Government Budget and the Economy

Standard difficulty · 20 questions · 40 marks · Time: 37 minutes

Name: _____ Date: _____ Score: ____ / 40

Write full answers in Sections B and C. Answers are on the last page — try every question first!

Section A — Choose the correct answer — 8 × 1 = 8 marks

1. A statement of the expected receipts and expenditure of the government for a financial year is the:

(a) balance sheet of a bank **(b)** national income account
(c) balance of payments **(d)** government budget

2. Which of these is a revenue receipt of the government?

(a) dividends from public sector firms **(b)** small savings deposits received
(c) loans from abroad **(d)** sale of shares in public sector firms

3. Which of these is capital expenditure of the government?

(a) running costs of offices **(b)** pensions
(c) salaries of government employees **(d)** buying land for a hospital

4. Suppose a government's revenue receipts are ₹1,750 crore, non-debt creating capital receipts ₹70 crore, and total expenditure ₹2,200 crore. What is the fiscal deficit?

(a) ₹380 crore **(b)** ₹520 crore **(c)** ₹450 crore **(d)** ₹220 crore

5. Suppose a government's revenue expenditure is ₹1,870 crore, revenue receipts ₹1,810 crore and capital expenditure ₹560 crore. What is the revenue deficit?

(a) ₹60 crore **(b)** ₹560 crore **(c)** ₹620 crore **(d)** ₹1,870 crore

6. Suppose a government's fiscal deficit is ₹660 crore and its interest payments are ₹480 crore. What is the primary deficit?

(a) ₹180 crore **(b)** ₹660 crore **(c)** ₹1,140 crore **(d)** ₹480 crore

7. With an MPC of 0.5, by how much does equilibrium income rise if government purchases rise by ₹130 crore?

(a) ₹65 crore **(b)** ₹130 crore **(c)** ₹260 crore **(d)** ₹261 crore

8. Suppose a country's GDP is ₹18,000 crore and its fiscal deficit is ₹1,080 crore. What is the fiscal deficit as a percentage of GDP?

(a) 6% **(b)** 60% **(c)** 7% **(d)** 3%

Section B — Short answer — 8 × 2 = 16 marks

9. What are the two features of public goods?

10. Direct or indirect tax? (a) a sales tax on goods (b) a tax on gifts received

11. Explain each term: (a) balanced budget (b) public goods

12. Suppose a government's budget (₹ crore) has revenue receipts 1,970, revenue expenditure 2,130, capital expenditure 590, non-debt creating capital receipts 30 and interest payments 70. Find the revenue, fiscal and primary deficits.

13. Suppose a government expects receipts of ₹2,960 crore and expenditure of ₹3,090 crore. What kind of budget is this?

14. Suppose the revenue deficit is ₹290 crore, capital expenditure ₹400 crore and non-debt creating capital receipts ₹30 crore. Find the fiscal deficit, and say what share of it is the revenue deficit (to one decimal place).

15. The MPC is 0.6. Compare the change in income from (a) a rise of ₹280 crore in government purchases and (b) a cut of ₹280 crore in lump-sum taxes.

16. Which function of the budget does each serve? (a) providing roads, defence and street lights (b) transfer payments to poorer households

Section C — Longer answers — 4 × 4 = 16 marks

17. Why must public goods usually be provided by the government?

18. Match each with its meaning: (a) primary deficit (b) capital expenditure (c) balanced budget. Choose from: fiscal deficit minus interest payments; receipts equal to expenditure; spending that creates assets or reduces liabilities.

19. Suppose a government's budget (₹ crore) has revenue receipts 520, revenue expenditure 560, capital expenditure 190, non-debt creating capital receipts 80 and interest payments 130; GDP is 4,700. (a) Find the revenue, fiscal and primary deficits. (b) Express the fiscal deficit as a percentage of GDP (two decimal places). (c) What does the primary deficit show?

20. The MPC is 0.8. The government raises purchases by ₹120 crore and pays for it by raising lump-sum taxes by ₹120 crore. (a) Find the rise in income from the spending. (b) Find the fall in income from the tax. (c) Find the net change and the balanced budget multiplier.

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Answer key

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Q	Answer	Working
1	**(d) government budget**	—
2	**(a) dividends from public sector firms**	—
3	**(d) buying land for a hospital**	—
4	**(a) ₹380 crore**	2,200 − (1,750 + 70)
5	**(a) ₹60 crore**	1,870 − 1,810
6	**(a) ₹180 crore**	660 − 480
7	**(c) ₹260 crore**	130 ÷ (1 − 0.5)
8	**(a) 6%**	1,080 ÷ 18,000 × 100
9	**Non-rivalrous (one person's use does not reduce another's) and non-excludable (no one can be kept from using them).**	—
10	**(a) indirect (b) direct**	—
11	**(a) receipts equal to expenditure (b) goods that are non-rivalrous and non-excludable**	—
12	**revenue deficit ₹160 crore; fiscal deficit ₹720 crore; primary deficit ₹650 crore**	2,130 − 1,970; 2,130 + 590 − 1,970 − 30; 720 − 70
13	**a deficit budget, by ₹130 crore**	2,960 − 3,090
14	**₹660 crore; 43.9%**	290 + 400 − 30; 290 ÷ 660 × 100
15	**(a) rises by ₹700 crore (b) rises by ₹420 crore; the spending multiplier is larger**	280 ÷ 0.4; 0.6 × 280 ÷ 0.4
16	**(a) allocation (b) redistribution**	—
17	**Being non-rivalrous and non-excludable, people can use them without paying, so private firms cannot collect fees and will not supply them.**	—
18	**(a) fiscal deficit minus interest payments (b) spending that creates assets or reduces liabilities (c) receipts equal to expenditure**	—

Q	Answer	Working
19	**(a) ₹40 crore, ₹150 crore, ₹20 crore (b) 3.19% (c) borrowing needed for present spending, leaving out interest on past debt**	560 − 520; 750 − 600; 150 − 130
20	**(a) ₹600 crore (b) ₹480 crore (c) ₹120 crore; multiplier 1**	120 ÷ 0.2; 0.8 × 120 ÷ 0.2