

Unit – 6

Government Budget and the Economy

1. Which of the following is included in the revenue expenditure of the government?
 - a) Subsidies
 - b) Loan repayment
 - c) Investment in infrastructure
 - d) None of the above

2. Fiscal deficit includes...
 - a) The difference between total revenue and total expenditure
 - b) The difference between the government's total expenditure and total receipts excluding borrowings
 - c) The difference between revenue expenditure and revenue receipts
 - d) The total borrowings of the government

3. Which of the following is not a part of the capital receipts in the government budget?
 - a) Loans from the public
 - b) Borrowing from foreign governments
 - c) Grants received from international organizations
 - d) Tax revenue

4. The government's ability to cover its day-to-day operational costs without borrowing that measures
 - a) Fiscal Deficit
 - b) Primary Deficit
 - c) Revenue Deficit
 - d) Budget Surplus

5. Which of the following is included in the capital expenditure of the government?
 - a) Defense expenditure
 - b) Payment of interest on loans
 - c) Investment in roads and bridges
 - d) Salary payments

6. What does a primary deficit indicate in a government budget?
 - a) The excess of revenue over expenditure
 - b) The total borrowings of the government
 - c) The government's borrowing requirement excluding interest payments
 - d) The increase in government debt

7. What is the relationship between fiscal deficit and primary deficit?
 - a) Fiscal deficit equals primary deficit
 - b) Fiscal deficit includes primary deficit plus interest payments
 - c) Primary deficit is always less than fiscal deficit
 - d) Primary deficit and fiscal deficit are unrelated

8. The government borrows money to finance its fiscal deficit. Which of the following is a form of such borrowing?
 - a) Loan repayment
 - b) Interest income
 - c) Borrowings from RBI
 - d) Tax revenue

9. Which of the following is a key objective of preparing a government budget?
 - a) To control inflation rates
 - b) To regulate the private sector
 - c) To balance government revenue and expenditure
 - d) To ensure economic independence

10. Which of the following is the main objective of the government budget?
 - a) To ensure economic independence
 - b) To ensure uniform growth of all sectors
 - c) To manage the country's financial resources and allocate them to priority areas
 - d) To limit government borrowing and expenditures

11. How does the government budget help in promoting economic growth?
 - a) By increasing taxes
 - b) By controlling interest rates
 - c) By allocating funds for infrastructure and industrial development
 - d) By reducing government spending

12. Which of the following is a primary objective of fiscal policy in a government budget?
 - a) To regulate imports and exports
 - b) To achieve price stability through controlling inflation
 - c) To increase interest rates
 - d) To decrease government revenues

13. Income redistribution through the government budget is usually achieved by:
 - a) Lowering tax rates for the rich
 - b) Progressive taxation and social welfare programs
 - c) Decreasing government expenditure
 - d) Lowering the borrowing limits

14. Which of the following is a function of the government budget with regard to fiscal discipline?
 - a) Ensuring that the deficit stays at a manageable level
 - b) Reducing taxes across the board
 - c) Increasing government debt
 - d) Allocating more funds to defense

15. The government's aim to stabilize the economy using the budget refers to:

- a) Public sector development
 - b) Managing inflation and unemployment
 - c) Raising taxes on goods and services
 - d) Reducing trade restrictions
16. Which of the following best describes the objective of ensuring a balance of payments through the budget?
- a) Ensuring that the country's import and export values are equal
 - b) Setting limits on government spending
 - c) Managing the national debt
 - d) Ensuring that external debt does not exceed internal debt
17. What is the role of the government budget in public debt management?
- a) Reducing the fiscal deficit by cutting taxes
 - b) Increasing borrowing from external sources
 - c) Ensuring that borrowing is sustainable and does not burden future generations
 - d) Removing debt servicing obligations
18. Which of the following is an example of how the government budget can manage social welfare?
- a) Reducing taxes on the wealthy
 - b) Allocating funds for healthcare, education, and poverty alleviation
 - c) Increasing interest rates on government loans
 - d) Cutting subsidies for essential goods
19. In the context of the government budget, what does 'resource allocation' refer to?
- a) The process of determining tax rates
 - b) The distribution of financial resources among different sectors of the economy based on priorities
 - c) The management of the government's debt
 - d) The establishment of interest rates for government savings
20. Which of the following is a capital receipt?
- a) Income tax revenue
 - b) Borrowings from the public
 - c) Non-tax revenue
 - d) Fees for services
21. Revenue expenditure typically does NOT result in:
- a) Creation of assets
 - b) Day-to-day running of the government
 - c) Spending on subsidies
 - d) Maintenance of existing assets
22. Which of the following is an example of capital expenditure?
- a) Payment of salaries to government employees

- b) Construction of roads and bridges
 - c) Interest payment on government debt
 - d) Payment of subsidies
23. Plan expenditure is associated with:
- a) Non-developmental government spending
 - b) Investments that aim to promote economic growth
 - c) Payment of government debt
 - d) Routine expenses like salaries and pensions
24. Which of the following is an example of non-plan expenditure?
- a) Investments in industrial development
 - b) Salaries of government officials
 - c) Interest payments on public debt
 - d) Infrastructure projects
25. Which of the following is considered developmental expenditure?
- a) Military spending
 - b) Payment of interest on loans
 - c) Funding for education and healthcare
 - d) Subsidy on consumer goods
26. The expenditure on defense is classified as:
- a) Non-developmental expenditure
 - b) Developmental expenditure
 - c) Plan expenditure
 - d) Capital expenditure
27. Revenue receipts are primarily:
- a) Non-recurring in nature
 - b) Used to repay loans
 - c) Generated from day-to-day government activities
 - d) Investments that create assets for the government
28. Which of the following is classified as non-developmental expenditure?
- a) Infrastructure development
 - b) Interest payments on government borrowings
 - c) Health sector funding
 - d) Agricultural development programs
29. Which of the following is an example of plan expenditure?
- a) Payment of government employees' salaries
 - b) Investment in the development of public services like education
 - c) Payment for military equipment
 - d) Interest on government debt

30. Which of the following is true about revenue receipts?
- a) They result in an increase in the government's liabilities
 - b) They are non-recurring in nature
 - c) They include borrowing from foreign governments
 - d) They include taxes collected by the government
31. Which of the following is a potential drawback of a balanced budget?
- a) It may limit the government's ability to stimulate the economy during recessions.
 - b) It could lead to an increase in public debt.
 - c) It may create inflationary pressure.
 - d) It allows for excessive government spending.
32. Which of the following is a key risk associated with a deficit budget over the long term?
- a) Increased fiscal discipline
 - b) Higher public debt and interest payments
 - c) Higher tax revenues
 - d) Decreased borrowing requirements
33. What is a likely consequence of a surplus budget?
- a) Increased inflationary pressure
 - b) Economic growth slowdown due to underinvestment
 - c) Increased government borrowing
 - d) Reduced public debt burden
34. What might a government do in a deficit budget to finance the gap between expenditure and revenue?
- a) Increase interest rates
 - b) Borrow from external or domestic sources
 - c) Reduce public investments
 - d) Increase tax revenues
35. In a surplus budget, the government could potentially use the excess funds for:
- a) Reducing taxes or increasing subsidies
 - b) Increasing government spending on welfare programs
 - c) Paying off existing public debt
 - d) Increasing borrowing to fund projects
36. A deficit budget is typically used when:
- a) The government wants to reduce its fiscal deficit
 - b) The economy is in a recession and needs a fiscal stimulus
 - c) The government aims to reduce borrowing
 - d) The government seeks to balance its budget
37. Which of the following is true about a balanced budget?
- a) It often leads to high levels of public debt
 - b) It creates fiscal space for future investments

- c) It avoids inflationary pressures caused by excessive government spending
 - d) It results in increased borrowing to meet government expenditures
38. Which of the following is an effect of a surplus budget on the economy?
- a) Increased government spending on development projects
 - b) Lower taxation rates to stimulate economic growth
 - c) Reduced government debt
 - d) Higher public spending to boost demand
39. Which of the following situations best describes a deficit budget?
- a) The government is generating more revenue than it is spending.
 - b) The government borrows money to meet its expenditure needs.
 - c) The government collects just enough revenue to cover its expenses.
 - d) The government spends less than it receives in taxes.
40. A balanced budget can be seen as a form of:
- a) Fiscal discipline, with no borrowing or accumulation of debt
 - b) Encouraging economic growth through increased expenditure
 - c) Raising funds for infrastructure development through loans
 - d) Providing a stimulus to the economy by increasing government spending
41. If a government continually runs a deficit budget, it might face:
- a) Inflation due to excess spending
 - b) A surplus in the economy
 - c) A reduction in public services
 - d) A decrease in national savings and investments
42. Which of the following measures is most likely to help reduce a revenue deficit?
- a) Reducing subsidies on fuel
 - b) Increasing borrowing through the issuance of bonds
 - c) Raising tax rates or improving tax collection efficiency
 - d) Increasing capital expenditure on infrastructure
43. A primary deficit reflects:
- a) The government's total borrowing requirement after interest payments
 - b) The gap between the government's current revenue and current expenditure
 - c) Borrowing to finance government's interest obligations
 - d) The total gap between government revenue and total expenditure
44. If the primary deficit is zero, it means:
- a) The government is borrowing only to pay interest on existing debt
 - b) The government is running a surplus
 - c) The government is borrowing for both current and capital expenditures
 - d) The government is balancing its revenue and expenditure, excluding interest payments

45. The revenue deficit can primarily be reduced by:
- a) Increasing borrowing from international financial institutions
 - b) Reducing capital expenditure
 - c) Increasing non-tax revenue sources like privatization
 - d) Reducing interest payments on public debt
46. Which of the following is NOT a measure to contain fiscal deficit?
- a) Reducing government spending on welfare schemes
 - b) Increasing tax revenue through better compliance
 - c) Increasing public sector borrowing
 - d) Cutting down on inefficient government subsidies
47. A primary deficit can indicate that:
- a) The government is managing its debt effectively
 - b) The government is borrowing excessively to finance interest payments
 - c) The government is reducing its debt burden
 - d) The government is generating sufficient revenue to finance current activities
48. Which of the following policies would likely reduce a revenue deficit?
- a) Increasing government borrowing to finance current expenditures
 - b) Raising taxes and improving the efficiency of tax collection
 - c) Decreasing capital expenditure on infrastructure
 - d) Cutting interest rates
49. If a government's fiscal deficit is large, it can lead to:
- a) A decrease in inflation
 - b) Higher government borrowing and public debt
 - c) Lower tax rates for the citizens
 - d) A balanced budget
50. To reduce fiscal deficit, the government could:
- a) Increase expenditure on defense
 - b) Privatize state-owned enterprises and reduce subsidies
 - c) Increase borrowing from external sources
 - d) Increase the interest rates on government loans