. Government has started spending more or providing free services like education and health to the poor. Explain the economic value it reflects. (VBQ; Foreign 2014)
Ans. The economic value reflected by the above act of the government is 'Promoting Social Welfare'. The government uses the fiscal instruments of subsidies and taxation to improve the distribution of income and wealth in the economy. By spending more on provision of free services like education and health, government is trying to promote social justice. Social justice is the principal objective of annual budget of a developing country like India. It leads to fair and equitable distribution of income in an economy.

32. Tax rates on higher income group have been increased. Which economic value does it reflect? Explain. (VBQ; All India 2014)
Explain the redistribution of income objective of government budget. (Delhi 2011; All India 2010)
Ans. The economic value that is reflected in the rise in tax rate for higher income group is the 'equality and social welfare'. The main objective of the budgetary policy of the government is to reduce inequalities of income and wealth in the country.
Even distribution of wealth and social welfare remains the main objective of budgetary policy. The government uses progressive taxation policy to reduce the inequalities of income and wealth in the country. Government imposed high tax rates on higher income group and low tax rate on lower income group. 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, to people with lower income groups, the wealth gets redistributed and reduction in inequalities is achieved.

33. Government raises its expenditure on producing public goods. Which economic value does it reflect? Explain. (VBQ; Delhi 2014)

Ans. The economic value that is reflected in the rise in the production of public goods is the 'social welfare'. The major objective of the budgetary policy of the government is to enhance the welfare of the society as a whole. For this, it performs the allocative function. The allocative function is concerned with allocating the resources between private and public sectors. As the public goods cannot be provided by the private sectors through market mechanism, hence the need for providing such goods is to be fulfilled by the government. In addition to this, private goods cannot be afforded by all, that is, only those who can pay for these goods can avail the benefits of such goods. But, as the public goods as required by all and are essential from welfare point of view, thus, government provide these goods.

34. Distinguish between revenue receipts and capital receipts. Give two examples of each. (All India 2011)

Ans. Difference between revenue receipts and capital receipts

Basis	Revenue receipts	Capital receipts
Meaning	The receipts which neither create any corresponding liability for the government nor it create any reduction in assets, are termed as revenue receipts.	The receipts which create corresponding liability for the government or which lead to reduction in 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.

35. Giving reasons, classify the following into direct and indirect tax. (Delhi 2010)
(i) Wealth tax
(ii) Value added tax

Ans. (**i) Wealth Tax** It is a kind of direct tax as it is paid by the same person on which it is levied or imposed, i.e. burden of this tax is not possible to shift to the other person.
(ii) Value Added Tax It is a kind of indirect tax as it is imposed on one person and its burden shifts to other person.

36. Explain any two objectives of government budget. (All India 2009,2008)

Ans. (i) **Economic stability** Economic stability an objective of government budget Government tries to establish economic stability by its budgetary policies. It refers to a situation where there is no fluctuation in price level in an economy. Economic stability is achieved by saving the economy from harmful effects of various trade cycles and its phases, i.e. boom, recession, depression and recovery, through various budgetary tools.

(ii) **Redistribution of income** The economic value that is reflected in the rise in tax rate for higher income group is the ‘equality and social welfare’. The main objective of the budgetary policy of the government is to reduce inequalities of income and wealth in the country. Even distribution of wealth and social welfare remains the main objective of budgetary policy. The government uses progressive taxation policy to reduce the inequalities of income and wealth in the country. Government imposed high tax rates on higher income group and low tax rate on lower income group. 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, to people with lower income groups, the wealth gets redistributed and reduction in inequalities is achieved.

37. Classify the following receipts into revenue receipts and capital receipts. Give reasons in support of your answer.
(i) Recovery of loans.
(ii) Interest received on loans.
(iii) Dividend received from public enterprises.
(iv) Grants from foreign government. (All India 2008)

Ans. Recovery of loans is a kind of capital receipt as it will lead to decline in financial assets of government.
On the other hand, interest received on loans, dividend received from public enterprises, and grants from foreign government are revenue receipts as they neither create liability nor any reduction in assets of the government.

38. Define a government budget. State its main objectives. (Delhi 2008C)
Ans. Government budget is a statement of expected/estimated receipts and expenditures of the government over a period of a financial year, i.e. 1 st April to 31 st March.
The main objectives of government budget are given below :
(i) Redistribution of income and wealth. .
(ii) Reallocation of resources for maximisation of social welfare.
(iii) Economic stability.
(iv) Management of public enterprises.

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39. Distinguish between the following. Also give an example of each. (Compartment 2014)
(i) Direct tax and indirect tax
(ii) Revenue expenditure and capital expenditure.

Ans. (i) Direct taxes are those taxes for which the incidence and impact of tax falls on the same person, i.e. actual burden of taxes cannot be shifted, e.g. income tax, corporation tax, etc. Whereas indirect taxes are those taxes for which the incidence and impact fall on separate persons, i.e. burden of these taxes can be shifted to other, e.g. service tax, entertainment tax, etc.
(ii) Difference between revenue expenditure and capital expenditure

Basis	Revenue receipts	Capital receipts
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Example	Tax receipts and non-tax receipts, i.e. fees, grants donations, etc.	Loans taken by the government and disinvestment of PSUs, etc.

40. Explain the objectives of resource allocation and income distribution in a government budget.(Compartment 2014)

Ans. Allocation of resources
The government does the allocation of resources in such a manner that there is a balance between the goals of profit maximisation of PSUs and social welfare in an economy. This allocation is done with the help of government budgetary policy. The government allocates the resources in accordance with the social and economic priorities of the country.
Government encourages the production of certain commodities by giving tax reliefs and providing necessary infrastructural requirements. On the other hand, it discourages production of hazardous and harmful goods by imposing heavy taxes, e.g. government imposes tax on liquors and cigarettes.

Distribution of income Government budget shows its comprehensive exercise on the taxation and subsidies. The government uses these fiscal instruments with a view to improve the distribution of income and wealth in the economy, e.g. in India progressive tax structure is followed (i.e. tax rate increases with increase in income) to redistribute income from rich to poor.