

**STUDY**  
*mate*   
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**Chapter End Test**  
(2019-20)

Date : \_\_\_\_\_  
Duration : 45 Min.  
Max. Marks : 29

**Economics**  
Topic: Government Budget and the Economy

**Class**  
**XII**

**Disclaimer:** This Chapter End Test is conducted after the chapter has been taught in a Studymate class. It is designed to check the comprehension of concepts of the topic by a student. The format of the paper and its questions reflect the same standard that appears in the actual board exam. It contains some easy questions which are based on memory/remembering skills of the student. Some questions are relatively difficult which test the analytical ability of the student. This will identify the specific topics in which student requires reinforcement and further assistance by the teacher.

**Instructions:**

- ▶ All questions are compulsory.
- ▶ Do not write anything in the question paper.

**Section A - 1 Mark**

1. Which one of the following is not an objective of government budget?  
(a) Reallocation of resources (b) Economic stability  
(c) Increasing Regional disparities (d) Economic growth
2. Which of the following statement is true?  
(a) Loans from IMF is a revenue receipt  
(b) Higher revenue deficit necessarily leads to higher fiscal deficit  
(c) Borrowing by a government represent a situation of fiscal deficit  
(d) Revenue deficit is excess of capital receipts over revenue receipts
3. Escheat is an example of :  
(a) Capital receipts (b) Revenue receipts  
(c) Capital expenditure (d) Revenue expenditure
4. Which one of the following is a part of capital expenditure?  
(a) Salary paid to army officers  
(b) Expenditure on construction of metro  
(c) Pension paid to retired government employees  
(d) Interest paid on national debt
5. "Policies of surplus budget during inflation" is a part of which objective of government budget?  
(a) Economic growth (b) Economics stability  
(c) Reducing regional disparities (b) Reallocation of resources
6. Identify the indirect-tax from the following options  
(a) Corporation tax (b) Income tax (c) GST (d) Capital gain tax
7. The difference between fiscal deficit and interest payment is called:  
(a) Revenue deficit (b) Primary deficit (c) Budget deficit (d) Capital deficit
8. Fiscal deficit  
(a) Total expenditure – total receipts other than borrowing  
(b) Revenue expenditure + revenue receipts

- (c) Revenue expenditure – revenue receipts  
 (d) Revenue expenditure + capital expenditure – Revenue receipts
9. Which of the following is a part of the revenue expenditure in the Indian government budget  
 (a) Interest payment (b) Defence purchases  
 (c) Wage bill of the government (d) All of these
10. 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
11. Which of the following is a non tax receipt?  
 (a) Gift tax (b) Sales tax (c) Donations (d) Excise duty
12. Disinvestment by government means  
 (a) Selling of its fixed capital assets.  
 (b) Selling of share of public enterprises held by it.  
 (c) Selling of its building  
 (d) All the above
13. Which one of the following statement is incorrect  
 (a) Revenue receipts are regular in nature  
 (b) There is no future obligation to return the amount in case of revenue receipts  
 (c) Capital receipts either create an asset or cause a reduction in liabilities of the government  
 (d) Borrowing are treated as capital receipt as they lead to an increase in liability.
14. Construction of a school building is a  
 (a) Capital receipts (b) Revenue expenditure  
 (c) Capital expenditure (d) Revenue receipts
15. Fee of the government college is a revenue receipt because  
 (a) It creates liability of the government  
 (b) It neither creates any liability nor reduce any asset  
 (c) It neither creates any asset nor reduce any liability of the government  
 (d) It increase asset of the government.

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Section - B

1. Define non-tax revenue. [1]  
 2. Distinguish between revenue expenditure and capital expenditure. Give examples. [3]  
 3. From the following information, determine: (a) Capital Expenditure; (b) Total expenditure, and (c) Interest Payments: [4]

Particulars	Rs. in crore
(i) Fiscal deficit	12,000
(ii) Revenue deficit	9,000
(iii) Primary deficit	5,000
(iv) Revenue receipts	6,000
(v) Non-debt creating capital receipts	10,000

OR

Explain the following objectives of government budget:

- (a) Reallocation of resources (b) Economic growth
4. (a) What does zero primary deficit mean? [2×3=6]  
 (b) Can there be a fiscal deficit without a revenue deficit.  
 (c) Do you agree with the view that demonetisation of 500 and 1000 rupees notes would help the government in lowering its fiscal deficit?



## Hints/Solutions to Chapter End Test (2019-20)

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### Section A - 1 Mark

- |         |         |         |         |         |
|---------|---------|---------|---------|---------|
| 1. (c)  | 2. (c)  | 3. (b)  | 4. (b)  | 5. (b)  |
| 6. (c)  | 7. (b)  | 8. (a)  | 9. (d)  | 10. (b) |
| 11. (d) | 12. (d) | 13. (c) | 14. (c) | 15. (b) |

### Section - B

- Non Tax Revenue Refer to the receipts of the government from sources other than those of tax receipts.
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Revenue Expenditure	Capital Expenditure
(i) Difference in Meaning: Revenue expenditure does not impact asset-liability status of the government. Assets and liabilities are not increased or decreased.	Capital expenditure impacts asset-liability status of the government. Assets are raised. Liabilities are lowered
(ii) Difference in Significance: (a) Revenue expenditure (subsidies and law & order) focuses on welfare of the people. It does not directly contribute to GDP growth. (b) High revenue expenditure by the government (by way of subsidies or old-age pensions) points to poverty of the people.	(a) Capital expenditure (public investment) focuses on GDP growth. It directly contributes to GDP growth. (b) High capital expenditure by the government points to the lack of private investment in the economy. Capital expenditure by the government is raised when the economy is suffering from deflationary gap.

- Revenue deficit = RE – RR  
 $9,000 = RE - 6,000$   
 $RE = 9,000 + 6,000 = 15,000$  crore  
 Fiscal deficit = 12,000  
 Primary delicti = Fiscal delicti – Int. payment  
 $5,000 = 12,000 - \text{Int. payment}$   
 $\text{Int. payment} = 12,000 - 5,000 = 7,000$   
 $F.D = R.E + CR - [\text{Rev. Recp} + \text{Cap Recp}]$   
 $12,000 = 15,000 + CE - [6,000 + 10,000]$   
 $12,000 = 15,000 + CE - [16,000]$   
 $C.E = 12,000 - 15,000 + 16,000$   
 $C.E = 13,000$   
 $T.E = C.E + R.E = 13,000 + 15,000 = 28,000.$

**OR**

- Reallocation of resources:
  - The government aims to reallocate resources according to economic and social priorities through its budgetary policy.
  - Government encourages the production of certain commodities by giving subsidies or tax reliefs. For e.g. government encourages the use of 'khadi products' by providing subsidies.
  - Government can discourage the production of harmful goods like liquor or cigarettes, by imposing heavy excise duties or taxes.

- (b) Economic growth:
- (i) Economic Growth implies a sustainable increase in real GDP of an economy, i.e. an increase in volume of goods and services produced in an economy. Budget can be an effective tool to ensure the economic growth in a country.
  - (ii) If the government provides tax rebates and other incentives for productive activities, it can stimulate savings and investments in the economy.
  - (iii) Spending on infrastructure in the economy promotes the production activities across different sectors. Government expenditure is a major factor that generates demand for different types of goods and services, which induces economic growth in the economy.
4. (a) It means the government resorts to borrowing only to clear the backlog of interest payments. There are no borrowing because of the excess of current year expenditure over the current year revenue. Simply because current year expenditure happens to be equal to current year revenue, it is a sign of fiscal discipline or fiscal responsibility on the part of the government.
- (b) Obviously yes. Because fiscal deficit is worked out by accounting for both the revenue and capital receipts and expenditures of the government. So that, even when revenue receipts and revenue expenditure are in a state of balance, there could be excess of capital expenditure over capital receipts, causing fiscal deficit.
- (c) It is true that demonetisation would help the government to lower its fiscal deficit. Because of demonetisation, shadow economy (black money economy) will shrink. Unaccounted output would now be accounted as a part of GDP. This would increase revenue receipts of the government by way of direct and indirect taxation. Accordingly, fiscal deficit must reduce.



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