

ECONOMICS

(Macro-Economics)



Important Questions

Multiple Choice questions-

Q1. Which one of the following is a combination of direct taxes?

- (a) Excise duty and wealth tax
- (b) Service tax and income tax
- (c) Excise duty and service tax
- (d) Wealth tax and income tax

Q2. Which of the following statement is true?

- (a) Loan from IMF is a revenue receipt.
- (b) Higher revenue deficit necessarily leads to higher fiscal deficit.
- (c) Borrowings by the government represent a situation of fiscal deficit.
- (d) Revenue deficit is the excess of capital received over the revenue receipts.

Q3. Which of the following is not a revenue receipt?

- (a) Recovery of loans
- (b) Foreign grants
- (c) Profit of public enterprises
- (d) Wealth tax

Q4. Primary deficit is borrowing requirements of the government for payment(s)

- (a) of interest
- (b) other than interest
- (c) of all types
- (d) that are specific

Q5. Which of the following sources of receipts in the government budget increases its liabilities?

- (a) Direct taxes
- (b) Recovery of loans
- (c) Borrowings
- (d) Dividend from PSUs

Q6. Which of the following is an indirect tax?

- (a) Profit tax

- (b) Wealth tax
- (c) Custom duty
- (d) Gift tax

Q7. 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

Q8. Borrowing in the government budget is:

- (a) Revenue deficit
- (b) Fiscal deficit
- (c) Primary deficit
- (d) Deficit in taxes

Q9. The non-tax revenue in the following is:

- (a) Export duty
- (b) Import duty
- (c) Dividends
- (d) Excise

Q10. The primary deficit in a government budget will be zero, when

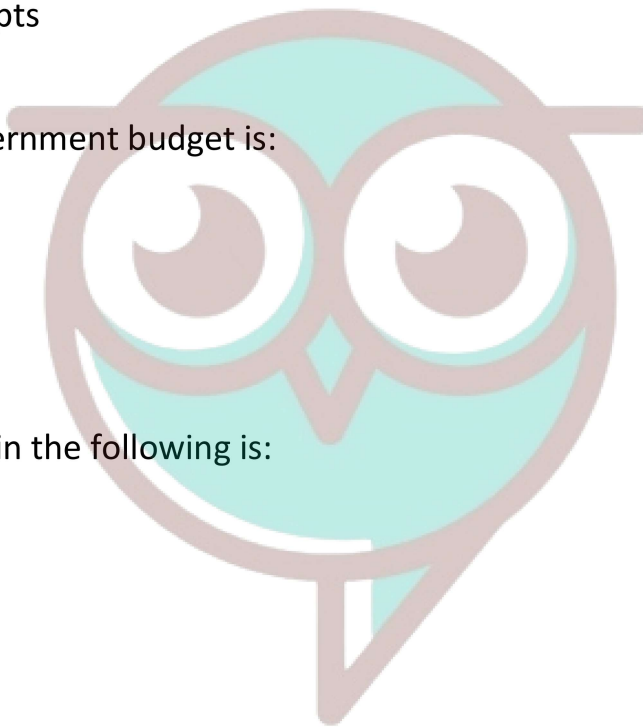
- (a) Revenue deficit is zero
- (b) Net interest payments are zero
- (c) Fiscal deficit is zero
- (d) Fiscal deficit is equal to interest payment

Q11. Direct tax is called direct because it is collected directly from:

- (a) The producers on goods produced
- (b) The sellers on goods sold
- (c) The buyers of goods
- (d) The income earners

Q12. Financial Year in India is:

- (a) April 1 to March 31



Swotters

- (b) January 1 to December 31
- (c) October 1 to September 30
- (d) None of the above

Q13. 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

Q14. Which is a component of Budget?

- (a) Budget Receipts
- (b) Budget Expenditure
- (c) Both (a) and (b)
- (d) None of the above

Q15. Which is a component of the Budget Receipt?

- (a) Revenue Receipt
- (b) Capital Receipt
- (c) Both (a) and (b)
- (d) None of the above

Very Short Questions-

1. Define a Budget.
2. What are the two types of taxes?
3. What are the main items of Capital Receipt?
4. What are the four different concepts of Deficits?
5. Give two examples of Developmental Expenditure.
6. Define Surplus Budget.
7. Give two examples of Non – Developmental expenditures.
8. What are the two types of Revenue Receipts?

Short Questions-

1. Define Direct taxes and Indirect taxes. Also give two examples of each.
2. What are the three major ways of Public Expenditure?

3. Explain the four different concepts of Budget deficit.
4. Explain the objectives of the Government Budget.
5. What are the Non-Tax Revenue receipts?

Long Questions-

1. The following figures are based on budget estimates of Govt. of India for the year 2016-17. Calculate:

1. Fiscal deficit
2. Revenue deficit
3. Primary deficit

ITEMS	Rs. BILLIONS
A) Revenue receipts	2,31,745
i) Tax Revenue	1,63,031
ii) Non-tax Revenue	68,714
B) Capital receipts	1,43,478
i) Recoveries of loans	15,164
ii) Other receipts	12,000
iii) Borrowings and other liabilities	1,16,314
C) Revenue expenditure	3,10,566
i) Interest payments	1,12,300
ii) Major subsidies	27,845
iii) Defence Expenditure	1,70,421
D) Capital Expenditure	64,657
E) Total Expenditure	3,75,223
i) Plan expenditure	1,00,100
ii) Non-plan expenditure	2,75,123

2. What is a balanced government budget? Explain the multiplier effect of a balanced budget.
3. Explain the objectives of resource allocation and income distribution in a government budget.

4. How is tax revenue different from administrative revenue?
5. Explain the concept of fiscal deficit in a government budget. What does it indicate?

Case Study Based Question-

1. Read the following hypothetical text and answer the given questions: -

Public expenditure accelerates the pace of GDP growth. Higher rate of GDP growth is achieved through (a) investment expenditure in public sector enterprises, (b) capital grants by the government for the purchase of capital equipment, (c) subsidies for the purchase of inputs, and (d) purchase of farm output at the minimum support price. Public expenditure promotes equality in the distribution of income and wealth. This is achieved by offering old-age pensions, as well as by providing free food, education, and health services to the Below Poverty Line Population.

Public expenditure plays a significant role in restoring economic stability. Particularly, when the economy is battling economic recession. The government expenditure (consumption expenditure as well as investment expenditure) raises the level of AD. Only when AD is raised that the vicious circle of economic recession is broken. Public expenditure generates investment-friendly environment in the economy. The government spends money on infrastructural development. It constructs roads, dams, bridges. It introduces faster and convenient means of transportation. Such facilities promote inducement to investment. Briefly, public expenditure is indispensable in any welfare state like India. It not only promotes GDP growth, but also promotes social welfare.

Questions:

1. The construction of roads, dams, bridges is called.
 - a. Social development
 - b. Infrastructure development
 - c. Industrial development
 - d. Agrarian development
2. The government expenditure does not raise the level of AD:
 - a. True
 - b. False
3. Which is included in the non-transfer income:
 - a. Old age pension
 - b. Subsidies

- c. Retirement pension
- d. Scholarship

2. Read the following hypothetical text and answer the given questions: -

GDP growth is the central objective of government budgetary policy. It is achieved in two ways: (i) by making public investment expenditure, and (ii) by inducing private investment expenditure (through tax rebates and subsidies).

Allocation of Resources: Private enterprises will always desire to allocate resources to those areas of production where profits are high. However, it is possible that such areas of production (like production of alcohol) may not promote social welfare. Through its budgetary policy, the government of a country directs the allocation of resources in a manner such that there is a balance between the goals of profit maximisation and social welfare. Production of goods which are injurious to health (like Cigarettes and Whisky) is discouraged through heavy taxation. On the other hand, production of 'socially useful goods' (like, 'Khadi') is encouraged through subsidies.

Questions:

1. Public enterprises will always desire to allocate resources to those areas of production, where:
 - a. Profits are high
 - b. Cost is low
 - c. Social welfare is high
 - d. Revenue is high
2. GDP growth is the central objective of government budgetary policy.
 - a. True
 - b. False
3. Suitable title for the passage:
 - a. GDP
 - b. Private enterprises
 - c. Subsidies
 - d. Government Budget

Assertion Reason Type Question-

1. In these questions, a statement of assertion followed by a statement of reason is given. Choose the correct answer out of the following choices.
 - a. Both Assertion (A) and Reason (R) are true,

- b. Both Assertion (A) and Reason (R) are false.
- c. Assertion (A) is true and Reason (R) is false.
- d. Assertion (A) is false and Reason (R) is true.

Assertion: Cigarettes and Whisky are discouraged through heavy taxation.

Reason: These are 'socially useful goods'

2. In these questions, a statement of assertion followed by a statement of reason is given. Choose the correct answer out of the following choices.
- a. Both Assertion (A) and Reason (R) are true, (R) is correct explanation of (A).
 - b. Both Assertion (A) and Reason (R) are true but (R) is not correct explanation of (A).
 - c. Assertion (A) is true and Reason (R) is false.
 - d. Assertion (A) is false and Reason (R) is true.

Assertion (A): GST is an indirect tax.

Reason (R): because it is imposed on goods and services.

MCQ Answers-

1. (d) Wealth tax and income tax
2. (c) Borrowings by the government represent a situation of fiscal deficit.
3. (a) Recovery of loans
4. (b) other than interest
5. (c) Borrowings
6. (c) Custom duty
7. (c) Non-tax revenue receipts
8. (b) Fiscal deficit
9. (c) Dividends
10. (d) Fiscal deficit is equal to interest payment
11. (d) The income earners
12. (a) April 1 to March 31
13. (d) All the above
14. (c) Both (a) and (b)
15. (c) Both (a) and (b)

Very Short Answers-

Ans 1: The budget is a statement of the government's expected receipts and expenditures

for the fiscal year. A fiscal year in a country (most notably India) goes from April 1 to March 31.

Ans 2: Direct and indirect taxes are the two most common types of taxes.

1. Income tax, interest tax, and wealth tax are all examples of direct taxes.
2. Indirect taxes include items like customs duties, excise duties, and sales taxes, among others.

Ans 3: The primary items are:

1. Market Loans raised by the government from the general population.
2. Government Borrowings.
3. Loans from foreign governments and international financial institutions.

Ans 4: Budget deficit, revenue deficit, primary deficit, and fiscal deficit are the four main types of deficits.

Ans 5: Economic services provided by railways and postal services, as well as grants to states and union territories, are two examples.

Ans 6: When expected revenues exceed estimated expenditures in a given year, the result is a surplus budget.

Ans 7: Defence expenditure and interest on payments are two examples of such expenditures.

Ans 8: Tax revenue and non-tax revenue are the two types of revenue received.

Short Answers-

Ans 1: Direct taxes are those that are imposed immediately on a person's property or income. The public pays these taxes directly to the government. Income tax, wealth tax, corporate tax, and other taxes are examples.

Indirect taxes are levied on people's income and assets as a result of their consumer spending. These taxes are imposed on one individual, but they are paid by another. Customs duties, excise duties, sales tax, service tax, and other taxes are examples.

Ans 2: The following are the three major methods in which the government spends money:

1. Revenue and capital expenditures are the first two items on the list.
2. Planned and unplanned expenses
3. Expenditures for development and non-developmental purposes.

Ans 3: The following are the four different types of budget deficits:

1. Budget deficit: The difference between the state's total expenditure, current revenue, and net internal and foreign capital receipts is known as the budget deficit. $B.D = B.E. > B.R.$ is the formula for calculating it.

Where B.D = Budget deficit,

B.E = Budget expenditure, and

B.R = Budget revenue.

2. Fiscal deficit: The difference between the government's total expenditure, revenue revenues, and accrued capital receipts is known as the fiscal deficit.

$F.D = B.E - B.R$ ($B.E > B.R$ except for borrowings) is the formula.

Where F.D. stands for fiscal deficit, B.E. stands for budget expenditure, and B.R. is for budget receipts.

3. Revenue deficit: The difference between government revenue expenditures and revenue revenues is known as the revenue deficit.

$R.D = R.E - R.R.$

Where R.D denotes revenue deficit, R.E denotes revenue expenditure, and R.R denotes revenue receipts.

4. Primary deficit: The fiscal deficit that is removed from interest payments is known as the primary deficit.

$P.D = F.D. - I.P.$ is the formula

Where P.D = Primary deficit,

F.D = Fiscal deficit, and

I.P = Interest payment.

Ans 4: The key goals of the government budget are listed below.

1. Activities to ensure resource reallocation - The government must reallocate resources while taking social and economic factors into account.
2. Redistribution activities - To eliminate inequities, the government redistributes income and wealth.
3. Stabilizing actions - The government seeks to keep the economy stable by preventing business swings.
4. Management of public enterprises - Through its public enterprises, the government engages in commercial activities such as natural monopolies, heavy manufacturing, and so on.

Ans 5: The following are non-tax revenue receipts:

1. Postage payments, tolls, interest on funds borrowed from the government, credit corporations, railways, and postal department, as well as electrical services, are all examples of commercial revenue.
2. Dividends and interest

3. Fees, penalties, fines, and other administrative revenue

Long Answers-

Ans 1:

1. Fiscal deficit = Total expenditure – Revenue receipts – Non debt receipts

$$= 3,75,223 - 2,31,745 - (15,164 + 12,000)$$

$$= \text{Rs. } 1,16,314 \text{ billion}$$

2. Revenue deficit = Revenue expenditure – Revenue receipts

$$= 3,10,566 - 2,31,745$$

$$= \text{Rs. } 78,821 \text{ billion}$$

3. Primary deficit = Fiscal deficit – Interest payments

$$= 1,16,314 - 1,12,300$$

$$= \text{Rs. } 4014 \text{ billion}$$

Ans 2: The overall difference between government receipts and spending is known as the government budget balance, also known as general government balance, public budget balance, or public fiscal balance. Simply said, a balanced budget is one in which spending does not exceed earnings. This term can be applied to any budget, including that of a company, a non-profit organisation, or even a family. The term is, however, most commonly linked with a government budget. An effectively balanced budget displays fiscal health by demonstrating that expenditure remains in line with costs.

The following are the multiplier effects of a balanced budget:

1. The balanced-budget multiplier is a metric that estimates the change in aggregate production caused by a change in government taxation on its own.
2. This multiplier comes in handy for analysing fiscal policy changes that include both government purchases and taxes.
3. The multiplier for a balanced budget is one. The "good" impact of a change in government purchases on aggregate production is large, although not entirely, countered by the "negative" impact of a change in taxes.
4. The first injection's purchase of aggregate production is the only element of the impact of the change in government purchases that is not compensated by the rise in taxes. As a result, the initial change in government purchases is equal to the change in aggregate production.

Ans 3: The budget is prepared by the government to achieve specific objectives. The government's economic, social, and political policies are directly responsible for these objectives.

1. Resource reallocation: The government's budgetary policy attempts to reallocate resources in accordance with the country's economic i.e., profit maximisation and social interests i.e., public welfare. To stimulate investment, the government might provide tax breaks, subsidies, and other incentives to producers.
2. Reducing income and wealth disparities: The government's fiscal policy strives to reduce income and wealth disparities. The government seeks to impact income distribution by imposing taxes on the wealthy and spending more on the poor's welfare.
3. Economic Growth: A country's growth rate is determined by its savings and investment rates. Budgetary policy tries to achieve this by mobilising adequate resources for public sector investment.
4. Reducing regional disparities: The government budget attempts to eliminate regional inequalities by supporting the establishment of manufacturing units in economically underdeveloped regions through its taxes and expenditure policies.
5. Public Enterprise Management: There are a big number of public sector industries that are developed and managed for the public's social welfare. The budget is created with the goal of establishing various provisions for operating such businesses and giving financial assistance.

Ans 4: The term "public income" or "public revenue" refers to the government's total income from all sources.

Tax Revenue: Taxes are mandatory contributions placed on citizens by the government to cover its general expenses for the common good, with no commensurate benefits to the taxpayer. A tax is levied to cover the government's public spending in the national interest. It is remuneration for a government-provided indirect service to the entire population. In today's public finance, taxes account for a major portion of revenue. Taxation has a macroeconomic impact. The amount and style of consumption, the pattern of production, and the distribution of income and wealth can all be influenced by taxes.

Administrative Revenue: Public authorities can raise funds through fees, fines and penalties, and specific assessments under public administration. Fees are levied by the government or public bodies in exchange for providing a service to the public. This includes court fees, passport fees, and so on. Similarly, licence fees are levied by the regulating authorities to confer authorization for anything, such as a driving licence price, an import licence fee, a liquor permit fee, and so on. As a form of punishment, lawbreakers are subjected to fines and penalties, which are assessed and collected. The major goal of these levies is to prevent the commission of crimes and violations of the country's laws, rather than to generate revenue.

Ans 5: When a government's entire expenditures exceed its total revenue, excluding money borrowed, it has a fiscal deficit. The deficit is distinct from debt, which is the result of a series

of annual deficits. The fiscal deficit is said to be the difference between the total revenue and total spending of the government. It's a figure that sums up the government's total borrowing requirements. Borrowings are not taken into account when calculating total revenue. The budget deficit in India for the fiscal year ended March 2018 was 3.53 percent of GDP. In February, India raised its fiscal deficit target for the 2017-18 fiscal year from 3.2 percent to 3.5 percent of GDP. The government of the country expects to reduce the deficit to 3.3% of GDP this fiscal year.

The following are the consequences of a fiscal deficit:

1. It denotes the government's borrowing needs.
2. It also denotes the government's high interest payments.
3. It denotes a high level of inflation due to high government spending.
4. It suggests that the economy is becoming more reliant on overseas markets.

Case Study Answer-

1. Answer:

1. b) Infrastructure development
2. b) False
3. c) Retirement pension

2. Answer:

1. c) Social welfare is high
2. a) True
3. c) Subsidies

Assertion Reason Answer-

1. c) Assertion (A) is true and Reason (R) is false.
2. a) Both Assertion (A) and Reason (R) are true, (R) is correct explanation of (A).