INDIAN SCHOOL AL WADI AL KABIR

Class: XII	**Department: Commerce**
Worksheet No: 1	**Topic: GOVERNMENT BUDGET**

MCQ:

1. Spot the capital receipt.
   a. Tax received
   b. External grant received
   c. Dividend received
   d. Disinvestment

   A: d. Disinvestment

2. Spot the capital receipt.
   a. Recovery of loans
   b. Borrowings
   c. External grants
   d. Disinvestment

   A: c. External grants

3. Fiscal deficit in a Government budget refers to:
   a. Shortfall in taxes
   b. Shortfall in disinvestment
   c. Disinvestment requirement
   d. Borrowings requirement

   A: d. Borrowings requirement

4. Primary deficit in Government budget will be zero when….
   a. Revenue deficit is zero
   b. Net interest payments are zero.
   c. Fiscal deficit is zero
   d. Fiscal deficit is equal to interest payment

A: d. Fiscal deficit is equal to interest payment

5. The primary deficit in a government budget will be zero, when ________
a. Revenue deficit is zero
b. Net interest payments are zero
c. Fiscal deficit is zero
d. Fiscal deficit is equal to interest payment

A: d. Fiscal deficit is equal to interest payment

1 Mark Question:
Information and concept-based questions:

1. Define a Government budget.
2. What is a fiscal year?
3. What are revenue receipts and capital receipts?
4. Why are subsidies treated as revenue expenditures?
5. Define tax.
6. Define direct tax. Give two examples of direct taxes.
7. Define indirect tax. Give two examples of indirect taxes.
8. What is the significance of measuring fiscal deficit?
9. Why the borrowings by the government are called capital receipts?
10. What is budgetary deficit?
11. What is deficit financing?
    Printing new currency notes by central bank to meet the budgetary deficit is called deficit financing.
12. Why are borrowings a capital receipt?

    Ans. Borrowings lead to increase in liabilities of the government, hence, it is a capital receipt.

REFER TO NOTES OF GOVERNMENT BUDGET FOR QN 1 TO 9

Reason-Based questions:
State true/False:

1. Revenue receipts do not impact asset and liability status of the Government.
A: True. Revenue receipts are those receipts which do not cause reduction in assets or increase in liability of the Government.

2. Balanced budget is the budget in which revenue receipts=revenue expenditures.
A: False. Balanced budget is the budget in which total receipts=total expenditures.

3. Capital receipts add to liabilities of the government.
A: true. Capital receipts are those receipts which cause a reduction in assets or increase in liability of the Government.

4. Loans offered by the central government to the state Governments can be treated as capital expenditures by the central government.

A: False. As convention, loans offered by the central government to the state Governments is treated as revenue expenditures by the central government, even when some grants may result in asset creation.

Numericals:

1. Find borrowing by the Government if payment of interest is estimated to be Rs 15000 crores.

A: Int payment = 25% of primary deficit
= 100/25 X15000 = 60000
Primary deficit = Fiscal deficit – Interest payment
Fiscal Deficit = Primary deficit + Interest payment = 60000 + 15000 = 75000
Borrowing = Fiscal deficit = 75000

2. Revenue deficit is estimated to be Rs 20000 crores and borrowing is estimated to be Rs 15000 crores. If expenditure on interest payment is estimated to be 50% of the revenue deficit, find fiscal deficit and primary deficit.

A: Fiscal deficit = Borrowing = 15000
Interest payment = 50% of revenue deficit
= 50% of 20000 crore = 10000
Primary deficit = Fiscal deficit – interest payment = 15000 – 10000 = 5000

Comprehension of subject matter:

1. Why is payment of interest a revenue expenditure?

A: Because it does not create any asset or reduces the liability of the Government.

2. Why are borrowings a capital Receipt?

A: Because it increases the liability of the Government.

Application based questions:

1. Revenue deficits can be managed through borrowing or disinvestment. But fiscal deficit can be managed only through borrowing. Do you agree? Give reasons.

A: The statement is true. Because disinvestment is already included as an item of capital receipt in the estimation of fiscal deficit. So that, borrowing is the only window available to manage fiscal deficit. On the other hand, estimation of revenue d deficit does not account for borrowing as well as disinvestment. So that, both these windows are available to manage revenue deficit.

2. What is a debt trap?

It is vicious circle in which the government takes new loans to repay its earlier loans/interest.

3. Budgetary deficit points to failure of the Government to manage its budget. Defend or refute.

A: The above statement is incorrect. Budgetary deficit reflecting borrowing by the Government may be a part of the strategy of the Government to accelerate the pace of growth or to achieve macro stability of the economy.