INDIAN SCHOOL AL WADI AL KABIR

Class: XII	Department: Commerce
Worksheet: 1	Topic: Government Budget

I. MCQs:

In the following questions, Statement 1 is followed by Statement 2. Mark the correct choice
(a) Both the statements are true.
(b) Both the statements are false.
(c) Statement 1 is true and statement 2 is false.
(d) Statement 2 is true and statement 1 is false.

1. Statement 1: Fiscal deficit is an indicator of the financial health of the government.
   Statement 2: A high fiscal deficit indicates that the government is borrowing more to finance its expenditure.
2. Statement 1: The government can reduce income inequality by using fiscal policy.

   Statement 2: Fiscal policy instruments such as progressive taxation and subsidies are used to bridge the income gap.

In the following Assertion and Reasoning questions, choose the correct alternative.
Alternatives:
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
(c) Assertion (A) is true but Reason (R) is false.

3. Assertion (A): Fiscal deficit is an indicator of the total borrowing requirements of the government.

   Reason (R): Fiscal deficit represents the difference between total expenditure and total revenue, excluding borrowings.
4. **Assertion (A):** The implementation of subsidies increases the burden of revenue deficit on the government.
   Reason (R): Subsidies are a part of revenue expenditure.
5. Payment of interest is ………..
   (a) revenue expenditure (b) capital expenditure
   (c) primary deficit (d) fiscal deficit
6. If borrowings and other liabilities are added to the budget deficit, we get
   (a) revenue deficit (b) capital deficit
   (c) primary deficit (d) fiscal deficit

7. If budgetary deficit is nil and borrowings and other liabilities are 70 crores, what is the amount of fiscal deficit?

    (a) Nil (b) 30 crores
    (c) Can't say (d) 70 crores

8. In a government budget, revenue deficit is Rs. 50,000 crore and borrowings are Rs. 75,000 crore. How much is the fiscal deficit?

    (a) 50000 crore (b) 75000 crore
    (c) 25000 crore (d) -25000 crore

9. Among the following types of taxes, find the indirect one.

    (a) Gift tax (b) Corporate income tax
    (c) VAT (d) (d) Wealth tax

10. Progressive tax is a tax which is ______________

    a) Charged at a decreasing rate when income of the individual increases
    b) Charged at an increasing rate when income of the individual increases
    c) A fixed percentage of an individual income
    d) None of these

II. Answer the following questions:

1. Define the following:

    a) Budget
    b) Fiscal deficit
    c) Revenue deficit
    d) Primary deficit
    e) Surplus budget
    f) Budgetary deficit
    g) Balance budget

2. Differentiate between

    a) Progressive and regressive tax
    b) Tax and Non tax revenue
    c) Direct and indirect taxes
    d) Revenue receipt and Capital receipt
    e) Revenue expenditure and Capital expenditure
    f) Plan expenditure and non-plan expenditure

3. Explain the role the government can play through the budget in influencing allocation of resources.
4. Explain how the government can use the budgetary policy in reducing inequality of income in the economy.

5. Explain the role of government budget in fighting inflationary and deflationary tendencies. Or
Explain how government budget can be used to achieve price stability in the economy.
6. Explain why public goods must be provided by the government?
7. Comment on the following statements are true or false, with a reason.

I. Construction of school – building is a revenue expenditure of the government.

II. Gift tax is a capital receipt

III. Dividends on investment made by government is revenue receipts.

8. State whether the following statements are *true* or *false*, with valid reasons:

(i) High tax on higher income groups aims to achieve the 'reallocation of resources' objective of the Government.

(ii) Borrowings are a revenue receipt of the government.

(iii) Fiscal deficit always leads to inflation.

III. Case Study:

Case 1:

Disinvestment in Public Sector Undertakings (PSUs) refers to the process of selling or reducing the government's stake in public sector enterprises. It aims to raise revenue, improve the efficiency of these enterprises, and reduce the fiscal burden on the government. Disinvestment can take various forms, such as partial sale, strategic sale, or privatization. By allowing private sector participation, it fosters competition, enhances productivity, and attracts investment. However, it is often debated due to concerns about job security, loss of government control, and its impact on social objectives.
In the current financial year, the government announced disinvestment of ₹50,000 crore by selling stakes in public sector undertakings (PSUs) like Air India and LIC. The funds will be used to reduce the fiscal deficit.

Questions:

(a)What is disinvestment, and how is it related to fiscal deficit?

(b) What are the advantages of disinvestment?

(c) What challenges might arise during the disinvestment process?

Case 2:

Government provides certain goods and services which cannot be provided by the market mechanism. Examples of such goods are national defence, roads, government administration, etc. which are referred to as public goods. There are two major differences between public and private goods. One, the benefits of public goods are available to all and are not only restricted to one particular consumer. For example, if a person wears a shirt, it will not be available to others. It is said that this person's consumption stands in rival relationship to the consumption of others. However, if we consider a public park or measures to reduce air pollution, the benefits will be available to all. One person's consumption of a good does not reduce the amount available for consumption for others and so several people can enjoy the benefits, that is, the consumption of many people is not 'rivalrous'.
Two, in the case of private goods, anyone who does not pay for the goods can be excluded from enjoying its benefits. If you do not buy a ticket, you will not be allowed to watch a movie at a local cinema hall. However, in the case of public goods, there is no feasible way of excluding anyone from enjoying the benefits of the good. That is why public goods are called non-excludable. Even if some users do not pay, it is difficult and sometimes impossible to collect fees for the public good. These non-paying users are known as 'free-riders'. Consumers will not voluntarily pay for what they can get for free and for which there is no exclusive title to the property being enjoyed. The link between the producer and consumer which occurs through the payment process is broken and the government must step in to provide for such goods.

On the basis of the given text and common understanding, answer the following questions:

(a) Describe how the Government's role in providing public goods impacts community welfare.

(b) Define free-riders. Explain the challenges posed by the free-riders in the context of public goods.

(c) Differentiate between public provision and public production.