



Q1. Explain why public goods must be provided by the government.

Ans: A good that is non-rival and non-excludable is referred to as public good. Non-rival means that consumption by one individual does not affect the consumption of another individual. Whereas, non-excludable implies that no individual can be excluded from using the good. For example, parks, roads, national defence, etc. These goods must be provided by the government because of the following reasons:

- i. The benefits of public goods can be easily enjoyed by anyone without affecting the consumption of other individuals. There arises market failure.
- ii. No individual can be excluded from using public goods as it is available to all. The link between the producer and the consumer becomes non-functional, necessitating government interference through public provisions.

Q2. Distinguish between revenue expenditure and capital expenditure.

Ans:

Basis	Revenue expenditure	Capital expenditure
Creation of Assets	It does not create assets for the government.	It results in the creation of assets.
Reduction of Liability	These expenditures do not result in the reduction of liability.	These expenditures cause a reduction of the liability of the government.
Items	(a) Aids given to states and others (b) Interest payments (c) Expenditure on defence	(a) Purchase of shares (b) Expenditure on land, building, etc. (c) Grants by the central government to the state government

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