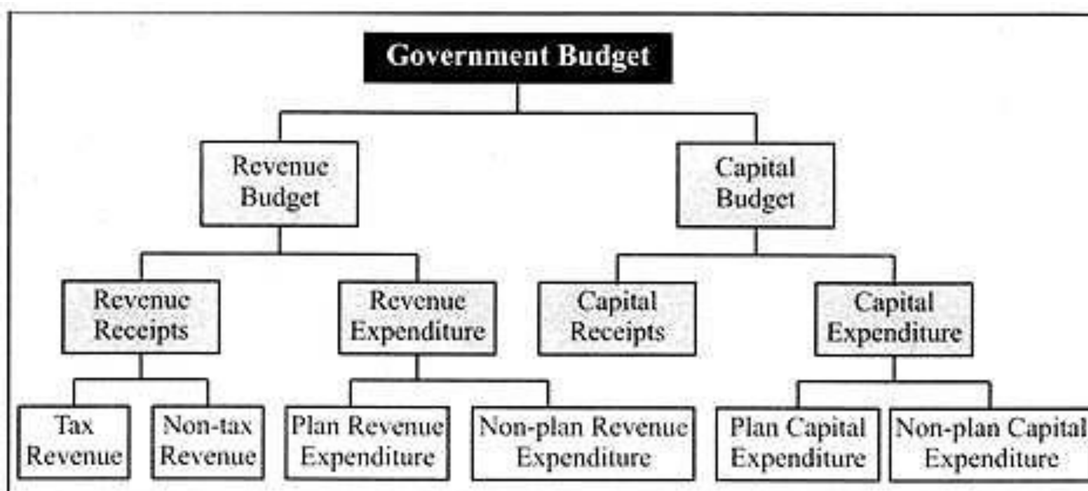
Macro Economics
Chapter 4 Government Budget and the Economy

Budget: A budget is an annual financial report that sets out how income and future expenses will be calculated according to material. The budget contains details of the country's income and expenditure.

The main objectives of the Budget are:
- Redistribution of resources.
- Redistribution of income and assets
- Public sector management
- Economic stability
- Economic Development
- Job Creation

Two Components of the budget:
1. **Revenue budget:** The revenue budget consists of receipts for the revenue of the Indian government and for expenses incurred by that income.
2. **Capital budget:** Invoices and payments are included in the capital budget. Includes activities from the Public Account.



Budget Receipts

1. Revenue Receipts: Revenue receipts are those that do not incur debt or depreciation. The income is then divided into two categories.

- **Tax receipt**

A. **Direct tax:** The taxpayer pays the full direct taxes to the government. It is also seen as a tax in which a person bears both the duty and the responsibility to pay. Depending on the type of tax levied, both the federal and provincial governments collect specific taxes.

B. **Indirect tax:** The end consumer of goods and services ultimately is liable for indirect taxes. It is impossible to avoid because taxes are levied on both

products and services. Includes low administrative costs due to simple and standard collections.

- **Non-tax receipts:** These include interest, transaction revenue, foreign grants, fines, penalties, and more.

2. **Capital receipts:** Capital receipts are government receipts that create debt or damage financial assets. The main sources of Capital receipts are public loans, also known as market loans, as well as loans from State Bank, commercial banks, and other financial institutions through the sale of financial loans, foreign government loans and international organizations, and the availability of loans. Minor savings, provident funds, and receipts remaining from the sale of shares in the Public Sector Undertakings are among the items (PSUs).

Budget Expenditure

1. **Revenue Expenditure:** The type of expense that is usually current or temporary. They are costs that the government has to incur to carry out its day-to-day activities. These costs are fully charged for the year in which they occurred and do not decrease over time. They may or may not be repeated.

2. **Capital Expenditure:** Capital expenditure is a single investment or funding made by the government with the aim of expanding to various sectors and businesses for profit. These funds are usually used to acquire fixed assets or goods with a longer lifespan. This includes equipment, manufacturing, and infrastructure development equipment. These assets provide value to the government throughout their lives and may or may not have a redemption value.

Budget deficit: The amount of budget expenditure in excess of revenue is referred to as budget deficit. This deficit is a good indicator of the financial health of the economy.

Revenue deficit: A Revenue deficit is defined as the difference between the total amount of revenue collected and the total amount of interest expense. Only current income and expenses are included in this deficit. A large deficit means the government has to reduce its spending. The government may be able to increase revenue by raising taxes.
Revenue deficit = Total Revenue Expenditure – Total Revenue Receipts

Implication of Revenue deficit is:

- Significant revenue shortfall indicates budget deficits.

- It shows that the government is spending, that is, the government using savings on other sectors of the economy to cover consumer costs.
- It shows that the government is spending, that is, the government using savings on other sectors of the economy to cover consumer costs.
- Demonstrates overspending on government administration.
- Reduce government assets due to non-investment.
- Significant budget deficits send a warning to governments to reduce spending or increase revenue.

Fiscal deficit: A Fiscal deficit occurs when government spending is more than the total revenue generated. Government loans are not included.
Fiscal deficit = Total Expenditure - Total receipts without borrowing

Implication of Fiscal deficit is:
- Significant deficits or the result of a lack of funding that may result in a debt trap.
- It creates inflationary pressures.
- It hinders future development.
- Increases reliance on external services.
- Promotes government responsibility.

Primary Deficit: It is obtained by deducting interest payments on arrears.
Primary Deficit = Fiscal deficit - Interest payments on previous loans

Implication of primary deficit:
- Indicates how much government's borrowing will be used to cover expenses other than interest payments.

Measures to Correct Different Deficits:
- Reducing grants will help reduce gaps.
- When assets are not used properly, money must be withdrawn.
- Increased emphasis on tax-based income, as well as the necessary measures to prevent tax evasion.
- Borrowing from domestic and international sources.
- A broad tax base can also help to reduce government shortfalls.

Fiscal Policy: Keynesian economics, a theory developed by economist John Maynard Keynes, serves as the basis for Fiscal policy. It is a process by which the government makes changes to its planned costs and tax rates in order to monitor and contribute to the country's economic performance. It is used in accordance with monetary policy, in which the central bank contributes to the supply of national currency. This policy influences

resources to contain inflation, increase employment, and, most importantly, maintain a healthy monetary value.

Debt: The amount of money lent to one business, borrower, to another organization, creditors, is referred to as a loan. Governments borrow money to address their shortcomings, which allows them to finance normal operations and capital expenditures. This debt can be in the form of a loan or a bond.

CUET
GOVERNMENT BUDGET AND THE ECONOMY

Q.1 Fiscal deficit in a government budget refers to:-
(a) Shortfall in taxes
(b) Shortfall in disinvestment
(c) Disinvestment requirement
(d) Borrowings requirements

Q.2 Dis-investment by the government refers to
(a) Selling of fixed capital assets by government
(b) Selling of share of public enterprise held by it
(c) Selling of plants of government
(d) Selling of buildings and shares of government

Q.3 Which of the following is the correct measure of primary deficit:-
(a) Fiscal deficit minus revenue deficit
(b) Revenue deficit minus interest payments
(c) Fiscal deficit minus interest payments
(d) Capital expenditure minus revenue expenditure

Q.4 Cost of tax collection, cost of the audit and printing notes, pension, expenditure on defense, and law and order are treated as_______of the government.
(a) Government expenditure
(b) Revenue Expenditure
(c) Non-Development Expenditure
(d) All of the above

Q.5 Zero primary deficits means that the government has to resort to borrowings only to make
(a) Interest Payment
(b) fiscal payment
(c) Capital payment
(d) Primary payment

Q.6 The government starts selling its securities to the private sector. What is the process called?
(a) Open market operation
(b) Disinvestment
(c) Monetary expansion
(d) All of the above

Q.7 If government borrowings = ₹ 800 crore and interest payments = ₹ 155 crores, then find fiscal deficit and primary deficit.
(a) Fiscal deficit = ₹ 155 crore and Primary deficit = ₹ 800 crore
(b) Fiscal Deficit = ₹ 800 crore and Primary deficit = ₹ 155 crore
(c) Fiscal deficit = ₹ 155 crore and Primary Deficit = ₹ 645 crore
(d) Fiscal Deficit = ₹ 800 crore and Primary Deficit = ₹ 645 crore

Q.8 Which of the following statements is correct about government spending?
(a) When a government spends more than it can collect as revenue, it incurs revenue expenditure
(b) When a government spends more than it can collect as revenue, it incurs a capital expenditure
(c) When a government spends more than it can collect as revenue, it incurs a budget deficit
(d) When a government spends more than it can collect as revenue, it incurs a budget surplus

Q.9 In a situation of hyperinflation, the government should adopt for
(a) Balanced budget
(b) Deficit budget
(c) Capital budget
(d) Surplus budget

Q.10 Which one of the following is a combination of direct taxes:-
(a) Excise duty and wealth tax
(b) Service tax and Income tax
(c) Excise duty and Service tax
(d) Wealth tax and Income tax

Q.11 The Non-tax revenue in the following is:-
(a) Export duty
(b) Import duty
(c) Dividends
(d) Excise

Q.12 Borrowing in government budget is:-
(a) Revenue deficit
(b) Fiscal deficit
(c) Primary Deficit
(d) Deficit in taxes

Q.13 Zero Primary Deficit means:
(a) Fiscal Deficit is also Zero
(b) No Interest payments
(c) Government has to resort to borrowings only to meet interest payments
(d) No borrowings Requirements

Q.14 A Government budget is prepared for a fiscal year running from:
(a) 1st January to 31st December
(b) 1st April to 31st December
(c) 1st April to 31st March
(d) 1st January to 30th April

Q.15 The duration of the Government budget is:
(a) 1 years
(b) 2 years
(c) 5 year
(d) 10 years

Q.16 The formula for calculating Primary deficit is ______.
(a) Primary deficit = Borrowings
(b) Primary deficit = Fiscal Deficit + Interest Payments
(c) Primary deficit = Fiscal Deficit – Interest Payments
(d) Primary deficit = Revenue Deficit – Interest Payments

Q.17 The fiscal deficit can be estimated using the formula __________.
(a) Fiscal deficit = Borrowing
(b) Fiscal deficit = Primary Deficit + Interest Payments
(c) Fiscal deficit = Total Expenditure – Total Receipts except borrowing
(d) All the above

Q.18 Revenue Deficit can be estimated using the formula _____.
(a) Revenue deficit = Borrowings
(b) Revenue deficit = Fiscal Deficit + Interest Payments
(c) Revenue deficit = Primary Deficit – Interest Payments
(d) Revenue deficit = Revenue Expenditure – Revenue Receipts

Q.19 GST stands for:
(a) Goods and Sales Tax
(b) Goods and Services tax
(c) Good and simple tax
(d) None of these

Q.20 Which of the following statements is true?

(a) Fiscal deficit is the difference between total expenditure and total receipts
(b) Primary deficit is the difference between total receipt and interest payments
(c) Fiscal deficit is the sum of primary deficit and interest payment.
(d) None of the above

Q.21 Which of the following statements is true?
(a) Loans from IMF are a Revenue Receipt
(b) Higher revenue deficit necessarily leads to higher fiscal deficit.
(c) Borrowing by a government represents a situation of fiscal deficit.
(d) Revenue deficit is the excess of capital receipts over the revenue receipts

Q.22 "Increasing the Rate of Income Tax" is a part of which objective of government budget?
(a) Reallocation of Resources
(b) Economic Stability
(c) Reducing Regional Disparities
(d) Reducing Inequalities in Income and Wealth

Q.23 Which objectives government attempts to obtain by Budget
(a) To Promote Economic Development
(b) Balanced Regional Development
(c) Redistribution of Income and Wealth
(d) All the above

Q.24 In a government budget, revenue deficit is ₹50,000 crores and borrowings are ₹ 75,000 crores. The fiscal deficit will be:
(a) ₹25,000 crore
(b) ₹75,000 crore
(c) ₹1, 25,000 crore
(d) ₹50,000 crore

Q.25 A progressive tax is a tax which is:
(a) Charged at a decreasing rate when the income of the individual increases
(b) Charged at an increasing rate when the income of the individual increases
(c) a fixed percentage of an individual income
(d) None of these

Q.26 Union Budget is presented in the Parliament by:
(a) President
(b) Home minister
(c) Finance Minister
(d) Prime Minister

Q.27 The government affects the i) ___________ of households by making transfers and collecting taxes. It is through this that the government can change the distribution of income and bring about a distribution that is considered 'fair' by society. This is the ii) __ function of the government Budget.
(a) Private income, ii) allocation
(b) i) Personal income, ii) Stabilization
(c) i) Personal disposable income, ii) redistribution
(d) i) Public income, ii) redistribution

Q.28 Which of the following affects national income?
(a) Goods and Services tax
(b) Corporation tax
(c) Subsidies
(d) none of these

Q.29 A tax, the burden of which can be shifted on to others, is called:
(a) Indirect tax
(b) direct tax

(c) wealth tax
(d) None of these

Q.30 Which out of the following is non-development expenditure:-
(a) Scientific research
(b) Social welfare
(c) Administration
(d) none of these

Q.31 Which one is a capital receipt?
(a) Licenses and court fees received by the government in year 2014-15
(b) Financial help from Microsoft for the victims of flood affected areas
(c) Sales of 40% shares of public sectors undertaking to a private enterprise.
(d) Profit of LIC, a public enterprise

Q.32 Which of the following is a source of capital receipt?
(a) Foreign donations
(b) dividends
(c) disinvestment
(d) indirect taxes

Q.33 Tax, the impact of which lies on the person on whom it is legally imposed, is known as:
(a) indirect tax
(b) direct tax
(c) value-added tax
(d) None of these

Q.34 Repayment of Loans is an example of:
(a) Capital Expenditure
(b) Non-plan expenditure
(c) Revenue Expenditure
(d) Plan Expenditure

Q.35 If the budgetary deficit of the government is ₹25,000 crores and the borrowings and other liabilities are ₹7,000 crores, how much will be the fiscal deficit?
(a) ₹25,000 crore
(b) ₹32,000 crore
(c) ₹18,000 crore
(d) ₹7,000 crore

Q.36 Budget Deficit means:
(a) Total expenditure – Total Receipts
(b) Capital Expenditure – Capital Receipts
(c) Total Expenditure – Total Receipts (excluding borrowings)
(d) Total Expenditure – Revenue Receipts

Q.37 The government budget has a revenue deficit. This gets financed by:
(A) Borrowing
(B) Disinvestment
(C) Tax Revenue
(D) Indirect taxes
Options:
(a) A and D
(b) C and D
(c) A and B
(d) C and B

Q.38 How many types of revenue receipts are there?
(a) 2
(b) 3

(c) 4
(d) 6

Q.39 If the total receipts are Rs. 3,000 crores and total expenditure is Rs. 4,200 crores, how much will be the budgetary deficit?
(a) Rs.1000crore
(b) Rs.1200crore
(c) Rs.1500crore
(d) Rs.1800crore

Q.40 If the primary deficit is ₹3,000 and interest payment is ₹500, the fiscal deficit is
(a) ₹3,500
(b) ₹4,000
(c) ₹4,100
(d) ₹4,200

SOLUTION

1. (d)

2. (b)

3. (c)

4. (c) Non Developmental Expenditure
It refers to that expenditure of the government which does not directly help in economic development of the country. Cost of tax collection, cost of audit, printing of notes, internal law and order, expenditure on defense etc. are treated as non-developmental expenditure. Pension to retired govt. employees, non-developmental assistance to states are also included in this category.

5. (a) Primary deficit = Borrowing – Interest Payments. When borrowing is just equal to pay the interest on accumulated loans, the primary deficit is zero.

6. (b) Disinvestment is when governments or organizations sell or liquidate assets or subsidiaries. Disinvestments can take the form of divestment or a reduction of capital expenditures (CapEx). Disinvestment is carried out for a variety of reasons, such as strategic, political, or environmental.

7. (d) Fiscal deficit = Borrowings, Primary Deficit = Borrowings – Interest payments

8. (c)

9. (d) Surplus Budget is the type of budget where the expected government revenue is greater than expected government expenditure due to which there is a surplus in the budget. Surplus budget is regarded as a positive indicator for the economy as it can be used during inflation through increased revenue receipts by increasing taxes or through reduction in revenue expenditure by reducing public expenditure that can soak liquidity from the economy and decrease the purchasing power that results in fall of effective demand in the economy.

10. (d) Wealth and income tax burden and the liability both lie on same person.

11. (c) Dividends is received by the government if it investment in shares

12. (b) Fiscal Deficit is the difference between total expenditure and total receipts. It is often termed a gross fiscal deficit. As there are three sources of borrowing for the government, the gross fiscal deficit is also estimated as the sum total of borrowing from RBI, borrowing from abroad, and net borrowing at domestic sources. So borrowings are equivalent to fiscal deficits.

13. (c) Primary Deficit = Borrowing – Interest Payments. When borrowing requirements of the current year is just to pay the interest on the loans. The Primary deficit is zero.

14. (c)

15. (a)

16. (c)

17. (d)

18. (d)

19. (b)

20. (c) Fiscal deficit is the summation of primary deficit and interest payments as we know; primary deficit is the difference between fiscal deficit and interest payments. The primary deficit indicates government borrowings on account of current year expenditures and current year receipts of the government.

21. (c) Fiscal deficit, estimated as the difference between total expenditure and total receipts, is often termed as gross fiscal deficit. As there are three sources of borrowing for the government, gross fiscal deficit is also estimated as the sum total of borrowing from RBI, borrowing from abroad and net borrowing at home. Hence, borrowings are equivalent to fiscal deficit and borrowings by a government represent a situation of fiscal deficit.

22. (d)

23. (d)

24. (a) Borrowings are equivalent to gross fiscal deficit.
Fiscal deficit= Borrowings - revenue deficit
= 75,000 crores - 50,000 crores
= 25,000 crores.

25. (b)
26. (c)
27. (c)
28. (b) Corporation tax affects the national income as it is the part of corporate profits.
29. (a)
30. (c)
31. (c) Capital expenditure refers to the estimated expenditure in a fiscal year which creates assets for the government and causes reduction in liabilities for the government. For example: expenditure on lands and building, purchase of shares, expenditure on machinery and equipment. Thus, sale of 40% shares of public sector undertaking to a private enterprise is a capital receipt.
32. (c) Disinvestment, that is, sale of public properties to the private organization is an example of capital receipt because capital receipts refers to those money receipts which either create a liability for the government or cause reduction in assets of the government.
33. (b) A direct tax is a tax that a person or organization pays directly to the entity that imposed it. Examples include income tax real property tax, personal property tax, and taxes on assets, all of which are paid by an individual taxpayer directly to the government.
34. (a)
35. (b) Fiscal deficit is estimated as the sum total of budgetary deficit of the government and the borrowings and other liabilities.
Fiscal deficit = Budgetary deficit of the government + Borrowings and other liabilities
= 25000 crores + 7000 crores
= 32000 crores.
36. (a) Budget deficit refers to a situation when government's total expenditure exceeds the total receipts. Therefore, budget deficit of the government is estimated by subtracting total receipts from total expenditure.
37. (c) Revenue deficit refers to a situation when revenue expenditure exceeds the revenue receipts. This get financed by mainly two components- borrowings and disinvestment (that is, sale of public properties to private organization)
38. (a) Revenue receipts are those receipts that do not lead to a claim on the government. They are hence termed non-redeemable. They are classified into tax and non-tax revenues. Tax revenues, a vital component of revenue receipts, have been bifurcated into direct taxes (personal income tax) and enterprises (corporation tax), indirect taxes like customs duties (taxes imposed on commodities imported into and exported out of India), excise taxes (duties levied on commodities manufactured within the nation), and service taxes.
39. (b) Budgetary Deficit = Total Expenditure − Total Receipts
=4,200−3,000
=1,200 crores.
40. (a) Fiscal Deficit= Primary Deficit + Interest Payments
= 3000 + 500
= 3500Rs.