Important Questions for Class 12

Macro Economics

Chapter 5 – The Government: Functions & Scope

Very Short Answer Questions **1 mark**

1. Direct tax is a tax which is imposed on
a) Corporations only
b) None of these
c) Individuals only
d) Individuals and corporations
Ans: d) Individuals and corporations

2. An example of a direct tax is
a) Entertainment tax
b) Sales tax
c) VAT
d) Income tax
Ans: d) Income tax

3. The major source of Revenue receipts for the government is not
a) Tax Revenue
b) Income tax
c) Wealth tax
d) Profits
Ans: d) Profits

4. The policies useful to reduce inequalities of income are the
a) Monetary policies
b) Public distribution policies
c) Budgetary policies
d) Foreign policies
Ans: c) Budgetary policies

5. Budgetary policies are implemented by the
a) Foreign sector
b) Finance Ministry
c) Government
d) Private sector

Ans: c) Government

6. Capital Receipts
a) Create liability for the private sector
b) Create liability for the government
c) Do not create liability for the private sector
d) Do not create liability for the government
Ans: b) Create liability for the government

7. Disinvestment is a
a) Capital Expenditure
b) Revenue Expenditure
c) Capital Receipts
d) Revenue Receipts
Ans: c) Capital Receipts

8. Define a Budget.
Ans: The budget is a statement of the government's expected receipts and expenditures for the fiscal year. A fiscal year in a country (most notably India) goes from April 1 to March 31.

9. What are the two types of taxes?
Ans: Direct and indirect taxes are the two most common types of taxes.
1. Income tax, interest tax, and wealth tax are all examples of direct taxes.
2. Indirect taxes include items like customs duties, excise duties, and sales taxes, among others.

10. What are the main items of Capital Receipt?
Ans: The primary items are:
1. Market Loans raised by the government from the general population.
2. Government Borrowings.
3. Loans from foreign governments and international financial institutions.

11. What are the four different concepts of Deficits?
Ans: Budget deficit, revenue deficit, primary deficit, and fiscal deficit are the four main types of deficits.

12. Give two examples of Developmental Expenditure.
Ans: Economic services provided by railways and postal services, as well as grants to states and union territories, are two examples.

13. Define Surplus Budget.
Ans: When expected revenues exceed estimated expenditures in a given year, the result is a surplus budget.

14. Give two examples of Non – Developmental expenditures.
Ans: Defence expenditure and interest on payments are two examples of such expenditures.

15. What are the two types of Revenue Receipts?
Ans: Tax revenue and non-tax revenue are the two types of revenue received.

Short Answer Questions 3/4 Marks
1. Define Direct taxes and Indirect taxes. Also give two examples of each.
Ans: Direct taxes are those that are imposed immediately on a person's property or income. The public pays these taxes directly to the government. Income tax, wealth tax, corporate tax, and other taxes are examples.
Indirect taxes are levied on people's income and assets as a result of their consumer spending. These taxes are imposed on one individual, but they are paid by another. Customs duties, excise duties, sales tax, service tax, and other taxes are examples.

2. What are the three major ways of Public Expenditure?
Ans: The following are the three major methods in which the government spends money:
1. Revenue and capital expenditures are the first two items on the list.
2. Planned and unplanned expenses
3. Expenditures for development and non-developmental purposes**.**

3. Explain the four different concepts of Budget deficit.
Ans: The following are the four different types of budget deficits:

1. Budget deficit: The difference between the state's total expenditure, current revenue, and net internal and foreign capital receipts is known as the budget deficit. B.D = B.E. >B.R. is the formula for calculating it.
Where B.D = Budget deficit,
B.E = Budget expenditure, and
B.R = Budget revenue.

2. Fiscal deficit: The difference between the government's total expenditure, revenue revenues, and accrued capital receipts is known as the fiscal deficit.
F.D = B.E – B.R (B.E > B.R except for borrowings) is the formula.

Where F.D. stands for fiscal deficit, B.E. stands for budget expenditure, and B.R. is for budget receipts.

3. Revenue deficit: The difference between government revenue expenditures and revenue revenues is known as the revenue deficit.
R.D = R.E – R.R.
Where R.D denotes revenue deficit, R.E denotes revenue expenditure, and R.R denotes revenue receipts.

4. Primary deficit: The fiscal deficit that is removed from interest payments is known as the primary deficit.
P.D = F.D. – I.P. is the formula
Where P.D = Primary deficit,
F.D = Fiscal deficit, and
I.P = Interest payment.

19. Explain the objectives of the Government Budget.
Ans: The key goals of the government budget are listed below.

1. Activities to ensure resource reallocation - The government must reallocate resources while taking social and economic factors into account.

2. Redistribution activities - To eliminate inequities, the government redistributes income and wealth.

3. Stabilizing actions - The government seeks to keep the economy stable by preventing business swings.

4. Management of public enterprises - Through its public enterprises, the government engages in commercial activities such as natural monopolies, heavy manufacturing, and so on.

20. What are the Non-Tax Revenue receipts?
Ans: The following are non-tax revenue receipts:
1. Postage payments, tolls, interest on funds borrowed from the government, credit corporations, railways, and postal department, as well as electrical services, are all examples of commercial revenue.
2. Dividends and interest
3. Fees, penalties, fines, and other administrative revenue

Long Answer Questions **6 Marks**

21. The following figures are based on budget estimates of Govt. of India for the year 2016-17. Calculate

1. Fiscal deficit

2. Revenue deficit

3. Primary deficit

ITEMS	Rs. BILLIONS
A) Revenue receipts	2,31,745
i) Tax Revenue	1,63,031
ii) Non-tax Revenue	68,714
B) Capital receipts	1,43,478
i) Recoveries of loans	15,164
ii) Other receipts	12,000
iii) Borrowings and other liabilities	1,16,314
C) Revenue expenditure	3,10,566
i) Interest payments	1,12, 300
ii) Major subsidies	27,845
iii) Defence Expenditure	1,70,421
D) Capital Expenditure	64,657
E) Total Expenditure	3,75,223
i) Plan expenditure	1,00,100
ii) Non-plan expenditure	2,75,123

Ans: 1. Fiscal deficit = Total expenditure – Revenue receipts – Non debt receipts
= 3, 75,223 - 2,31,745-(15,164+12,000)
= Rs. 1, 16,314 billion
2. Revenue deficit = Revenue expenditure – Revenue receipts
= 3, 10,566-2, 31,745
= Rs. 78,821 billion
3. Primary deficit = Fiscal deficit – Interest payments
= 1, 16, 314-1, 12, 300
= Rs. 4014 billion

22. What is a balanced government budget? Explain the multiplier effect of a balanced budget.

Ans: The overall difference between government receipts and spending is known as the government budget balance, also known as general government balance, public budget balance, or public fiscal balance. Simply said, a balanced budget is one in which spending does not exceed earnings. This term can be applied to any budget, including that of a company, a non-profit organisation, or even a family. The term is, however, most commonly linked with a government budget. An effectively balanced budget displays fiscal health by demonstrating that expenditure remains in line with costs.

The following are the multiplier effects of a balanced budget:

1. The balanced-budget multiplier is a metric that estimates the change in aggregate production caused by a change in government taxation on its own.
2. This multiplier comes in handy for analysing fiscal policy changes that include both government purchases and taxes.
3. The multiplier for a balanced budget is one. The "good" impact of a change in government purchases on aggregate production is large, although not entirely, countered by the "negative" impact of a change in taxes.
4. The first injection's purchase of aggregate production is the only element of the impact of the change in government purchases that is not compensated by the rise in taxes. As a result, the initial change in government purchases is equal to the change in aggregate production.

23. Explain the objectives of resource allocation and income distribution in a government budget.

Ans: The budget is prepared by the government to achieve specific objectives. The government's economic, social, and political policies are directly responsible for these objectives.

1. Resource reallocation: The government's budgetary policy attempts to reallocate resources in accordance with the country's economic i.e., profit maximisation and social interests i.e., public welfare. To stimulate investment, the government might provide tax breaks, subsidies, and other incentives to producers.

2. Reducing income and wealth disparities: The government's fiscal policy strives to reduce income and wealth disparities. The government seeks to impact income distribution by imposing taxes on the wealthy and spending more on the poor's welfare.

3. Economic Growth: A country's growth rate is determined by its savings and investment rates. Budgetary policy tries to achieve this by mobilising adequate resources for public sector investment.

4. Reducing regional disparities: The government budget attempts to eliminate regional inequalities by supporting the establishment of manufacturing units in economically underdeveloped regions through its taxes and expenditure policies.

5. Public Enterprise Management: There are a big number of public sector industries that are developed and managed for the public's social welfare. The budget is created with the goal of establishing various provisions for operating such businesses and giving financial assistance.

24. How is tax revenue different from administrative revenue?

Ans: The term "public income" or "public revenue" refers to the government's total income from all sources.

Tax Revenue: Taxes are mandatory contributions placed on citizens by the government to cover its general expenses for the common good, with no commensurate benefits to the taxpayer. A tax is levied to cover the government's public spending in the national interest. It is remuneration for a government-provided indirect service to the entire population. In today's public finance, taxes account for a major portion of revenue. Taxation has a macroeconomic impact. The amount and style of consumption, the pattern of production, and the distribution of income and wealth can all be influenced by taxes.

Administrative Revenue: Public authorities can raise funds through fees, fines and penalties, and specific assessments under public administration. Fees are levied by the government or public bodies in exchange for providing a service to the public. This includes court fees, passport fees, and so on. Similarly, licence fees are levied by the regulating authorities to confer authorization for anything, such as a driving licence price, an import licence fee, a liquor permit fee, and so on. As a form of punishment, lawbreakers are subjected to fines and penalties, which are assessed and collected. The major goal of these levies is to prevent the commission of crimes and violations of the country's laws, rather than to generate revenue.

25. Explain the concept of fiscal deficit in a government budget. What does it indicate?

Ans: When a government's entire expenditures exceed its total revenue, excluding money borrowed, it has a fiscal deficit. The deficit is distinct from debt, which is the result of a series of annual deficits. The fiscal deficit is said to be the difference between the total revenue and total spending of the government. It's a figure that sums up the government's total borrowing requirements. Borrowings are not taken into account when calculating total revenue. The budget deficit in India for the fiscal year ended March 2018 was 3.53 percent of GDP. In February, India raised its fiscal deficit target for the 2017-18 fiscal year from 3.2 percent to 3.5 percent of GDP. The government of the country expects to reduce the deficit to 3.3% of GDP this fiscal year.

The following are the consequences of a fiscal deficit:
1. It denotes the government's borrowing needs.
2. It also denotes the government's high interest payments.
3. It denotes a high level of inflation due to high government spending.
4. It suggests that the economy is becoming more reliant on overseas markets.