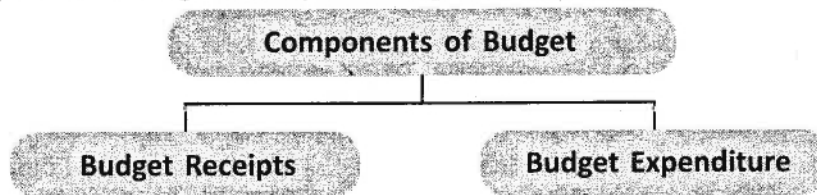


GOVERNMENT BUDGET AND THE ECONOMY

STUDY-NOTES

- **Budget:** A government budget is an annual financial statement showing item wise estimates of expected revenue and anticipated expenditure during a fiscal year. Two parts of budget are:

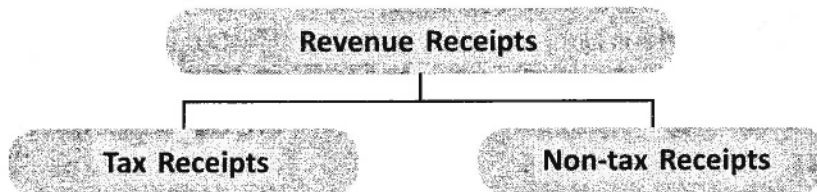


- **Objectives of Budget:**

1. Reallocation of resources
2. Redistribution of income & wealth
3. Economic stability
4. Management of public enterprises
5. Economic Growth

- **Components of the Government Budget**

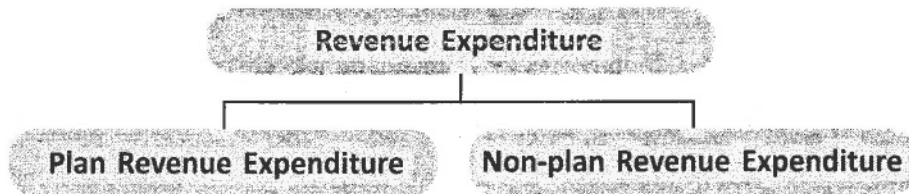
- **Revenue Account:** The Revenue Budget shows the current receipts of the government and the expenditure that can be met from these receipts. Revenue Receipts:
- **Revenue receipts** are receipts of the government which are non-redeemable, that is, they cannot be reclaimed from the government. They are divided into tax and non-tax revenues.



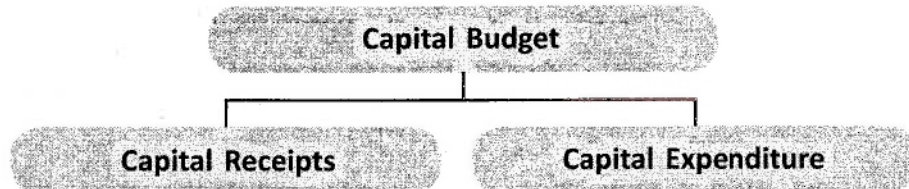
- **Tax Receipts** consist of the proceeds of taxes and other duties levied by the central government. The share of direct taxes in gross tax revenue has increased from 19.1 per cent in 1990-91 to 53.4 percent in 2012-13.
- **Non-tax Receipts** of the central government mainly consists of interest receipts on account of loans by the central government, dividends and profits on investments made by the government, fees and other receipts for services rendered by the government. Cash grants-in-aid from foreign countries and international organizations etc.

- **Revenue Expenditure:** Revenue Expenditure is expenditure incurred for purposes other than the creation of physical or financial assets of the central government. It relates to those expenses incurred for the normal functioning of the government departments and various services, interest payments on debt incurred by the government, and grants given to state governments and other parties (even though some of the grants may be meant for creation of assets).

- **Plan and Non-Plan Revenue Expenditure:** Budget documents classify total expenditure into plan and non-plan expenditure plan revenue expenditure relates to central Plans (the Five-Year Plans) and central assistance for State and Union Territory plans. Non-plan expenditure, the more important component of revenue expenditure, covers a vast range of general, economic and social services of the government. The main items of non-plan expenditure are interest payments, defense services, subsidies, salaries and pensions.



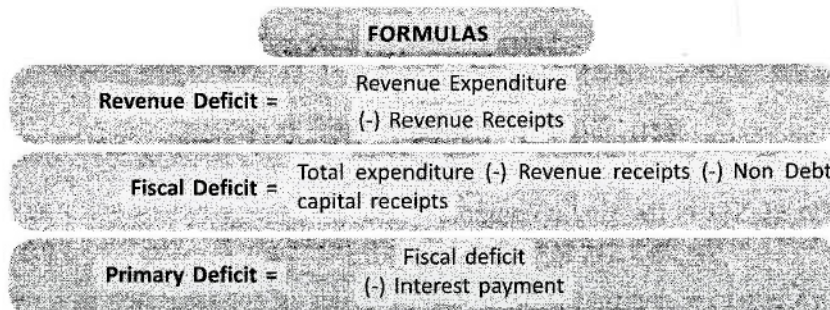
- **Capital Account:** The Capital Budget is an account of the assets as well as liabilities of the central government, which takes into consideration changes in capital. It consists of capital receipts and capital expenditure of the government.



- **Capital Receipts:** All those receipts of the government which create liability or reduce financial assets are termed as capital receipts.
- **Capital Expenditure:** There are expenditures of the government which result in creation of physical or financial assets or reduction in financial liabilities.
- **Budget deficit:** When a government spends more than it collects by way of revenue, it incurs a budget deficit.
- **Balanced, Surplus and Deficit Budget:** The government may spend an amount equal to the revenue it collects. This is known as a **balanced budget**.

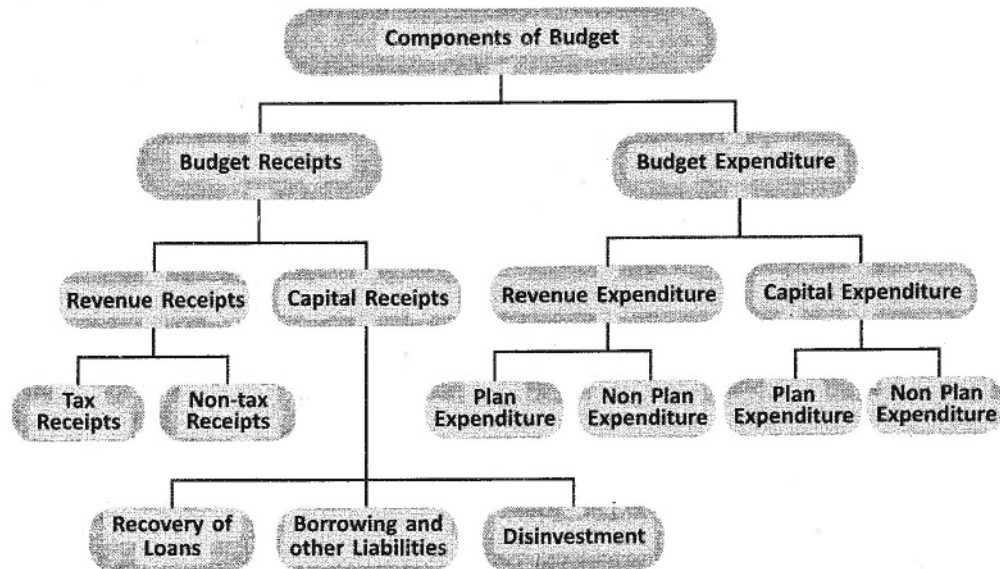
When tax collection exceeds the required expenditure, the budget is said to be in **surplus**.

The most common feature is the situation when expenditure exceeds revenue. This is when the government runs a **budget deficit**.



- **Revenue Deficit:** Total revenue expenditure > Total revenue receipts
- Implications of Revenue Deficit are:
 - (i) A high revenue deficit shows fiscal indiscipline.
 - (ii) It shows wasteful expenditures of Government on administration.
 - (iii) It implies that the government is dissaving, i.e. government is using up savings of other sectors of the economy to finance its consumption expenditure.
 - (iv) It reduces the assets of the government. due to disinvestment.
 - (v) A high revenue deficit gives a warning signal to the government to either curtail its _____ expenditure or increase its revenue.
- **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 a debt trap.
 - (iii) It reduces future growth and development.
 - (iv) It increases the liability of the government.
 - (v) It increases foreign dependencce.

- **Primary Deficit:** Fiscal deficit – Interest payments.
- **Implications of Primary Deficits:** 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 the public.
 - (iii) Disinvestment
 - (iv) Borrowing from international monetary institutions and other countries.
 - (v) Lowering the government. expenditure. (vi) Increasing Government Revenue.



QUESTION BANK

MULTIPLE CHOICE QUESTIONS

- Goods and Service Tax (GST) is the single comprehensive _____
 (a) Direct tax (b) Indirect tax (b) Income (c) VAT
- The goods where there is no competition and the use of goods is not restricted to only one individual:
 (a) Cheap goods (b) Heavy goods (c) Competitive goods (d) Public goods
- _____ enhances the value of an existing asset.
 (a) Capital Expenditure (b) Revenue Expenditure (c) Both (a) and (b) (d) None of above
- Recurring in nature:
 (a) Capital Expenditure (b) Revenue Expenditure (c) Both (a) and (b) (d) None of above
- Which of the following statement is true?
 (a) The fiscal deficit gives the borrowing requirement of the government.
 (b) A high fiscal deficit means that the government is borrowing more money than it is earning.
 (c) A higher fiscal deficit creates a burden of loan and interest payment for future generations.
 (d) All of above
- Which of the following statement is not true?
 (a) When revenue deficit increases correspondingly the fiscal deficit also increases.
 (b) Revenue deficit is referred to as an excess of revenue expenditure as compared to earnings by revenue receipts of the government.

- (c) Fiscal deficit is a bigger phenomenon where the difference is between the total expenditure and total receipts obtained by the government.
- (d) None of above
7. "The tax multiplier always has a negative value and therefore is smaller in absolute value than the government expenditure multiplier. The government expenditure creates an impact on the total expenditure and the taxes through the multiplier. It also influences disposable income which impacts overall consumption level." This indicates:
- (a) Tax multiplier is smaller in absolute value than the government expenditure multiplier.
- (b) The tax multiplier is larger in absolute value than the government expenditure multiplier.
- (c) Tax multiplier is equal to absolute value of the government expenditure multiplier.
- (d) None of above
8. Relation between government deficit and government debt is:
- (a) An increase in deficit will lead to increase in debt.
- (b) A decrease in deficit will lead to increase in debt.
- (c) An increase in deficit will lead to decrease in debt.
- (d) All of above
9. "Does public debt impose a burden" which of the following statement is correct in this context?
- (a) A high level of debt creates a burden on future generations in form of interests and taxes being levied on the younger generation, it will result in lower consumption and savings.
- (b) Government may impose taxes or print new money to repay the existing debts. Such a situation will hamper the productivity of the nation.
- (c) More investments are attracted by the government by raising the interest rates on bonds and securities, therefore citizens' money is utilized by the government and hence less private investment.
- (d) All of the above
10. In which of the following situation fiscal deficits inflationary arises?
- (a) If a situation arises when the government expenditure increases and tax reduction is seen, it will cause a deficit in the government which leads to increase in aggregate demand.
- (b) When resources are less utilized due to insufficient demand and less output, then if the government is spending more also, more resources will be employed in order to meet the growing demand and there will be no pressure on price rise.
- (c) Both (a) and (b)
- (d) None of above
11. By which of the following method government can reduce budget deficit?
- (a) Decreasing expenditure (b) Increasing Revenue (c) Both (a) and (b) (d) None of above
12. An annual statement of the estimated receipts and expenditure of the government over the fiscal year is known as
- (a) Budget (b) Income estimates (c) Account (d) Expenditure
13. What is the period of a fiscal year?
- (a) 1 April to 31 April (b) 1 April to 31 March
- (c) 1 March to 28 February (d) None of these
14. When government spends more than it collects by way of revenue, it incurs _____
- (a) Budget surplus (b) Budget deficit
- (c) Capital expenditure (d) Revenue expenditure
15. Which of the following is the component of a budget?
- (a) Fiscal budget (b) Capital budget (c) Both (a) and (b) (d) None of these
16. The non-tax revenue in the following is:
- (a) Export duty (b) Import duty (c) Dividends (d) Excise

17. Capital budget consist of:
 (a) Revenue Receipts and Revenue Expenditure (b) Capital Receipts and Capital Expenditure
 (c) Direct and Indirect Tax (d) None of these
18. Which of the following budget is suitable for developing economies?
 (a) Deficit Budget (b) Balanced Budget (c) Surplus Budget (d) None of these
19. Budget:
 (a) is a description of income-expenditure of government
 (b) is a document of the economic policy of the government
 (c) is a description of non-programs of the government
 (d) all of these
20. Budget speech in Lok Sabha is given by:
 (a) President (b) Prime Minister (c) Finance Minister (d) Home Minister
21. Government budget is presented on the last day of _____
 (a) January (b) February (c) March (d) None of above
22. What is the annual statement of the government's fiscal revenue and fiscal expenditure known?
 (a) Budget (b) Fiscal Budget (c) Capital Budget (d) All of these
23. Which of the following is not included in annual budget?
 (a) The rail budget (b) Irregular expenses (c) Both (a) and (b) (d) None of above
24. Annual budgets are used by:
 (a) individuals, (b) corporations,
 (c) governments, and other types of organizations (d) All of above
25. In many instances, particularly for non-individuals, an annual budget is expanded to include:
 (a) A balance sheet and cash flow statement
 (b) An annual budget lays out a company's projected income and expenses for a 12-month period.
 (c) The process of creating an annual budget involves balancing out a business' sources of income against its expenses.
 (d) All of the above
26. It is referred to as the annual Financial Statement in Article 112 of the Constitution of India, is the annual budget of the Republic of India, presented each year on the last working day of February by the Finance Minister of India in Parliament. The budget has to be passed by the House before it can come into effect on April 1, the start of India's financial year:
 (a) Union Budget of India (b) Cash budget (c) Deficit budget (d) Surplus budget
27. Normally, the budget-making process starts in the _____ of the financial year. The budget has four stages viz., estimates of expenditures and revenues, first estimate of deficit, narrowing of deficit and presentation and approval of budget.
 (a) First quarter (b) Second quarter (c) Third quarter (d) Every month
28. Which of the following organizations have their own budget?
 (a) The Indian Railways,
 (b) The largest public-sector enterprise,
 (c) The Department of Posts and Telegraph have their own budgets, funds, and accounts.
 (d) All of above
29. The amount collected by the government in the form of interest, fees, and dividends is known as—
 (a) Tax-revenue receipts (b) Capital receipts
 (c) Non-tax revenue receipts (d) None of these
30. The non-tax revenue in the following is:
 (a) Export duty (b) Import duty (c) Dividends (d) Excise

31. 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
32. The expenditures which do not create assets for the government is called :
 (a) Revenue Expenditure (b) Capital Expenditure (c) Both (a) and (b) (d) None of the above
33. Which of the measures are use to Reduce or Correct Different Deficits?
 (a) Borrowing from international monetary institution and other countries
 (b) Lowering government expenditure
 (c) Increasing government revenue
 (d) All of the above
34. Due to which of following reasons, government budget is a subject of importance for a variety of reasons?
 (a) Planned approach to the government's activities (b) Integrated approach to fiscal operations
 (c) Affecting economic activities (d) All of above
35. The Government makes provisions in the government budget to spend on technology, health, Infrastructure and it will develop the economy and will increase the _____ of the nation which leads to growth in the Economy.
 (a) Real GDP (b) Nominal GDP (c) NDP (d) None of above
36. "The government can do this by levying taxes and granting subsidies: impose taxes on the wealthy while spending more on the poor's welfare. It will lower the income of the wealthy while raising the standard of life of the poor." Which objective of budget is achieved in above given lines?
 (a) Reallocation of resources (b) Reducing regional disparities
 (c) Bridging income disparity (d) Both (a) and (c)
37. "Surplus budget policies during inflation and deficit budget policies during deflation help to keep prices stable throughout the economy." Which objective of budget is achieved in above given lines?
 (a) Reallocation of resources (b) Reducing regional disparities
 (c) Attainment of economic stability (d) Management of Public enterprises
38. "While budgets cannot guarantee 100% economic stability, they do assist in avoiding failure. A budget is a tool for transforming a broad concept into a concrete, actionable, and aspirational aim. It serves as a tool for identifying and focusing on the development of disadvantaged people," these are:
 (a) Importance of budgeting (b) Objectives of budgeting
 (c) Limitations of budgeting (d) None of above
39. "Impacts the budget in three levels: firstly, it promotes aggregate fiscal discipline by controlling expenditures about revenues; secondly, country resources are allocated based on social priorities; and lastly, it contains effective and efficient programs for the delivery of goods and services to meet the budget's targets and goals." These are impacts of budget on:
 (a) Government (b) Society (b) General public (c) None of above
40. There has been a persistent deficit budget year after year. Which action/actions of the following can be taken by the Government to reduce the deficit?
 (1) Reducing revenue expenditure (2) Introducing new welfare schemes
 (3) Rationalizing subsidies (4) Reducing import duty
 Select the correct answer using the code given below.
 (a) 1 only (b) 2 and 3 only (c) 1 and 3 only (d) 1, 2, 3 and 4
41. The Budget document consists of the Actual transactions of the past year, revised estimates for the _____, and the Budget estimates for the _____. For instance, Union Budget 2022-2023 provided the Actual transactions for 2020-2021, revised estimates for 2021-2022, and budget estimates for the FY 2022-2023.
 (a) Current year, next year (b) Next year, current year
 (c) This year, that year (d) None of above

42. Union Budget 2022-23 has emphasized:
 (a) Giving a push to infrastructure, (b) Promoting technology-enabled development
 (c) Energy transition, and climate action. (d) All of the above
43. Primary deficit is borrowing requirement of government for making:
 (a) Interest payment (b) Other than interest payment
 (c) All types of payments (d) Some specific payments
44. If the fiscal deficit is ₹800 crore and interest payment is ₹170, then primary deficit:
 (a) ₹800 crore (b) ₹630 crore (c) ₹700 crore (d) ₹170 crore
45. A government budget, revenue deficit is ₹90,000 crores and borrowings are ₹1,10,000 crores. The fiscal deficit will be:
 (a) ₹1,10,000 crores (b) ₹10,000 crores (c) ₹90,000 (d) None of above
46. The non-tax revenue in the following is:
 (a) Export duty (b) Import duty (c) Dividends (d) Excise
47. Tax, the impact of which lies on the person on whom it is legally imposed, is known as:
 (a) Indirect tax (b) Direct tax (c) Value added tax (d) None of these
48. What is the annual statement of the government's fiscal revenue and fiscal expenditure known?
 (a) Budget (b) Fiscal budget (c) Capital budget (d) All of these
49. On the basis of above given information revenue deficit is:

S.No.	Items	Rs. (cr.)
01	Tax revenue	47
02	Capital receipts	34
03	Non-tax revenue	10
04	Borrowings	32
05	Revenue expenditure	80
06	Interest payments	20

- (a) ₹23 crore (b) ₹13 crore (c) ₹43 crore (d) None of above

[Hint: (a) Revenue Deficit = Revenue expenditure – (Tax revenue + Non-tax revenue)
 $80 - (47 + 10) = 80 - 57 = 23$ (cr.)]

50. Revenue Deficit = Revenue expenditure – Revenue receipts = 3, 10,566 – 2, 31,745 = ₹78,821 billion.
 Primary deficit = Fiscal deficit – Interest payments = 1, 16,314 – 1, 12,300 = ₹4,014 billion.

Items	₹ (cr.)
(i) Revenue expenditure	70000
(ii) Borrowings	15000
(iii) Revenue receipts	50000
(iv) Interest payments	25% of revenue deficit

From the following data about a government budget find primary deficit:

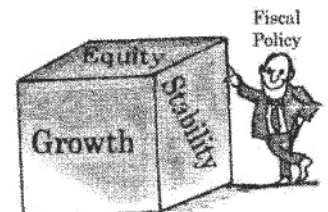
- (a) ₹15000 crore (b) ₹10000 crore (c) ₹20000 crore (d) None of these
51. The primary deficit in a government budget refers to:
 (a) Borrowing requirements (b) Interest payments requirements
 (c) (a) less (b) (d) (a) + (b)
52. Which of the following statements is true?
 (a) fiscal deficit is the difference between total expenditure and total receipts
 (b) Fiscal deficit is difference between total receipt and interest payments
 (c) Fiscal deficit is the sum of primary deficit and interest payments
 (d) Primary deficit is the difference between revenue deficit and interest payments.

53. Zero primary deficit means that the government has to resort to borrowings only to make
 (a) Interest Payment (b) fiscal payment
 (c) Capital payment (d) Primary Payment
54. The government starts selling its securities to the private sector. What is the process called?
 (a) Open market Operation (b) Disinvestment
 (c) Monetary expansion (d) All of the above
55. Which of the following is a source of capital receipt?
 (a) Foreign donations (b) Dividends (c) Dis-investment (d) Indirect taxes
56. On the basis of above given information Fiscal deficit is:

S.No.	Items	₹ (cr.)
01	Tax revenue	47
02	Capital receipts	34
03	Non-tax revenue	10
04	Borrowings	32
05	Revenue expenditure	80
06	Interest payments	20

- (a) Equal to borrowings (b) ₹32 crore (c) Both (a) and (b) (d) None of above
57. In an economy, Tax revenue is ₹70 crore, Capital receipts is ₹40 crores, non tax revenue is ₹5 crore, borrowings are ₹47 crore, revenue expenditure is ₹130 crore, interest payments are ₹9 crores. Primary deficit is:
 (a) Borrowings and Interest payments (b) Borrowings – Interest payments
 (c) ₹34 crore (d) Both (b) and (c)
58. A national rail plan has been prepared by Indian Railways for India. The plan is to create a future-ready railway system by
 (a) 2030 (b) 2025 (c) 2035 (d) 2040
59. FM Nirmala Sitharaman announced the setting up of a DFI. What does 'F' refer to in DFI?
 (a) Financial (b) Finance (c) Funds (d) Federal
60. As per the budget, 1.97 lakh crore is allocated in the next 5 years for the PLI scheme in 13 sectors to create and nurture manufacturing global champions for Atmanirbhar Bharat. What does 'L' refer to in PLI?
 (a) Leverage (b) Lease (c) Ledger (d) linked
61. Suppose you are a member of the "Advisory Committee to the Finance Minister of India". The Finance Minister is concerned about the rising Revenue Deficit in the budget, Measure to control the rising Revenue Deficit of the government (suggested by you) are:
 (a) To reduce government administrative expenses. (b) To reduce the burden of subsidy
 (c) To increase taxation (d) All of above

62. Fiscal policy uses government spending and tax policies to influence macroeconomic conditions, including aggregate demand, employment, and inflation. In which of the following conditions should fiscal policy be used to curb inflation?



How does the fiscal policy try to achieve its basic objectives?

- (a) a government can use fiscal policy to increase taxes to suck money out of the economy.
 (b) Fiscal policy could also dictate a decrease in government spending
 (c) Fiscal policy leads to decrease the money in circulation in different ways
 (d) All of the above

63. The system of G.S.T as compared to the old tax system is good. In regard of GST Which of the following statement is true?
- Under GST, there will be uniform e-registration depending upon the PAN of the entity.
 - Under GST, tax will be levied at the place of consumption, like a destination-based tax.
 - Under GST, the process is uniform and the dates for collecting or depositing tax and filing returns are common.
 - All of above
64. Suppose marginal propensity to consume is 0.75 and there is a 20 per cent proportional income tax. The change in equilibrium income for Government purchases increase by 20 is:
- 40
 - 50
 - 60
 - None of above
65. If the government revenue is just equal to the government expenditure made by the general government, the budget is:
- Surplus budget
 - Deficit budget
 - Balanced budget
 - None of above
66. A tax that increases with the increase in income and decreases with the fall in income is called a _____ tax. The higher the income of a taxpayer, the higher is the proportionate tax he pays.
- Progressive tax
 - Proportional tax
 - Regressive tax
 - None of above
67. We suppose that the marginal propensity to consume is 0.75 and we have lump-sum taxes. The change in equilibrium income when government purchases increase by 20 is given by $\Delta Y = \Delta G = 4 \times 20 = 80$. An increase in transfers of 20 will raise equilibrium income by $\Delta Y = \Delta TR = 3 \times 20 = 60$. Thus, we find that income increases by less than it increased with a rise in _____
- Private expenditure
 - Government purchases
 - Public expenditure
 - None of above
68. Who presented the union budget 2020 in parliament?
- Nirmala Sitharaman
 - Nitin Gadkari
 - Smriti Zubin Irani
 - Narendra Modi
69. Who presented the first Union Budget of Independent India?
- Yashwant Sinha
 - C. D. Deshmukh
 - R.K. Shanmukham Chetty
 - T.T. Krishnamachari
70. The difference between the actual government budget deficit and its debt service payments is defined as
- Primary budget deficit.
 - Cyclically-adjusted budget deficit.
 - Exogenous budget deficit.
 - Smoothed the budget deficit.
- [Hint: to keep government debt from growing it is necessary to have a primary budget surplus exactly equal to the size of the debt service payments.]**
71. Primary deficit in a government budget will be zero, when.
- Revenue deficit is zero
 - Net interest payment is zero
 - Fiscal deficit is zero
 - Fiscal deficit is equal to interest payment.
72. Which one of the following is not a capital expenditure?
- Loans advanced by World Bank
 - Construction of school building
 - Repayment of loans
 - Tax payments.
73. Disinvestment by government means
- Selling of its fixed capital assets
 - Selling of shares of Public enterprises held by it
 - Selling of its building
 - All of above.
74. Primary Deficit equals:
- Borrowings
 - Interest payments
 - Borrowing less interest payments
 - Borrowing and Interest payments both

75. 'Subsidy received from World Bank' is a receipt of _____
 (a) Revenue nature (b) Capital nature (c) Development charges (d) None of these.
76. What is the nature of income tax in India?
 (a) Regressive (b) Proportional (c) Progressive (d) None of these.
77. 'Recovery of loans' is a receipt of which of the following nature _____
 (a) Revenue (b) Capital (c) Either of the two (d) Neither of two.
78. Which of following is a non-tax revenue receipt?
 (a) GST (b) Export duty (c) Development charges (d) Corporate tax.
79. Which of the following statements is true?
 (a) Fiscal deficit= Revenue receipts + Capital receipts – Total Expenditure.
 (b) Fiscal deficit= Total Expenditure-Total Receipts other than borrowings
 (c) Both A and B are true. (d) Both A and B are false.
80. Which of the following statements is true?
 (a) Government's expenditure on essential services like administration, justice, defense are called non-development expenditure.
 (b) Government's expenditure on constructions of roads, hospitals, buildings are called development expenditure.
 (c) Both A and B are true (d) Both A and B are false
81. Which of the following statement is true or false? A fiscal deficit:
 (a) Represents the borrowing of the government.
 (b) Is the difference between total expenditure and total receipts of the government.
 (c) is the difference between total expenditure and total receipts other than borrowing.
 (d) Increases the future liability of the government
82. Which of the following statement is true or false?
 (a) Loans from IMF is a Revenue Receipt.
 (b) Higher revenue deficit necessarily leads to higher fiscal deficit.
 (c) The government Borrowing by a government represents a situation of fiscal deficit.
 (d) Revenue deficit is the excess of capital receipts over the revenue receipts.
83. An annual statement of the estimated receipts and expenditure of the government over the fiscal year is known as
 (a) Budget (b) Income estimates
 (c) The Government Account (d) Expenditure
84. Which of the following is an example of direct tax?
 (a) VAT (b) Excise duty (c) Entertainment tax (d) Wealth tax
85. When government spends more than it collects by way of revenue, it incurs _____
 (a) Budget surplus (b) Budget deficit (c) Capital expenditure (d) Revenue expenditure
86. Which of the following is the component of a budget?
 (a) Fiscal budget (b) Capital budget (c) Both of these (d) None of these
87. The amount collected by the government as taxes and duties is known as _____
 (a) Capital receipts (b) Tax revenue receipts
 (c) Non-tax revenue receipts (d) All of these
88. The amount collected by the government in the form of interest, fees, and dividends is known as _____
 (a) Tax-revenue receipts (b) Capital receipts
 (c) Non-tax revenue receipts (d) None of these
89. Borrowing in the government budget is:
 (a) Revenue deficit (b) Fiscal deficit (c) Primary deficit (d) Deficit in taxes
90. 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

91. Which objectives government attempts to obtain by Budget?
 (a) To Promote Economic Development (b) Balanced Regional Development
 (c) Redistribution of Income and Wealth (d) All the above
92. The expenditures which do not create assets for the government is called:
 (a) Revenue Expenditure (b) Capital Expenditure (c) Both (a) and (b) (d) None of the above
93. Which type of expenditure is made in bridge construction?
 (a) Capital Expenditure (b) Revenue Expenditure (c) Both (a) and (b) (d) None of the above
94. Which of the following budget is suitable for developing economies?
 (a) Deficit Budget (b) Balanced Budget (c) Surplus Budget (d) None of these
95. Which of the following is not a revenue receipt?
 (a) Recovery of Loans (b) Foreign Grants
 (c) Profits of Public Enterprise (d) Wealth Tax
96. Which of the following is a correct measure of the primary deficit?
 (a) Fiscal deficit minus revenue deficit
 (b) Revenue deficit minus interest payments
 (c) Fiscal deficit minus interest payments
 (d) Capital expenditure minus revenue expenditure
97. Which of the following are the capital receipts of the government Borrowings?
 (a) Borrowings (b) Recovery of loans (c) Disinvestment (d) All of these
98. One of the Implication of Fiscal deficit is
 (a) It increases the supply of money in the economy
 (b) It decreases the supply of money in the economy
 (c) It maintains the supply of money in the economy
 (d) It does not affect the supply of money in the economy
99. Another implication of fiscal deficit is
 (a) it does not affect financial burden for future generation.
 (b) it decreases financial burden for future generation
 (c) it increases financial burden for future generation
 (d) it maintains financial burden for future generation
100. Direct tax is a tax whose.
 (a) The liability to pay lies on one and incidence lies on the other person
 (b) The liability to pay and incidence do not lie on the same person
 (c) The liability to pay and incidence do lie on the government
 (d) The liability to pay and incidence do lie on the same person
101. Indirect tax is a tax in which _____
 (a) The liability to pay and incidence do lie on the same person
 (b) The liability to pay lies on one and incidence lies on the other person
 (c) The liability to pay and incidence do lie on the government
 (d) The liability to pay and incidence do not lie on the same person
102. A deficit budget is one where _____
 (a) Estimated revenues > estimated expenditure
 (b) Estimated revenues < estimated Receipts of the Government
 (c) Estimated revenues = estimated expenditure
 (d) Estimated revenues < estimated expenditure

INPUT TEXT BASED MCQs

Read the following passage and write answers of Q103–Q107

In the last thirteen years since the (Fiscal Responsibility & Budget Management) FRBM act was enacted, the Indian economy has graduated to a middle income country. At the time of enactment of the FRBM, there was a general thinking that fiscal rules were better than discretion. However, since then the advanced countries have moved away from this but in India, the government has affirmed its faith in the fiscal policy principles set out in the FRBM. Therefore, there is support for retaining the basic operational framework designed in 2003 but to revamp it to incorporate the changing scenario in India and also with an eye for the future path of growth – the task that has been handed to the FRBM Review Committee.

103. Who presents the budget in parliament?
(a) Prime minister (b) Finance minister (c) Home minister (d) President of India
104. Which of the objective/objectives of FRBM Act:
(a) The FRBM Act aims to introduce transparency in India's fiscal management systems.
(b) The Act's long-term objective is for India to achieve fiscal stability and to give the Reserve Bank of India flexibility to deal with inflation in India.
(c) The FRBM Act was enacted to introduce more equitable distribution of India's debt over the years.
(d) All of the above
105. Interim budget is also known as _____
(a) Mini budget (b) Vote on account (c) Both (a) and (b) (d) None of above
106. Which of the following statement/statements is true?
(a) The three functions of allocation, redistribution, and stabilization are operated through the expenditure and receipts of the government.
(b) Public goods are collectively consumed.
(c) Expenditure made on the establishment of the metro rail line in Delhi is a capital expenditure.
(d) All of above
107. The fiscal deficit is the difference between the government's total expenditure and its total receipts excluding
(a) Interest (b) Taxes (c) Spending (d) Borrowings

Read the following passage and write answers of Q108–Q111

Budgetary deficits must be financed by either taxation, borrowing or printing money. Governments have mostly relied on borrowing, giving rise to what is called government debt. The concepts of deficits and debt are closely related. Deficits can be thought of as a flow which adds to the stock of debt. If the government continues to borrow year after year, it leads to the accumulation of debt and the government has to pay more and more by way of interest. These interest payments themselves contribute to the debt. Perspectives on the Appropriate Amount of Government Debt: There are two interlinked aspects of the issue. One is whether government debt is a burden and two, the issue of financing the debt. The burden of debt must be discussed keeping in mind that what is true of one small trader's debt may not be true for the government's debt, and one must deal with the 'whole' differently from the 'part'. Unlike any one trader, the government can raise resources through taxation and printing money.

108. _____ refers to public revenue, expenditure and allied matters.
(a) Fiscal policy (b) Monetary policy (c) Economic policy (d) Social policy
109. Primary deficit in a government budget will be zero, when _____
(a) Revenue deficit is zero (b) Net interest payment are zero
(c) Fiscal deficit is zero (d) Fiscal deficit is equal to interest payment
- [Hint: Primary deficit indicates borrowing requirements of the government to meet fiscal deficit net of interest payments.]
110. Purchase of shares is related to:
(a) Revenue (b) Revenue expenditure (c) Capital receipt (d) Capital expenditure

111. The government will privatize _____ Public sector banks.
(a) One (b) Two (c) Three (d) None of above

Read the following passage and write answers of Q112–Q115

India has scaled back expenditure, including on productive assets that aid economic growth, as the government is confronted with the risk of its budget deficit blowing out. Capital expenditure – the Money spent on creating, maintaining, or improving fixed assets like roads and factories- stood at 40% of the budgeted amount in the six months to September, down from 55.5% in the year-ago Period, data from the government’s Controller General of Accounts show. The overall spending during the period was 49% of the budget aim compared to 53% last year. That’s despite Prime Minister Narendra Modi’s government outlining measures worth more than 21 trillion rupees (\$ 281 billion) to counter the economic and social fallout of the Covid-19 outbreak. A closer look at the numbers show the bulk of the spending was directed toward the poor and the farmers, with crucial sectors such as coal, power, shipping and steel receiving less than a third of their annual budget allocation. Spending on capital assets has so far trailed the so-called revenue expenditure that includes interest payments and overheads such as salaries, the data released last week showed.

Modi’s government placed spending curbs on some ministries from April through December to manage its cash flow.

112. A reduction in capital expenditure i.e., the money spent on creating maintaining or improving fixed assets is done to reduce the risk of _____ deficit.
(a) revenue (b) budget (c) Both (a) and (b) (d) all of these
113. Allocation of resources in the budget in the six months to September 2020 is directed towards _____
(a) Economic upliftment of the economy (b) Social upliftment of the economy
(c) The poor and the farmers (d) all of these
114. Capital expenditure refers to the estimated expenditure of the government in a fiscal year which _____ the savings.
(a) reduces (b) increases (c) Both (a) and (b) (d) None of these
115. Identify which of the following statements is false.
(a) The government can finance its budgetary deficit through borrowings, disinvestment and deficit financing.
(b) Fiscal deficit equals borrowings.
(c) Recovery of loans is a revenue receipt. (d) Interest on loans is a non-tax revenue receipt.

Read the following passage and write answers of Q116–Q119

In the year 2016-17, the government of Philippines had a budget deficit of \$ 7 billion. Its revenue from direct and indirect taxes was not adequate to finance its spending. The Philippine government spent its deficit on infrastructure and education which will help to boost economic growth and will reduce unemployment. Government continued its deficit budget strategy in the year 2017-2018 also. It helped in raising consumer’s confidence. Indeed, in an international survey it was claimed that consumer confidence in Philippines ranked highest in the world.

Average household disposable income in Philippines during 2016 was \$ 6000 with S 5000 being spent on consumption. Thus, budget deficit proved to be biggest boon for Philippines economic growth. Wages in 2016 varied between different sector Wages in tertiary and manufacturing sector were higher than primary sector. It resulted a fall of Workers in primary sector. Moreover, the proportion of workers in public sector was also on decline.

Central Bank of Philippines has reduced its bank rate in order to reduce rate of interest. It helped consumers to buy more car and other consumer durable goods. A fall in rate of interest was also encouraging producer to invest more tor capital formation and economic growth of the country. It has also resulted in fluctuations in the rate of inflation in different sectors of the economy.

116. Which of following caused budget deficit in Philippines?
(a) Excess expenditure (b) Less revenue from taxes
(c) Increase in public expenditure (d) All of these.
117. Government expenditure on infrastructure and education helped in raising _____
(a) Consumer confidence (b) Deficit budget (c) Both (a) and (b) (d) None of these
118. Fiscal deficit proved to be a _____ for Philippines economy.
(a) Boon (b) bane (c) Both (a) and (b) (d) None of these

119. During the year 2016-17, budget deficit in Philippines was to the extent of _____
(a) \$ 7 Billions (b) S 10 Billion (c) \$ 70 Billions (d) None of these

Read the following passage and write answers of Q120–Q121

Public expenditure has a typical nature of its spending Government plans its annual pending first and then its financing is planned. Whatever excess of annual expenditure is found over annual financing is known as 'Revenue deficit'. Such a deficit does not create any borrowing burden upon the economy. But when Capital expenditure is in excess of Capital receipts, it creates the burden of borrowing upon the economic system. Technically it is known as fiscal deficit. A constant rise in fiscal deficit is worry some for Economists as it becomes inflationary and creates unequal distribution of income. Economists, therefore set a maximum limit of 3% of GDP as fiscal deficits for the developing countries.

We must note that the borrowing requirement of the government includes interest obligation on accumulated debts. To obtain an estimate of borrowing on account of current expenditures exceeding revenues, we need to calculate what has been called the primary deficit. It is simply fiscal deficit minus interest payment. The main goal of calculating primary deficit is to focus on present fiscal-imbalances.

120. Which of following are the benefits of fiscal deficit?
(a) Creates inflationary pressure (b) Promotes capital formation
(c) Creates borrowing burden (d) None of these
121. Which of following is the demerit of fiscal deficit?
(a) Inflationary (b) Creates inequalities of distribution of income
(c) Promotes borrowing burden (d) All of these.

Read the following passage and write answers of Q122–Q125

One of the most distressing years by far, 2020 marked the year of a deadly pandemic that drastically impacted health, businesses, and communities across the globe. The Indian economy also got battered due to the subsequent lockdown which exposed gaps in the supply chain and delays in working around the social distancing norms. Critical indicators such as de-growth in the economy, contraction in GDP, widening of fiscal deficit, and high inflation have highlighted the severe strike on the economy in the past year.

But as it is said, 'There is hope after despair and many suns after darkness', similarly, the Indian economy has started showing signs of recovery. Faced with the daunting twin tasks of pulling back the economy from the clutches of de-growth, a slew of fiscal and non-fiscal measures were taken during the year to rebound the economy from the aftermath of the pandemic. This is evidenced by the pre-budget Economic Survey's projection of 11% growth in real GDP for 2021. Laying a vision for AtmaNirbhar Bharat, the Hon'ble Finance Minister has rested the budget proposals on six pillars – health and wellbeing, physical and financial capital and infrastructure, inclusive development for aspirational India, reinvigorating human capital, innovation and R&D, and minimum government – maximum governance.

Overall, against the backdrop of the fiscal constraints within which the Finance Minister had to operate, the measures announced seem to be in the right direction. These measures may accelerate overall growth along with healthcare development, consumption surge, and provide support to infrastructure developments, if implemented in the time to come.

122. The substantial rise in prices are called:
(a) Inflation (b) Deflation (c) Both (a) and (b) (d) None of these
123. 'Atmanirbhar Bharat Abhiyaan' support Indian Economy to fight against
(a) COVID-19 (b) Terrorism (b) Both (a) and (b) (d) None of these
124. Fiscal deficit is shows:
(a) Excess of expenditure over receipts (b) Excess of receipts over expenditure
(c) Expenditure equal to receipts (d) None of these
125. The difference between real GDP and nominal GDP is the adjustment for
(a) Deflation (b) Inflation (c) Both (a) and (b) (d) None of these

Read the following passage and write answers of Q126–Q129

There is a constitutional requirement in India (Article 112) to present before the Parliament a statement of estimated receipts and expenditures of the government in respect of every financial year which runs from 1 April to 31 March. This 'Annual Financial Statement' constitutes the main budget document of the government.

Although the budget document relates to the receipts and expenditure of the government for a particular financial year, the impact of it will be there in subsequent years. There is a need therefore to have two accounts- those that relate to the current financial year only are included in the revenue account (also called revenue budget) and those that concern the assets and liabilities of the government into the capital account (also called capital budget). In order to understand the accounts, it is important to first understand the objectives of the government budget.

126. Revenue budget do not affects:
 (a) Assets and liabilities (b) Only assets. (c) Both (a) and (b) (d) None of these
127. Capital expenditure:
 (a) Either create assets or reduce liabilities (b) Either create liabilities or reduce assets
 (c) Both (a) and (b) (d) None of these
128. Which of the following is indirect tax?
 (a) Income tax (b) Corporate tax (c) Wealth tax (d) None of these
129. Who present the Union Budget in Parliament?
 (a) Defence minister (b) Finance minister
 (c) Home minister (d) Commerce and textile minister

Read the following passage and write answers of Q130–Q131

Externalities refer to the harms (or benefits) a firm or an individual causes to another for which they are not penalized (or paid for). Externalities may be positive or negative. For example, increase in government's expenditure on education of individuals can lead to broader society benefits in the form of greater economic productivity, lower unemployment rate, greater household mobility and higher rate of political participation.

130. Positive Externalities refer to the:
 (a) Benefits of a firm or individual (b) Harms of a firm or individual
 (c) Both (a) and (b) (d) None of these
131. Government's expenditure on education lead to:
 (a) Create Employment Opportunities (b) Reduce Poverty
 (c) Economic Productivity (d) All of these

ANSWERS

Multiple Choice Questions

- | | | | | | | | | | |
|----------|----------|---------|---------|---------|---------|---------|---------|---------|----------|
| 1. (b) | 2. (b) | 3. (a) | 4. (b) | 5. (d) | 6. (d) | 7. (a) | 8. (a) | 9. (d) | 10. (c) |
| 11. (c) | 12. (a) | 13. (b) | 14. (b) | 15. (c) | 16. (c) | 17. (b) | 18. (a) | 19. (d) | 20. (c) |
| 21. (b) | 22. (b) | 23. (a) | 24. (d) | 25. (a) | 26. (a) | 27. (c) | 28. (d) | 29. (c) | 30. (c) |
| 31. (d) | 32. (a) | 33. (d) | 34. (d) | 35. (a) | 36. (d) | 37. (c) | 38. (a) | 39. (b) | 40. (c) |
| 41. (a) | 42. (d) | 43. (b) | 44. (b) | 45. (a) | 46. (c) | 47. (b) | 48. (b) | 49. (a) | 50. (b) |
| 51. (b) | 52. (c) | 53. (c) | 54. (b) | 55. (c) | 56. (c) | 57. (d) | 58. (a) | 59. (a) | 60. (?) |
| 61. (d) | 62. (d) | 63. (d) | 64. (b) | 65. (c) | 66. (a) | 67. (b) | 68. (a) | 69. (c) | 70. (a) |
| 71. (d) | 72. (d) | 73. (b) | 74. (c) | 75. (a) | 76. (c) | 77. (b) | 78. (c) | 79. (b) | 80. (c) |
| 81. (c) | 82. (c) | 83. (a) | 84. (b) | 85. (c) | 86. (c) | 87. (b) | 88. (c) | 89. (b) | 90. (c) |
| 91. (d) | 92. (a) | 93. (a) | 94. (a) | 95. (a) | 96. (c) | 97. (d) | 98. (a) | 99. (c) | 100. (d) |
| 101. (b) | 102. (d) | | | | | | | | |

Input Text Based MCQs

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|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| 103. (b) | 104. (d) | 105. (c) | 106. (d) | 107. (d) | 108. (a) | 109. (d) | 110. (d) | 111. (b) | 112. (b) |
| 113. (d) | 114. (a) | 115. (c) | 116. (a) | 117. (a) | 118. (a) | 119. (a) | 120. (b) | 121. (d) | 122. (a) |
| 123. (a) | 124. (a) | 125. (b) | 126. (a) | 127. (a) | 128. (d) | 129. (b) | 130. (a) | 131. (d) | |

