

SENIOR SECONDARY ECONOMICS QUESTION BANK (2004–2024)

CLASS XII REFERENCE SERIES • CHAPTER 10: GOVERNMENT BUDGET AND THE ECONOMY

MACROECONOMICS CHAPTER PRACTICE EXAMINATION

Subject Code: 030

Standard: Class XII

Time Allowed: 3 Hours

Maximum Marks: 80 Marks

General Instructions: (i) All questions are compulsory. (ii) Marks are indicated against each question. (iii) Section A contains 1-mark objective questions; Section B contains 3-mark numerical & short conceptual questions; Section C contains 4-mark classification questions; Section D contains 6-mark evaluative/HOTS questions.

SECTION A: OBJECTIVE TYPE & MULTIPLE CHOICE QUESTIONS

[1 MARK EACH • 16 MARKS]

- Borrowing in a government budget is fundamentally equal to: [CBSE 2015, Shree Niketan]
(a) Revenue deficit (b) Fiscal deficit
(c) Primary deficit (d) Tax deficit
- Receipts that neither create any liability nor reduce any asset of the government are known as: [CBSE AI 2014]
(a) Capital receipts (b) Revenue receipts
(c) Budgetary debt (d) Fiscal transfers
- Statement 1:** Tax is a legally compulsory payment made without reference to direct return.
Statement 2: Direct taxes are capital receipts of the government. [School Exam Paper]
(a) Both are true (b) Both are false
(c) 1 true, 2 false (d) 2 true, 1 false
- Fiscal deficit is mathematically defined as: [CBSE 2016]
(a) Interest payments (b) Total borrowings
(c) Borrowings – Interest (d) Exp. – Rev. Receipts
- Primary deficit in a government budget is equal to: [CBSE Delhi]
(a) Fiscal deficit + Interest (b) Fiscal deficit – Interest
(c) Revenue deficit – Interest (d) Capital deficit – Debt
- Which of the following is a non-tax revenue receipt? [CBSE 2015]
(a) Corporation Tax (b) Dividends & Profits
(c) Customs Duty (d) Goods & Services Tax
- Disinvestment by the Union Government is: [CBSE 2016]
(a) Revenue receipt (b) Capital receipt
(c) Revenue expenditure (d) Capital expenditure
- The incidence and impact of a direct tax: [CBSE AI 2015]
(a) Fall on same person (b) Fall on different persons
(c) Can be fully shifted (d) Are always proportional
- Escheats is an example of which head of budget? [CBSE Comptt.]
(a) Capital Receipt (b) Non-Tax Revenue
(c) Indirect Tax (d) Capital Outlay
- If revenue deficit is ₹50,000 crores and borrowings are ₹75,000 crores, fiscal deficit is: [CBSE Delhi 2006]
(a) ₹25,000 crores (b) ₹75,000 crores
(c) ₹1,25,000 crores (d) ₹50,000 crores
- Construction of a bridge or flyover by the public works department is: [CBSE 2014]
(a) Revenue Expenditure (b) Capital Expenditure
(c) Revenue Receipt (d) Non-Plan Deficit
- Which of the following creates a liability for the Central Government? [CBSE 2016]
(a) Direct Taxes (b) Recovery of Loans
(c) Market Borrowings (d) PSU Disinvestment
- Zero primary deficit indicates that: [CBSE Delhi 2010]
(a) Zero interest liability (b) Borrowing only for interest
(c) Revenue budget balanced (d) Economy is debt-free
- A policy of surplus budget is strongly recommended during: [NCERT]
(a) Severe Depression (b) Demand-pull Inflation
(c) Deflationary Gap (d) Liquidity Crisis
- Which of the following is a non-debt creating capital receipt? [DPS Pre-Board]
(a) Market Loans (b) Recovery of Loans
(c) Provident Fund (d) External Borrowing
- Subsidies provided on fertilizers and cooking gas are: [CBSE 2006]
(a) Capital Expenditure (b) Revenue Expenditure
(c) Capital Receipt (d) Non-tax Revenue

SECTION B: SHORT NUMERICAL APPLICATIONS & EXPLANATIONS

[3 MARKS EACH • 18 MARKS]

17. From the following budgetary data, estimate the values of: (i) Revenue Deficit, (ii) Fiscal Deficit, and (iii) Primary Deficit: [3 Marks • Shree Niketan Patasala / CBSE Delhi]

S.No.	Item Head	₹ (in Crores)
I	Tax Revenue	1,000
II	Revenue Expenditure	3,821
III	Non-Tax Revenue	2,000
IV	Recovery of Loans	135
V	Capital Expenditure	574
VI	Disinvestment of PSUs	100
VII	Interest Payments	1,013

18. On the basis of the following data, calculate the value of the **Revenue Deficit**: [3 Marks • Army Public School Dhaula Kuan]

No.	Items	Amount (₹ Crores)
1.	Tax Receipts	1,542
2.	Revenue Expenditure	1,927
3.	Direct Taxes (part of Tax Receipts)	670
4.	Non-Tax Receipts	303

19. In a government budget, Revenue Expenditure is ₹70,000 crores, Borrowings are ₹15,000 crores, Revenue Receipts are ₹50,000 crores, and Interest Payments are estimated at 25% of the Revenue Deficit. Compute: (a) Fiscal Deficit, and (b) Primary Deficit. [3 Marks • CBSE Sample Paper 2014]

20. From the following data, calculate (a) Revenue Deficit, (b) Fiscal Deficit, and (c) Primary Deficit: [3 Marks • CBSE Delhi 2011]

S.No.	Particulars	Amount (₹ Arab)
(i)	Tax Revenue	47
(ii)	Capital Receipts	34
(iii)	Non-Tax Revenue	10
(iv)	Borrowings & Other Liabilities	32
(v)	Revenue Expenditure	80
(vi)	Interest Payments	20

21. A government budget shows a primary deficit of ₹4,400 crores. Revenue expenditure on interest payment is ₹400 crores. How much is the fiscal deficit? What does this deficit figure signify? [3 Marks • CBSE Delhi 2004]
22. "A high revenue deficit gives a warning signal to the government." State any three adverse economic implications of a large revenue deficit. [3 Marks • CBSE Sample Paper]

SECTION C: CONCEPTUAL CLASSIFICATIONS & ANALYTICAL DISTINCTION**[4 MARKS EACH • 20 MARKS]**

23. Which of the following is/are included in the **Capital Budget** of the government? Give economic reasons based on asset-liability impact: [4 Marks • Shree Niketan / CBSE]
- Borrowings from the general public via market loans.
 - Development assistance loan received from a foreign government.
 - Expenditure incurred on acquisition of land, buildings, and machinery.
 - Loans and advances granted by Union Govt. to State Governments.
24. Giving valid reasons, categorise the following into **Revenue Receipts** and **Capital Receipts**: [4 Marks • CBSE Delhi 2006, 2012, Shree Niketan]
- Recovery of loans granted to public sector units.
 - Corporation tax received from corporate enterprises.
 - Dividends on equity investments made by the Central Government.
 - Sale of 40% equity shares of a Public Sector Undertaking.
25. Giving justification in terms of asset/liability criteria, classify the following into **Revenue Expenditure** and **Capital Expenditure**: [4 Marks • CBSE AI 2006, Foreign 2014]
- Grants-in-aid given by Central Government to State Governments.
 - Purchase of 20 modern cranes and machinery for flyover construction.
 - Expenditure incurred on administrative salaries and defence upkeep.
 - Repayment of a past loan taken from the World Bank.
26. Distinguish between **Direct Taxes** and **Indirect Taxes** on the basis of: (i) Shift of burden (impact vs. incidence), (ii) Rate structure (progressive vs. proportional), (iii) Societal reach, and (iv) Avoidability. Give one verified example for each. [4 Marks • CBSE Foreign 2010, AI 2016]
27. "Can there be a Fiscal Deficit in a government budget without an accompanying Revenue Deficit?" Substantiate your stand with economic justification and conditions. [4 Marks • CBSE Sample Paper 2008, DPS Pre-Board]

SECTION D: LONG ANSWER, POLICY ANALYSIS & EVALUATIVE HOTS**[6 MARKS EACH • 26 MARKS]**

28. **Budgetary Objectives:** Explain comprehensively how the budgetary policy of the Central Government is utilized to attain: [6 Marks • CBSE Foreign 2010, Shree Niketan]
- Reallocation of Resources:** Balance between social welfare and profit orientation via taxes, subsidies, and direct production.
 - Economic Stability:** Management of aggregate demand fluctuations during inflation and deflationary recessions.
 - Economic Growth:** Mobilisation of national savings for public capital investment.
29. (a) "Through its budgetary policy, a government reallocates resources as per the requirements of the country." Do you agree? Support your answer with valid illustrations.
(b) Define direct tax. Explain how progressive direct taxes reduce inequalities of income in society. [3+3 = 6 Marks • CBSE 2015, Shree Niketan]
30. Explain the concept of **Fiscal Deficit**. What are its four major macroeconomic implications for a developing country? Elaborate on the danger of falling into a **Debt Trap**. [6 Marks • CBSE Delhi 2011, Modern School]
31. "Governments across nations are worried about fiscal deficit. Is fiscal deficit necessarily inflationary in nature?" Critically evaluate this statement. Distinguish between borrowing for current consumption versus productive capital formation. [4 Marks • CBSE Sample Paper 2016]
32. **Case Study / Applied Budget Policy:**
In a Union Budget, the Finance Minister proposed raising the excise duty on tobacco products and luxury automobiles. Simultaneously, income tax on individuals earning above ₹1 crore was enhanced, and large subsidies were sanctioned for setting up manufacturing units in economically backward districts.
(a) Identify the direct and indirect taxes in these budgetary proposals.
(b) Explain any two social welfare objectives the Finance Minister aimed to promote through these fiscal measures. [4 Marks • CBSE Sample Paper 2014, 2015]
33. Discuss the two primary sources used to finance a fiscal deficit. Why is domestic market borrowing considered superior to deficit financing (printing currency notes)? [4 Marks • CBSE 2013, NCERT]

