Goverment Budget and The economy

Very Short Answer Type Questions(1Mark)

1. **Define Budget.**
   Ans. Budget is a financial statement showing the estimated receipts and estimated expenditure of the Govt. for coming fiscal year.
2. **What is meant by non-tax receipts?**
   Ans. All the revenue receipt of Govt. other than tax receipts.
3. **What are revenue receipts?**
   Ans. Revenue receipts are those receipts which neither creates liabilities for Govt. nor cause any reduction in assets.
4. **What are capital receipts?**
   Ans. Capital receipts are those receipts which either creates a liability or leads to reduction in assets.
5. **Give two examples of non-tax revenue receipts.**
   Ans. Interest, Fee.
6. **What are the two sources of capital receipts?**
   Ans. Borrowings, Recovery of loans.
7. **Define revenue deficit.**
   Ans. When total revenue expenditure exceeds total revenue receipts.
8. **Define fiscal deficit.**
   Ans. When total expenditure exceeds total receipts excluding borrowing.
9. **Why is repayment of loan a capital expenditure?**
   Ans. As it leads to reduction in liability.
10. **Why is recovery of loan treated a capital receipt?**
    Ans. As it leads to reduction in assets.
11. **What is a balanced budget.**
    Ans. Balanced budget is that when estimated receipts are equal to estimated expenditure.
12. **Define capital expenditure.**
    Ans. Capital expenditure is that which creates assets and which reduces liabilities.

13. **In a Govt. Budget primary deficit is Rs. 25,000 Cr. and interest payments are Rs. 15,000 Cr. How much is the fiscal deficit?**

    Ans. Fiscal Deficit = Primary Deficit + Interest Payment

    = 25,000 + 15,000

    = 40,000 Crore.
14. **Define a Tax.**

    Ans. Tax is a legally compulsory payment imposed by Govt.
15. **What is Direct Tax**

    Ans. It refer the tax whose primary and final burden borne by the person on whom it is imposed.
16. **Define Primary Deficit**

    Ans. It is the difference of fiscal deficit and interest paid.

Short Answer Type Questions (3-4 Marks)

1. **Explain the 'redistribution of income' objective of a government budget.**
   OR
   Explain how the government budget can help in a fair distribution of income in the economy.
   Ans. Budgetary policies are useful medium to reduce inequalities of income for the fair distribution of income. government can use tax policy and public expenditure as a tool. govt can reduce the disposable income and wealth of Rich by imposing heavy tax and can spend more on providing free services to the poor. It raise the disposable income welfare of the poor.
2. **Explain the "Reallocation of resources" objective of a government budget.**
   Ans. Through its Budgetary policy the government directs the allocation of resources in a manner such that there is a balance between the goal or of profit maximization and social welfare. Government can provide subsidy and reduction in tax rate to motivate investment into areas where private sector initiative is not coming. Production of goods which are injurious to social life is discouraged through heavy taxation.
3. **Distinguish between revenue receipts and capital receipts with the help of example.**
   Ans.

Revenue receipts	Capital Receipts
1. These receipts do not create any liability for the govt.	1. These receipts create liability for the govt.
2. These receipts do not cause any reduction in assets	2. These receipts cause a reduction in assets of the govt.
3. Example :– Tax receipts	3. Example:– Loan by govt. disinvestment.

4. **Distinguish between revenue expenditure and capital expenditure with the help of example.**

Ans.

Revenue Expenditure	**Capital Expenditure**
1. These expenditure do not cause increase in govt. assets	1. These expenditure are causes increase in govt. assets
2. These expenditure do not cause any reduction in govt. liability	2. These expenditure are causes reduction in govt. liability
3. Example:– transfer payment by govt.	3. Example:– Repayment of loanby govt.

5. **Distinguish between direct and indirect tax**

   Ans.

Direct Tax	**Indirect Tax**
1. Direct tax is a tax whose liability to pay and incidence lie on the same person	1. The liability to pay and incidence of indirect tax do not lie on the same person
2. Its incidence cannot be shifted to some other person	2. Its incidence can be shifted to some other person
3. Example :– income tax	3. Production tax

6. **What is meant by fiscal deficit. Write its implications.**

   Ans. Fiscal deficit is equal to excess of total expenditure over the sum of revenue receipts and capital receipts excluding borrowings. ie. Fiscal deficit means borrowing of the government.

   Fiscal Deficit :– Total expenditure – Total receipts net of borrowings Implication of Fiscal deficit

   1. It increase the supply of money in the economy
   2. it increase financial burden for future generation.
   3. it is cause of inflation.

Higher Order Thinking Skills

1. **What are Budget Receipts?**

   Ans. Estimated money receipt received by the Govt. from different sources in fiscal year are called budgetary receipts.

2. **In a Govt. Budget, revenue deficit is Rs. 8,00,000 Cr. and borrowings are Rs. 50,000 Cr. How much is the fiscal deficit?**

   Ans. Rs. 50,000 Crore.

3. **What is disinvestment?**

   Ans. Disinvestment refers to withdrawal of existing investment.

4. **What does zero primary deficit mean?**

   Ans. Zero primary deficit means that interest commitment on earlier loans have compelled the Govt. to borrow.

5. **Which type of revenue receipts are treated as legally compulsory payment imposed on the people by the govt.? Give example also.**

   Ans. Taxes imposed on the people by the govt. such as income tax, sales tax.

6. **When the liability to pay a tax is on one person and the burden of tax falls on some other person, state the type of tax?**

   Ans: These are indirect taxes such as sales tax.

7. **What happens to aggregate demand when the govt. budget is in deficit?**

   Ans: A deficit budget increases the aggregate demand because the deficit budget means that the amount of expenditure is more than the amount of tax.

8. **Classify the borrowings and recovery of loans into revenue and capital receipts of govt. budget. Give reason also.**

   Ans. Borrowings are capital receipts because the government is under obligation to return the amount along with interest so it creates liability for the government. Recovery of loans are also capital receipts because these reduce assets of the goverment.

9. **How tax revenue is different from administrative revenue?**

   Ans: Tax revenue is the revenue that arises on account of taxes levied by the government. Taxes are of two types: direct taxes and indirect taxes. Direct taxes are those taxes levied immediately on the property and income of persons income tax, corporate tax, wealth tax whereas indirect taxes are the taxes levied on the production and sale of goods like sale taxes, excise duty etc. Administrative revenue is revenue that arises on account of the administrative function of the government. It includes (a)Fees(college/school) (b) License fees paid to get permission to perform a service (c) Fines and penalties etc.

10. **How government reallocates the resources and redistributes the income through Budget?**

    Ans.

    1. **Reallocation of resources:-** In case, the market economy fails or does not achieve the desired social objectives, the government has to interfere through budget and reallocate resources accordingly.
       Through its budgetary policy, the government of a country directs the allocation of resources in a manner such that there is a balance between the goals of profit maximization and social welfare. Production of goods which are injurious to health is discouraged through heavy taxation. On the other hand, production of 'socially useful goods' is encouraged through subsidies.
    2. **Redistribution of Income: -** Every economy strives to attain a society, where inequality of income and wealth should be minimum. In order to achieve this objective through govt. budget the government 37 spends sufficient money on social security schemes, economic subsidies and public works etc.

11. **What are the basis of classifying receipts into revenue receipts and capital receipts?**

    Ans. Revenue receipts are those which neither create a liability for the govt nor reduce the assets of govt such as income tax, sales tax, fees, profits etc. Capital receipts are those which either create a liability for the govt or reduce assets such as borrowings, disinvestment, recovery of loans etc.

12. **Why is tax treated as revenue receipt?**

    Ans. Because tax neither create a liability for the govt nor reduces assets of the government.

13. **Find out the value of total receipts of govt. Budget if budget deficit is Rs 2,000 crores and the total expenditure is Rs 3,000 crores.**

    Ans:- Budget deficit =Total Expenditure- Total receipts

Total receipts= Total Expenditure- Budget deficit
= 3,000-2,000
= 1,000 Ans. Rs. 1,000 crores

14. **What will be the value of fiscal deficit if primary deficit is 53,000 crores and interest on borrowings is Rs 5,000 crores?**
    Ans: - Fiscal deficit=Primary deficit + Interest Payment
    = 53,000+5,000
    = 58,000 Ans. Rs. 58,000 crores
15. **State which budget expenditure does not result in creation of assets or reduction of liability. Give examples also.**
    Ans. Revenue Expenditure does not result in creation of assets or reduction of liability. Such expenditures are incurred for the normal running of government departments and maintenance of services. For example: salaries, old age pensions, interest payments, subsidies, grants etc.
16. **What indicates zero primary deficit?**
    Ans: Zero primary deficits means that the government has to resort to borrowings only to make interest payments.
17. **What indicates revenue deficit?**
    Ans: Revenue deficits are defined as the excess of revenue receipts.
    Revenue Deficit = Revenue Expenditure-Revenue Receipts
    Revenue deficit is a reflection of the government's fiscal policy. The implication of revenue deficit is that the government is borrowing to maintain even its consumption expenditure. It shows that the country's financial system is getting destabilized.