Unit: Government Budget and the Economy

📘 Chapter: *Government Budget and the Economy*

🧾 A. Solved Textual Questions & Answers

Q1. What is a budget?

A budget is an annual financial statement presenting the estimated receipts and expenditures of the government for a particular financial year.

Q2. Differentiate between revenue receipts and capital receipts.

- **Revenue receipts**: Receipts that neither create liability nor cause reduction in assets (e.g., taxes, fees).
- **Capital receipts**: Receipts that create liabilities or reduce assets (e.g., loans raised, disinvestment).

Q3. What is a deficit in budget? Name its types.

A deficit is when government expenditure exceeds its receipts. Types include fiscal deficit, revenue deficit, and primary deficit.

Q4. Define fiscal deficit.

Fiscal deficit = Total expenditure – Total receipts excluding borrowings. It represents the borrowing requirement of the government.

Q5. What is meant by balanced budget?

A budget where government receipts equal its expenditures, resulting in no surplus or deficit.

🧩 B. Short-Answer Questions (2–3 Marks)

1. **Explain the concept of revenue surplus.**
   Revenue surplus = Revenue receipts – Revenue expenditure (when positive).
2. **What is primary deficit?**
   Primary deficit = Fiscal deficit – Interest payments. It shows the deficit excluding interest burden.
3. **How does budget deficit affect inflation?**
   Borrowings to finance deficits may increase money supply, fueling inflation without adding goods and services.
4. **Differentiate between revenue and capital expenditure with examples.**
   - Revenue expenditure: Regular and recurring (e.g., salaries, subsidies).
   - Capital expenditure: Non-recurring, creates assets (e.g., roads, railways).
5. **What is budgetary deficit?**
   A broad term referring to any shortfall in receipts vis-à-vis expenditure (revenue, fiscal, or primary deficit may be cited).

🏛️ C. Long-Answer Questions (4–6 Marks)

1. **Discuss the objectives of government budgeting.**
   - Resource mobilization
   - Economic stabilization
   - Allocation of resources for public services
   - Redistribution of income and wealth
   - Promoting growth and employment
2. **Explain the various types of budget deficits.**
   - **Fiscal deficit**: Total expenditure exceeds total receipts (excluding borrowings)
   - **Revenue deficit**: Revenue expenditure exceeds revenue receipts
   - **Primary deficit**: Fiscal deficit minus interest payments
3. **Discuss the effects of fiscal deficits on the economy.**
   - Can lead to inflation due to increased money supply
   - May crowd out private investment
   - Increase national debt and future interest burden
   - Stimulates economic growth if spent on productive assets
4. **Explain the role of budget in redistribution of income.** Through progressive taxation and targeted expenditures like subsidies, welfare schemes, and public services to reduce inequality.

5. **What do you understand by balanced budget policy? When should it be adopted?**
   Balanced budget policy = when government revenue equals expenditure. Preferable in stable periods to maintain fiscal discipline; less suitable during recession (deficit can stimulate economy).

✍️ 20 Additional Model Questions & Answers

🔹 Short-Answer Questions (2–3 Marks)

1. **How do capital receipts differ from capital expenditure?**
   Capital receipts are inflows that create liabilities or reduce assets; capital expenditure results in creation of assets or reduction in liabilities.
2. **What is the impact of revenue deficit on economic growth?**
   Revenue deficit means current expenses are financed through borrowing—not conducive to growth and may increase debt.
3. **Define budget surplus.**
   When government receipts exceed expenditure, resulting in excess of income over expenses.
4. **What is meant by 'plan and non-plan expenditure'?**
   - Plan expenditure: Expenses under five-year plan objectives
   - Non-plan: Regular government expenditure not part of plan

5. **Mention two sources of capital receipts.**
   Loans raised from public/institutions, proceeds from disinvestment.
6. **What is Grant-in-aid?**
   Transfer payments by government to local bodies or states without any expectation of return.
7. **Why do governments borrow?**
   To finance budget deficits, meet developmental goals, and maintain economic stability.
8. **Define tax buoyancy.**
   The responsiveness of tax revenue to changes in national income.
9. **What is fiscal policy?**
   Government policy regarding revenue and expenditure to achieve macroeconomic objectives.
10. **How does public debt affect the economy?**
    It creates future liabilities, interest payment obligations, but can also fund infrastructure and growth.

◆ Long-Answer Questions (4–6 Marks)

11. **Explain how the government can finance a fiscal deficit.**
    Through borrowings from the public, banks, or foreign lenders; monetizing deficit via central bank; disinvestment (selling public assets).
12. **Discuss the merits and demerits of a balanced budget.**

    - **Merits**: Fiscal discipline, no crowding-out, stability
    - **Demerits**: Limits stimulus, inflexible during recession

13. **Examine the role of budget in economic planning and development.**
    Budget directs national resources towards priority sectors (health, education, infrastructure) and enables planned growth.
14. **Analyse the components of revenue account of the Union Budget.**
    Includes net tax revenue, non-tax revenue, transfer payments, interest payments, subsidies and administrative expenses.
15. **Evaluate the causes of rising fiscal deficits in India.**
    High revenue expenditure (subsidies, salaries), low revenue receipts, inadequate tax base, large-scale borrowings.
16. **What is the difference between fiscal deficit and revenue deficit?**
    Fiscal deficit relates to all expenditures and receipts excluding borrowings, while revenue deficit focuses only on revenue accounts.
17. **Describe the impact of budget surplus on the economy.**
    Can reduce public debt, collect resources for public investment or tax cuts, and decrease inflationary pressures.
18. **Discuss the importance of transparency in budget.**
    Ensures accountability, prevents corruption, boosts public confidence, and helps in informed policy measures.

19. **How does budget deficit influence the external sector?**

May require foreign borrowing, affecting exchange rates and international credibility; risk of balance of payments pressures.

20. **Suggest measures to reduce fiscal deficit.**

Rationalize subsidies, widen tax base, curtail non-essential expenditure, enhance tax compliance, use public-private partnerships.