UNIT 9

GOVERNMENT BUDGET AND THE ECONOMY

POINTS TO REMEMBER

- Budget is a financial statement showing the expected receipt and expenditure of Govt. for the coming fiscal or financial year.

- Main objectives of budget are:
  1. Reallocating resources.
  2. Redistribution of income and wealth.
  3. Economic stability.

- There are two components of budget:
  1. Revenue budget
  2. Capital budget

- Revenue Budget consists of revenue receipts of Govt. and expenditure met from such revenue.

- Capital budget consists of capital receipts and capital expenditure.
Revenue Receipts:
(i) Neither creates liabilities for Govt.
(ii) Nor causes any reduction in assets.

Capital Receipts:
(i) It creates liabilities or (ii) It reduces assets.

Revenue Expenditure:
(i) Neither creates assets (ii) Nor reduces liabilities

Capital Expenditure:
(i) It creates assets (ii) It reduces liabilities.

Revenue Deficit: Total revenue expenditure > Total revenue receipts
Revenue deficit when total revenue expenditure exceeds total revenue receipts.

Implications of Revenue Deficit are:
(i) It leads to repayment burden in future without investment.
(ii) It shows wasteful expenditures of Govt. on administration.
(iii) It increases the burden of taxes.

Fiscal Deficit: Total expenditures > Total Receipts excluding borrowing.
Fiscal deficit: When total expenditure exceeds total receipts excluding borrowing.

Implications of Fiscal Deficits are:
(i) It leads to inflationary pressure.
(ii) A country has to face debt trap.
(iii) It reduces future growth and development.
Primary Deficit: Fiscal deficit – Interest payments.

Primary Deficit: By deducting Interest payment from fiscal deficit we get primary deficit.

Budgetary Deficit: Total Expenditure > Total Receipts.

Budgetary Deficit: Total expenditure exceeds total receipts.

VERY SHORT ANSWER TYPE QUESTIONS (1 MARK)

1. Define Budget.
2. What is meant by non-tax receipts?
3. What are revenue receipts?
4. What are capital receipts?
5. Give two examples of non-tax revenue receipts.
6. What are the two sources of capital receipts?
7. Define revenue deficit.
8. Define fiscal deficit.
9. Why is repayment of loan a capital expenditure?
10. Why is recovery of loan treated a capital receipt?
11. What is a balanced budget.
12. Define capital expenditure.
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?
15. What is Direct Tax
16. Define Primary Deficit

H.O.T.S.

17. What are Budget Receipts?
18. 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?
19. What is disinvestment?
20. What does zero primary deficit mean?
1. Explain the allocation of resources objective of Govt. budget.

2. What is the difference between revenue budget and capital budget?

3. What is meant by revenue receipts? Explain the components of revenue receipts of the Govt.

4. Distinguish between direct tax and indirect tax.

5. What do you mean by capital receipts? What are the main components of the capital receipts?

6. Give the meaning of revenue deficit and fiscal deficit. What problems can the fiscal deficit create?

7. What is fiscal deficit? What are its implications?

8. Distinguish between revenue expenditure and capital expenditure with an example of each.

9. Explain the “redistribution of income” objective of Govt. budget.

10. Explain the ‘Economic stability’ objective of Govt. budget.

11. Under which situations deficit budget is beneficial for the economy.

12. Are fiscal deficits necessarily inflationary? Give reasons in support of your view.

13. Discuss the issue of deficit reduction.

14. How can surplus budget be used during inflation.

15. Giving reasons, classify the following as direct and indirect taxes.
   (i) Entertainment tax
   (ii) Corporation tax
   (iii) Excise tax
   (iv) Capital gains tax.
16. From the following data about a government budget find (a) revenue deficit, (b) fiscal deficit and (c) primary deficit.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (Rs. arab)</th>
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<tbody>
<tr>
<td>(i) Plan capital expenditure</td>
<td>120</td>
</tr>
<tr>
<td>(ii) Revenue expenditure</td>
<td>100</td>
</tr>
<tr>
<td>(iii) Non-plan capital expenditure</td>
<td>80</td>
</tr>
<tr>
<td>(iv) Revenue receipts</td>
<td>70</td>
</tr>
<tr>
<td>(v) Capital receipts net of borrowing</td>
<td>140</td>
</tr>
<tr>
<td>(vi) Interest payments</td>
<td>30</td>
</tr>
</tbody>
</table>

17. Distinguish between:
(i) Capital expenditure and Revenue expenditure
(ii) Fiscal deficit and Primary deficit.

18. Why the fiscal Deficit equal to borrowings.

ANSWERS

1 MARK QUESTIONS

1. Budget is a financial statement showing the estimated receipts and estimated expenditure of the Govt. for coming fiscal year.

2. All the revenue receipt of Govt. other than tax receipts.

3. Revenue receipts are those receipts which neither creates liabilities for Govt. nor cause any reduction in assets.

4. Capital receipts are those receipts which either creates a liability or leads to reduction in assets.

5. Interest, Fee.


7. When total revenue expenditure exceeds total revenue receipts.

8. When total expenditure exceeds total receipts excluding borrowing.
9. As it leads to reduction in liability.
10. As it leads to reduction in assets.
11. Balanced budget is that when estimated receipts are equal to estimated expenditure.
12. Capital expenditure is that which creates assets and which reduces liabilities.
13. Fiscal Deficit = Primary Deficit + Interest Payment
   \[ = \text{25,000} + \text{15,000} \]
   \[ = \text{40,000 Crore}. \]
14. Tax is a legally compulsory payment imposed by Govt.
15. It refer the tax whose primary and final burden borne by the person on whom it is imposed.
16. It is the difference of fiscal deficit and interest paid.
17. Estimated money receipt received by the Govt. from different sources in fiscal year are called budgetary receipts.
18. Rs. 50,000 Crore.
19. Disinvestment refers to withdrawal of existing investment.
20. Zero primary deficit means that interest commitment on earlier loans have compelled the Govt. to borrow.

**HINTS**

**3-4 MARKS QUESTIONS**

15. (i) Indirect tax
    (ii) Direct tax
    (iii) Indirect tax
    (iv) Direct tax