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## CBSE Class–12 Economics

### Macro Economics

## Chapter 5 – The Government: Functions & Scope

### Revision Notes

**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:**

- (i) Reallocation of resources.
- (ii) Redistribution of income and wealth
- (iii) Economic Stability
- (iv) Management of public enterprises.
- (v) Economic Growth
- (vi) Generation of employment

**There are two components of budget:**

- (a) Revenue budget
- (b) 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.

### BUDGET RECEIPTS:

#### 1. Revenue Receipts

- Tax

##### a. Direct Tax

- i. Income tax
- ii. Corporate Tax
- iii. Wealth and Property Tax

##### b. Indirect Tax

- i. Value added Tax
- ii. Service Tax
- iii. Excise Duty
- iv. Custom Duty
- v. Entertainment Tax

- **Non-Tax**

- a. Commercial Revenue
- b. Interest
- c. Dividend, Profits
- d. External Grants
- e. Administrative Revenues
- f. Fees
- g. License Fee
- h. Fines, Penalties
- i. Cash grants-in-aid from foreign countries and international org.

## **2. Capital Receipts**

- A. Borrowing and Other liabilities
- B. Recovery of Loans
- C. Other receipts (Disinvestments)

**Direct Tax:** A direct tax is one whose burden cannot be shifted to others I.e. the impact and incidence of the tax is on the same person.ex- income tax, wealth tax, gift tax.

**Indirect Tax:** An indirect tax is one whose burden can be shifted to others or the impact and incidence of an indirect tax falls on different people. ex- excise duty, VAT, service tax.

### **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 financial assets.

## BUDGET EXPENDITURE:

### 1. Revenue Expenditure

- (i) Neither creates assets
- (ii) Nor reduces liabilities.

e.g., Interest Payment, subsidies etc.

### Capital Expenditure:

- (i) It creates assets
- (ii) It reduces liabilities.

e.g., Construction of school building Repayment of loans etc.

**Budget Deficit:-** It refers to a situation when budget expenditure of a govt. are greater than the govt. receipts.

**Budgetary Deficit:** Total Expenditure > Total Receipts.

**Revenue deficit:** It is the excess of govt. revenue expenditure over revenue receipts.

**Revenue Deficit:** Total revenue expenditure > Total revenue receipts

### Implications of Revenue Deficit are:

- A high revenue deficit shows fiscal indiscipline.
- It shows wasteful expenditures of Govt. on administration.
- It implies that government is dissaving, i.e. government is using up savings of other sectors of the economy to finance its consumption expenditure.
- It reduces the assets of the govt. due to disinvestment.
- A high revenue deficit gives a warning signal to the government to either curtail its expenditure or increase its revenue.

**Fiscal Deficit:** When total expenditure exceeds total receipts excluding borrowing.

**Fiscal Deficit:** Total expenditures > 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.
- (iv) It increases liability of the government.
- (v) It increases foreign dependence.

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

**Primary Deficit:** Fiscal deficit – Interest payments.

**Implications of Primary Deficits are:**

It indicates, how much of the government borrowings are going to meet expenses other than the interest payments.

**Measures to correct different deficits:-**

- (i) Monetary expansion or deficit financing.
- (ii) Borrowing from public.
- (iii) Disinvestment
- (iv) Borrowing from international monetary institution and other countries.
- (v) Lowering govt. expenditure.
- (vi) Increasing govt. revenue.

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