CHAPTER-5 | Government Budget and the Economy

QUIZ PART-06

1. **Public goods must be provided by the government mainly because:**
   A. They are excludable and rival in consumption
   B. They are non-excludable and non-rivalrous
   C. They always generate profit
   D. They reduce private investment (B)

Explanation : Public goods like defence and street lighting are non-excludable and non-rivalrous, leading to the free-rider problem, hence provided by the government.

2. **Revenue expenditure differs from capital expenditure because it:**
   A. Creates assets for the government
   B. Reduces government liabilities
   C. Neither creates assets nor reduces liabilities
   D. Always reduces fiscal deficit (C)

Explanation: Revenue expenditure is incurred on day-to-day functioning, like salaries and pensions, without creating assets or reducing liabilities.

3. **Capital expenditure is generally incurred for:**
   A. Payment of interest on borrowings
   B. Maintenance of government offices
   C. Acquisition of assets or reducing liabilities
   D. Routine subsidies and pensions (C)

Explanation: Capital expenditure either creates assets (like infrastructure) or reduces liabilities (like repayment of borrowings).

4. **Fiscal deficit reflects:**
   A. Surplus of revenue receipts over revenue expenditure
   B. Borrowing requirement of the government
   C. Increase in foreign exchange reserves
   D. Repayment of old debts (B)

Explanation : Fiscal deficit represents the borrowing requirement of the government when expenditure exceeds total receipts excluding borrowings.

5. **The relationship between fiscal deficit and revenue deficit is expressed as:**
   A. Fiscal deficit = Revenue deficit + Capital receipts
   B. Fiscal deficit = Revenue deficit + Capital expenditure – Capital receipts (excluding borrowings)
   C. Fiscal deficit = Revenue deficit – Capital expenditure
   D. Fiscal deficit = Capital receipts – Revenue receipts (B)

Explanation: Revenue deficit is a component of fiscal deficit, which also includes capital expenditure and receipts.

6. **The tax multiplier is always smaller in absolute value than the expenditure multiplier because:**
   A. Taxes increase investment directly
   B. Tax changes affect consumption only indirectly
   C. All tax changes are fully spent on consumption
   D. Expenditure multiplier is unaffected by MPC (B)

Explanation: Government expenditure directly impacts demand, while tax changes first affect disposable income, and part of it may be saved.

7. **Public debt imposes a burden because it:**
   A. Reduces interest payments
   B. Has no future implications
   C. Creates opportunity cost, future taxation, and inflationary pressure
   D. Is always voluntary (C)

Explanation: Public debt burdens the economy through interest payments, future taxes, inflationary pressures, and crowding out private investment.

8. **Fiscal deficits are often inflationary because:**
   A. They reduce demand
   B. They are financed by printing new currency
   C. They always reduce money supply
   D. They reduce government spending (B)

Explanation: Fiscal deficits are often met by borrowing from RBI, which prints new currency, increasing money supply and inflationary pressure.

9. **The relation between government deficit and debt is that:**
   A. Deficit is stock, debt is flow
   B. Debt is accumulation of past deficits
   C. Deficit and debt are the same
   D. Debt has no link with deficits (B)

Explanation: Government debt is the accumulation of past deficits minus surpluses.

10. **Which of the following is not a category of GST in India?**
    A. CGST
    B. SGST
    C. IGST
    D. FGST (D)

Explanation : GST in India has three categories—CGST, SGST, and IGST; there is no FGST.