CHAPTER-5 | Government Budget and the Economy

QUIZ PART-04

1. A balanced budget refers to a situation when:
   A. Revenue receipts exceed revenue expenditure
   B. Government receipts equal government expenditure
   C. Borrowings exceed repayments
   D. Expenditure exceeds receipts (B)

Explanation : A balanced budget occurs when estimated government receipts equal estimated government expenditure.

2. A surplus budget helps to:
   A. Increase employment
   B. Control inflation by reducing aggregate demand
   C. Increase fiscal deficit
   D. Raise government borrowings (B)

Explanation: A surplus budget reduces aggregate demand and is useful to control inflation during excess demand.

3. A deficit budget occurs when:
   A. Receipts exceed expenditure
   B. Expenditure exceeds receipts
   C. Borrowings equal receipts
   D. Taxes exceed subsidies (B)

Explanation: A deficit budget arises when estimated government expenditure is greater than estimated receipts.

4. Revenue deficit is defined as:
   A. Total expenditure – Total receipts excluding borrowings
   B. Fiscal deficit – Interest payments
   C. Revenue expenditure – Revenue receipts
   D. Capital expenditure – Capital receipts (C)

Explanation : Revenue deficit refers to excess of revenue expenditure over revenue receipts during a fiscal year.

5. Which of the following is an implication of revenue deficit?
   A. It signifies government dis-saving
   B. It shows excess of capital receipts over capital expenditure
   C. It indicates surplus government revenue
   D. It implies reduced government borrowings (A)

Explanation: Revenue deficit indicates that government's own revenue is insufficient to cover normal functioning, implying dissaving.

6. Fiscal deficit is defined as:
   A. Revenue deficit – Borrowings
   B. Total expenditure – Total receipts excluding borrowings
   C. Capital receipts – Revenue receipts
   D. Revenue expenditure – Capital expenditure (B)

Explanation: Fiscal deficit is the excess of total expenditure over total receipts excluding borrowings.

7. A major implication of fiscal deficit is:
   A. Increased tax revenue
   B. Government surplus
   C. High borrowing requirements leading to debt trap
   D. Increase in disinvestment proceeds (C)

Explanation: Fiscal deficit indicates the borrowing needs of government, which can create a debt trap.

8. Primary deficit is calculated as:
   A. Fiscal deficit – Revenue receipts
   B. Fiscal deficit – Interest payments
   C. Fiscal deficit + Borrowings.
   D. Revenue deficit – Interest payments (B)

Explanation: Primary deficit = Fiscal deficit – Interest payments.

9. A high primary deficit indicates:
   A. The major reason for fiscal deficit is high interest burden
   B. Borrowings are mainly used for developmental activities
   C. Revenue receipts are higher than revenue expenditure
   D. There is no need for government borrowing (A)

Explanation: High primary deficit shows that interest payments on past borrowings are the main cause of fiscal deficit.

10. Which of the following correctly compares Fiscal Deficit and Revenue Deficit?
    A. Fiscal deficit = Revenue receipts – Revenue expenditure
    B. Fiscal deficit excludes borrowings, revenue deficit excludes capital receipts
    C. Fiscal deficit measures total borrowing requirements, revenue deficit indicates inability to meet recurring expenditure
    D. Fiscal deficit only applies to capital expenditure, revenue deficit only to taxes (C)

Explanation : Fiscal deficit reflects borrowing needs, while revenue deficit shows insufficiency of revenue to meet regular expenditure.