

CHAPTER-5 | Government Budget and the Economy

QUIZ
PART-03

1. Which of the following best describes Revenue Expenditure?

- A. Creates an asset for the government
- B. Reduces a liability of the government
- C. Neither creates an asset nor reduces a liability
- D. Always increases capital stock (C)

Explanation: Revenue expenditure is incurred on normal government functioning and does not create assets or reduce liabilities.

2. Which of the following best describes Capital Expenditure?

- A. Only incurred on salaries and pensions
- B. Neither creates assets nor reduces liabilities
- C. Creates an asset or reduces a liability
- D. Is always recurring in nature (C)

Explanation: Capital expenditure either creates assets like roads and machinery or reduces liabilities like loan repayments.

3. Which of the following is an example of Revenue Expenditure?

- A. Building a bridge
- B. Purchase of machinery
- C. Payment of salaries
- D. Repayment of loans (C)

Explanation: Salaries, pensions, interest, and grants are recurring payments under revenue expenditure.

4. Which of the following is an example of Capital Expenditure?

- A. Subsidies
- B. Payment of interest on loans
- C. Construction of a school building
- D. Expenditure on defence services (C)

Explanation: Construction of assets like school buildings adds to capital stock, making it capital expenditure.

5. Which of the following is recurring in nature?

- A. Revenue Expenditure
- B. Capital Expenditure
- C. Both A and B
- D. Neither A nor B (A)

Explanation: Revenue expenditure is recurring since it covers routine expenses like administration, pensions, and salaries.

6. Which of the following is non-recurring in nature?

- A. Payment of subsidies
- B. Expenditure on defence services
- C. Repayment of borrowings
- D. Payment of salaries (C)

Explanation: Loan repayment and asset acquisition are non-recurring capital expenditures.

7. Defence capital equipment purchased from Germany would be classified as:

- A. Revenue Receipt
- B. Capital Expenditure
- C. Revenue Expenditure
- D. Capital Receipt (B)

Explanation: Buying defence equipment is capital expenditure since it adds to the stock of assets.

8. Providing scholarships to students is an example of:

- A. Revenue Expenditure
- B. Capital Expenditure
- C. Revenue Receipt
- D. Capital Receipt (A)

Explanation: Scholarships are recurring welfare payments that neither create assets nor reduce liabilities.

9. Building metro stations falls under:

- A. Revenue Receipt
- B. Capital Receipt
- C. Revenue Expenditure
- D. Capital Expenditure (D)

Explanation: Metro construction is capital expenditure as it creates infrastructure for long-term development.

10. Which of the following is a feature of Capital Expenditure?

- A. Recurring in nature
- B. Maintains assets only
- C. Increases productivity by creating assets
- D. Neither creates nor reduces liabilities (C)

Explanation: Capital expenditure boosts productivity by adding to the capital stock of the economy.