# ECONOMICS

## (Macro-Economics)

### Chapter 5: The Government Budget Function And Scope

# THE GOVERNMENT BUDGET FUNCTION AND SCOPE

## Government Budget –

## Meaning, Objectives and Components

### Meaning

A government budget is an annual financial statement showing item wise estimates of expected revenue and anticipated expenditure during a fiscal year.

Just like your household budget, the government also has a budget of its income and expenditure. In the beginning of every year, the government presents before the Lok Sabha an estimate of its receipts and expenditure for the coming financial year.

The government plans a budget according to its expenditure and then tries to raise funds to meet the proposed expenditure.

Government earns money broadly from taxes, fees and fines, interest on loans given to states and dividends by public sector enterprises.

Government spends mainly on: Securing and providing goods and services to citizens, On law and order and Internal security, defense, staff salaries, etc.

In India there is a constitutional requirement to present a budget before Parliament for the ensuing financial year. The financial (fiscal) year starts on April 1 and ends on March 31 of next year.

### Objectives:

**General objectives of a government budget are as under:**

- To promote rapid and balanced economic growth to improve the living standard of the people.
- To eradicate poverty and unemployment by creating employment opportunities and providing maximum social benefits to the poor
- To reduce inequalities of income and wealth, the government can influence distribution of income through levying taxes and granting subsidies.
- To reallocate resources so as to achieve social and economic objectives. e.g., public sanitation, rural electrification, education, health, etc.
- To bring economic and price stability, by controlling fluctuations in general price level through taxes, subsidies and expenditure.
- To finance and manage public enterprises like railways, power generation and water lines etc.

### Components And Classification:

There are two main components of the Government Budget

- **Revenue Receipts:**

  Incomes which are received by the government from all sources in its ordinary course of governance are revenue receipts.

  Revenue receipts are further classified as tax revenue and non-tax revenue.

- **Tax Revenue:** Tax revenue is the income received from different taxes and other duties levied by the government. It is a major source of public revenue.

  Taxes are of two types of tax], viz., Direct Taxes and indirect taxes

  - **Direct taxes:** Direct taxes are taxes that an individual pays directly to the government, such as income tax, land tax, and personal property tax. Such direct taxes are based on the ability of the taxpayer to pay, higher their capability of paying is, the higher their taxes are.
  - **Indirect taxes:** Indirect taxes are those taxes which are levied on goods and services and affect the income of a person through their consumption expenditure. E.g. Custom duties, sales tax, services tax, excise duties, etc.

- **Non-Tax Revenue:**

  Apart from taxes, governments also receive revenue from other non-tax sources.

  - **Fees:** Fees paid for registration of property, births, deaths, etc.
  - **Fines and penalties:** Fines and penalties for not following (violating) the rules and regulations.
  - **Profits from public sector enterprises:** Many enterprises are owned and managed by the government. It is an important source of non-tax revenue. For example in India, the Indian Railways, Oil and Natural Gas Commission, Air India, etc.
  - **Gifts and grants:** Gifts and grants are received by the government. Citizens of the country, foreign governments and international organizations like the UNICEF, UNESCO, etc. donate during times of natural calamities.
  - **Special assessment duty:** It is a type of levy imposed on the people for getting some special benefit. For example, in a particular locality, if roads are improved, property prices will rise.

- **Capital Receipts:**

  Receipts which create a liability or result in a reduction in assets are called capital receipts. They are obtained by the government by raising funds through borrowings, recovery of loans and disposing of assets.

  **Some more examples:**

  - Loans raised by the government from the public through the sale of bonds and securities. They are called market loans.

- Borrowings by government from RBI and other financial institutions through the sale of Treasury bills.
- Loans and aids received from foreign countries and other international Organizations like International Monetary Fund (IMF), World Bank, etc.
- Receipts from small saving schemes like the National saving scheme, Provident fund, etc.
- Recoveries of loans granted to state and union territory governments and other parties.

## Classification Of Capital Expenditure and Revenue Expenditure

**Capital Expenditure:**

Any projected expenditure which is incurred for creating asset for a long life is capital expenditure.

Therefore, expenditure on land, machines, equipment, irrigation projects, oil exploration and expenditure by way of investment in long term physical or financial assets are capital expenditure.

**The following are the examples of capital expenditure:**

- **Expenditure incurred for:**
  - Acquisition of fixed tangible assets such as land, building, machinery, furniture, motor vehicle etc. Improvement or extension of fixed assets such as increasing the seating capacity of a theatre.
  - Bring the fixed assets to the place of their use and expenditure incurred on their installation or erection such as freight on fixed assets, wages paid for purchase of intangible assets such as goodwill, patent rights, and trademarks, copyright, etc.
  - Reconditioning of old fixed assets such as expenditure incurred on repairing or over healing of secondhand machinery.
  - Major repairs and replacement of plants which increase the efficiency of the plant.

**Rules for Determining Capital Expenditure:**

- **An expenditure is capital expenditure:**
  - When it is incurred for acquiring a long term asset (having a useful life of more than one year) for use in the business to earn revenue and not meant for sale.
  - When it is incurred to put an asset into working condition. For example, the transportation and installation charges are added to the cost of machine, the legal charges like registration and stamp duty is added to the

cost of land and building, etc.

- When it incurred for putting an old asset into working condition is treated as capital expenditure and added to the cost of the asset.
- When it is incurred to increase the earning capacity of a business is treated as capital expenditure. For example, expenditure incurred for shifting the factory to convenient site is a capital expenditure.

**Revenue Expenditure:**

When an expenditure is made for running the business with a view to produce the profits is revenue expenditure. Such expenditure benefits the current period only.

It is incurred to maintain the existing earning capacity of the business. Administrative expenses and selling and distribution expenses are examples of revenue expenditure.

**Rules for Determining Revenue Expenditure:**

- **An expenditure incurred:**
  - For the purpose of acquiring goods purchased for resale, consumable items, etc. Other direct expenses like production and purchase of goods such as wages, power, freight etc. are revenue expenditure.
  - For maintaining fixed assets in working order e.g. amount spent on repairs and renewals
  - Depreciation on fixed assets
  - On office and administrative and selling and distribution departments in the normal course of business. These include salaries, rent, telephone expenses, electricity, postage, advertisement, travelling expenses, commission to salesmen.
  - On non-operating expenses and losses are revenue expenditures. For example, interest on loan taken after commencement of commercial production, loss on sale of a long term asset, loss by theft, loss by fire are revenue expenditures.
  - By an enterprise to discharge itself from recurring liability is of revenue nature. For example, a lump sum amount paid to a pensioner by the employer is revenue expenditure.
  - For protecting the business is a revenue expenditure. For example, the amount spent on propaganda campaign to oppose the threatened nationalization of industry is of revenue nature.
  - To maintain the existing efficiency or the earning capacity is of revenue type.

**Distinction Between Capital Expenditure and Revenue Expenditure:**

| Capital Expenditure | Revenue Expenditure |
|---|---|
| Enduring for more than one accounting period. | Enduring for one accounting period only. |
| Relates to the acquisition of fixed asset | Relates to the acquisition of stock-in-trade. |
| Usually of non-recurring nature | Usually of recurring nature. |
| Helps to increase the earning capacity of the business or to reduce the operating cost. | Is incurred to maintain the existing earning capacity of the business. |
| Not matched against capital receipts. | Matched against revenue receipts for income determination |
| May be incurred even before the commencement of business. | Incurred only after the commencement of business |

## Measures Of Government Deficit

A Deficit is the budgetary situation where expenditure is higher than the revenue. When in a set budget government expenditure exceeds the income amount it is government deficit.

This deficit indicates the financial health of the economy. To reduce this deficit between expenditures and income, the government cut back certain expenditures and also increased revenue-generating activities.

This expenditure revenue gap may be financed by either printing of currency or through borrowing.

Nowadays most governments in the world are having deficit budgets and these deficits are often financed through borrowing.

- **Types Of Government Deficits:**

  Revenue Deficit
  Fiscal Deficit
  Primary Deficit

  - **Revenue Deficit:**

    It is the surplus of the government's revenue expenditure over the revenue receipts.

It is the shortfall between the total revenue received to the total revenue expenditure.

Revenue deficit = Revenue expenditure - Revenue receipts

Revenue deficit only incorporates current income and current expenses. A high degree of deficit symbolizes that the government should reduce its expenses.

The government may raise its revenue receipts by raising income tax. Disinvestment and selling off assets is another corrective measure to minimize a revenue deficit.

- **Fiscal deficit:**

It is the distinction between the government's total expenditure and its total receipts, which excludes borrowing.

Gross fiscal deficit = Total expenditure - (Revenue receipts + Non-debt creating capital receipts)

A fiscal deficit has to be financed by borrowing. Thus, it includes the total borrowing necessities of the government from all the possible sources. From the financing part.

A greater deficit implies more borrowing by the government and the extent of the deficit indicates the amount of expense for which the money is borrowed.

Gross fiscal deficit = Net borrowing at home + Borrowing from RBI + Borrowing from abroad

Fiscal deficit indicates the amount of money that the government will need to borrow during the financial year.

A disadvantage or implication of fiscal deficit is it may lead to a debt trap or it may lead to unnecessary and wasteful expenditure by the government which may lead to uncontrolled inflation.

- **Primary deficit:**

It is the amount of money that the government requires to borrow from the interest payments on the formerly borrowed loans.

The aim of quantifying the primary deficit is to concentrate on current fiscal imbalances.

Gross primary deficit = Gross fiscal deficit - Net interest liabilities

Net interest liabilities comprise interest payments - interest receipts by the government on the net domestic lending.

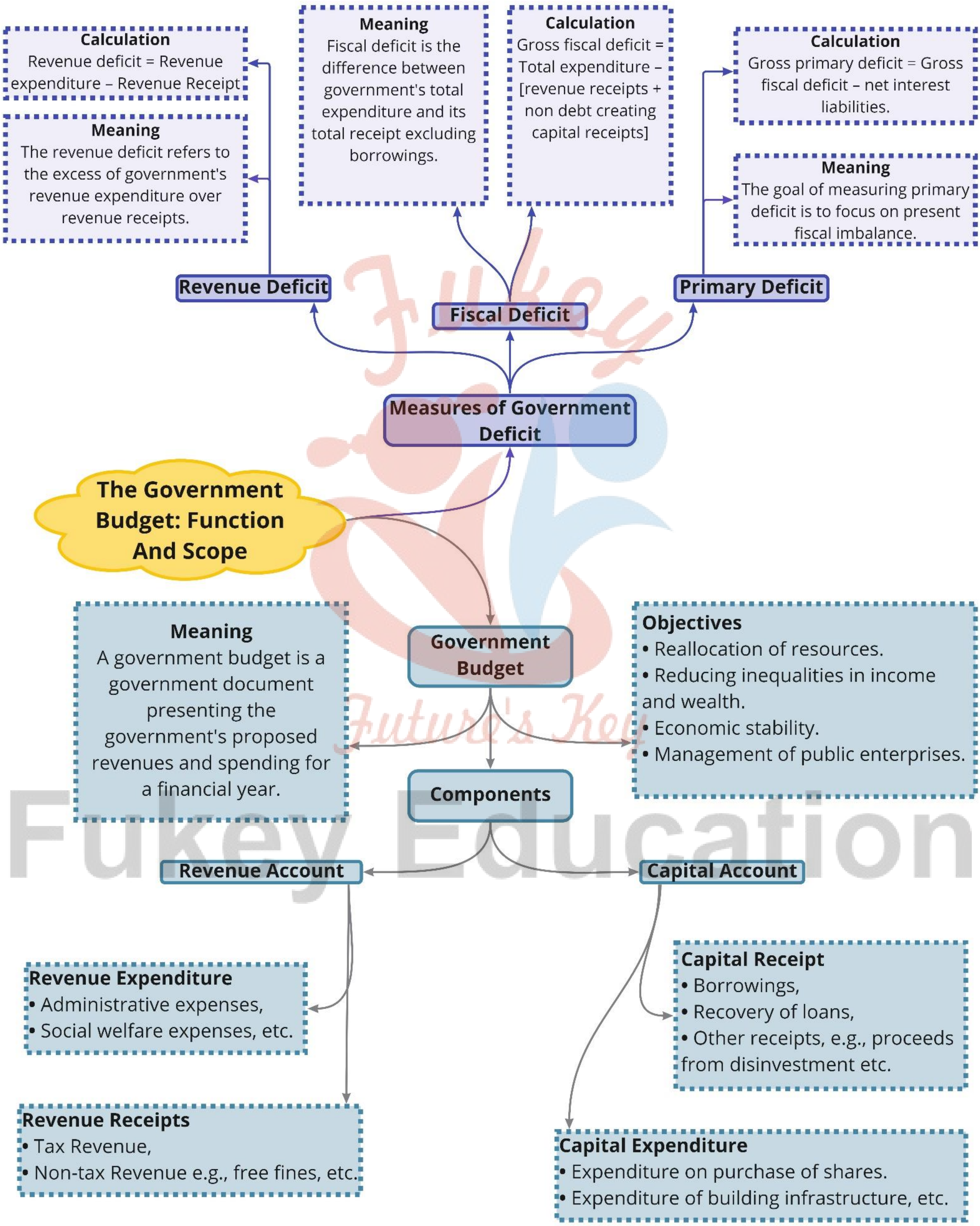
## Difference between Fiscal Deficit and Revenue Deficit:

- **Measures to Reduce Government Deficit:**
  - Increased emphasis on tax-based revenues and appropriate measures to reduce tax evasion.

- Disinvestment should be done where assets are not being used effectively.
- Reduction in subsidies by the government will also help reduce the deficit.
- Try to avoid unplanned expenditures.
- Borrowing from domestic sources.
- Borrowing from external sources.
- A broadened tax base

An uncontrolled government deficit may lead to decline in the financial health of the economy. The agenda of the government should be to plan the revenues and expenditures in such a way that the economy moves towards a balanced budget situation.

Class : 12th Economics (Macroeconomics)
Chapter-5 : The Government Budget: Function And Scope



# Important Questions

## Multiple Choice questions-

Q1. Which one of the following is a combination of direct taxes?

(a) Excise duty and wealth tax

(b) Service tax and income tax

(c) Excise duty and service tax

(d) Wealth tax and income tax

Q2. Which of the following statement is true?

(a) Loan from IMF is a revenue receipt.

(b) Higher revenue deficit necessarily leads to higher fiscal deficit.

(c) Borrowings by the government represent a situation of fiscal deficit.

(d) Revenue deficit is the excess of capital received over the revenue receipts.

Q3. Which of the following is not a revenue receipt?

(a) Recovery of loans

(b) Foreign grants

(c) Profit of public enterprises

(d) Wealth tax

Q4. Primary deficit is borrowing requirements of the government for payment(s)

(a) of interest

(b) other than interest

(c) of all types

(d) that are specific

Q5. Which of the following sources of receipts in the government budget increases its liabilities?

(a) Direct taxes

(b) Recovery of loans

(c) Borrowings

(d) Dividend from PSUs

Q6. Which of the following is an indirect tax?

(a) Profit tax

(b) Wealth tax

(c) Custom duty

(d) Gift tax

Q7. The amount collected by the government in the form of interest, fees, and dividends is known as ……………..

(a) Tax-revenue receipts

(b) Capital receipts

(c) Non-tax revenue receipts

(d) None of these

Q8. Borrowing in the government budget is:

(a) Revenue deficit

(b) Fiscal deficit

(c) Primary deficit

(d) Deficit in taxes

Q9. The non-tax revenue in the following is:

(a) Export duty

(b) Import duty

(c) Dividends

(d) Excise

Q10. The primary deficit in a government budget will be zero, when ……………..

(a) Revenue deficit is zero

(b) Net interest payments are zero

(c) Fiscal deficit is zero

(d) Fiscal deficit is equal to interest payment

Q11. Direct tax is called direct because it is collected directly from:

(a) The producers on goods produced

(b) The sellers on goods sold

(c) The buyers of goods

(d) The income earners

Q12. Financial Year in India is:

(a) April I to March 31

(b) January 1 to December 31

(c) October 1 to September 30

(d) None of the above

Q13. Which objectives government attempts to obtain by Budget

(a) To Promote Economic Development

(b) Balanced Regional Development

(c) Redistribution of Income and Wealth

(d) All the above

Q14. Which is a component of Budget?

(a) Budget Receipts

(b) Budget Expenditure

(c) Both (a) and (b)

(d) None of the above

Q15. Which is a component of the Budget Receipt?

(a) Revenue Receipt

(b) Capital Receipt

(c) Both (a) and (b)

(d) None of the above

## Very Short Questions-

1. Define a Budget.
**2.** What are the two types of taxes?
3. What are the main items of Capital Receipt?
4. What are the four different concepts of Deficits?
5. Give two examples of Developmental Expenditure.
6. Define Surplus Budget.
7. Give two examples of Non – Developmental expenditures.
8. What are the two types of Revenue Receipts?

## Short Questions-

1. Define Direct taxes and Indirect taxes. Also give two examples of each.
2. What are the three major ways of Public Expenditure?
3. Explain the four different concepts of Budget deficit.
4. Explain the objectives of the Government Budget.
5. What are the Non-Tax Revenue receipts?

## Long Questions-

1. The following figures are based on budget estimates of Govt. of India for the year 2016-17. Calculate:

1. Fiscal deficit
2. Revenue deficit
3. Primary deficit

| ITEMS | Rs. BILLIONS |
|---|---|
| A) Revenue receipts | 2,31,745 |
| i) Tax Revenue | 1,63,031 |
| ii) Non-tax Revenue | 68,714 |
| B) Capital receipts | 1,43,478 |
| i) Recoveries of loans | 15,164 |
| ii) Other receipts | 12,000 |
| iii) Borrowings and other liabilities | 1,16,314 |
| C) Revenue expenditure | 3,10,566 |
| i) Interest payments | 1,12, 300 |
| ii) Major subsidies | 27,845 |
| iii) Defence Expenditure | 1,70,421 |
| D) Capital Expenditure | 64,657 |
| E) Total Expenditure | 3,75,223 |
| i) Plan expenditure | 1,00,100 |
| ii) Non-plan expenditure | 2,75,123 |

2. What is a balanced government budget? Explain the multiplier effect of a balanced budget.

3. Explain the objectives of resource allocation and income distribution in a government budget.

4. How is tax revenue different from administrative revenue?

5. Explain the concept of fiscal deficit in a government budget. What does it indicate?

## Case Study Based Question-

1. Read the following hypothetical text and answer the given questions: -

Public expenditure accelerates the pace of GDP growth. Higher rate of GDP growth is achieved through (a) investment expenditure in public sector enterprises, (b) capital grants by the government for the purchase of capital equipment, (c) subsidies for the purchase of inputs, and (d) purchase of farm output at the minimum support price. Public expenditure promotes equality in the distribution of income and wealth. This is achieved by offering old-age pensions, as well as by providing free food, education, and health services to the Below Poverty Line Population.

Public expenditure plays a significant role in restoring economic stability. Particularly, when the economy is battling economic recession. The government expenditure (consumption expenditure as well as investment expenditure) raises the level of AD. Only when AD is raised that the vicious circle of economic recession is broken. Public expenditure generates investment-friendly environment in the economy. The government spends money on infrastructural development. It constructs roads, dams, bridges. It introduces faster and convenient means of transportation. Such facilities promote inducement to investment. Briefly, public expenditure is indispensable in any welfare state like India. It not only promotes GDP growth, but also promotes social welfare.

**Questions:**

1. The construction of roads, dams, bridges is called.

a. Social development

b. Infrastructure development

c. Industrial development

d. Agrarian development

2. The government expenditure does not raise the level of AD:

a. True

b. False

3. Which is included in the non- transfer income:

a. Old age pension

b. Subsidies

c. Retirement pension

d. Scholarship

2. Read the following hypothetical text and answer the given questions: -

GDP growth is the central objective of government budgetary policy. It is achieved in two ways: (i) by making public investment expenditure, and (ii) by inducing private investment expenditure (through tax rebates and subsidies).

Allocation of Resources: Private enterprises will always desire to allocate resources to those areas of production where profits are high. However, it is possible that such areas of production (like production of alcohol) may not promote social welfare. Through its budgetary policy, the government of a country directs the allocation of resources in a manner such that there is a balance between the goals of profit maximisation and social welfare. Production of goods which are injurious to health (like Cigarettes and Whisky) is discouraged through heavy taxation. On the other hand, production of 'socially useful goods' (like, 'Khadi') is encouraged through subsidies.

**Questions:**

1. Public enterprises will always desire to allocate resources to those areas of production, where:

   a. Profits are high

   b. Cost is low

   c. Social welfare is high

   d. Revenue is high

2. GDP growth is the central objective of government budgetary policy.

   a. True

   b. False

3. Suitable title for the passage:

   a. GDP

   b. Private enterprises

   c. Subsidies

   d. Government Budget

## Assertion Reason Type Question-

1. **In these questions, a statement of assertion followed by a statement of reason is given. Choose the correct answer out of the following choices.**

   a. Both Assertion (A) and Reason (R) are true,

   b. Both Assertion (A) and Reason (R) are false.

   c. Assertion (A) is true and Reason (R) is false.

   d. Assertion (A) is false and Reason (R) is true.

**Assertion:** Cigarettes and Whisky are discouraged through heavy taxation.

**Reason:** These are ‘socially useful goods'

2. **In these questions, a statement of assertion followed by a statement of reason is given. Choose the correct answer out of the following choices.**
   a. Both Assertion (A) and Reason (R) are true, (R) is correct explanation of (A).
   b. Both Assertion (A) and Reason (R) are true but (R) is not correct explanation of (A).
   c. Assertion (A) is true and Reason (R) is false.
   d. Assertion (A) is false and Reason (R) is true.

   **Assertion (A):** GST is an indirect tax.

   **Reason (R):** because it is imposed on goods and services.

## MCQ Answers-

1. (d) Wealth tax and income tax
2. (c) Borrowings by the government represent a situation of fiscal deficit.
3. (a) Recovery of loans
4. (b) other than interest
5. (c) Borrowings
6. (c) Custom duty
7. (c) Non-tax revenue receipts
8. (b) Fiscal deficit
9. (c) Dividends
10. (d) Fiscal deficit is equal to interest payment
11. (d) The income earners
12. (a) April I to March 31
13. (d) All the above
14. (c) Both (a) and (b)
15. (c) Both (a) and (b)

## Very Short Answers-

**Ans 1:** The budget is a statement of the government's expected receipts and expenditures for the fiscal year. A fiscal year in a country (most notably India) goes from April 1 to March 31.

**Ans 2:** Direct and indirect taxes are the two most common types of taxes.

1. Income tax, interest tax, and wealth tax are all examples of direct taxes.
2. Indirect taxes include items like customs duties, excise duties, and sales taxes, among others.

**Ans 3:** The primary items are:

1. Market Loans raised by the government from the general population.
2. Government Borrowings.
3. Loans from foreign governments and international financial institutions.

**Ans 4:** Budget deficit, revenue deficit, primary deficit, and fiscal deficit are the four main types of deficits.

**Ans 5:** Economic services provided by railways and postal services, as well as grants to states and union territories, are two examples.

**Ans 6:** When expected revenues exceed estimated expenditures in a given year, the result is a surplus budget.

**Ans 7:** Defence expenditure and interest on payments are two examples of such expenditures.

**Ans 8:** Tax revenue and non-tax revenue are the two types of revenue received.

## Short Answers-

**Ans 1:** Direct taxes are those that are imposed immediately on a person's property or income. The public pays these taxes directly to the government. Income tax, wealth tax, corporate tax, and other taxes are examples.

Indirect taxes are levied on people's income and assets as a result of their consumer spending. These taxes are imposed on one individual, but they are paid by another. Customs duties, excise duties, sales tax, service tax, and other taxes are examples.

**Ans 2:** The following are the three major methods in which the government spends money:

1. Revenue and capital expenditures are the first two items on the list.
2. Planned and unplanned expenses
3. Expenditures for development and non-developmental purposes.

**Ans 3:** The following are the four different types of budget deficits:

1. Budget deficit: The difference between the state's total expenditure, current revenue, and net internal and foreign capital receipts is known as the budget deficit. B.D = B.E. >B.R. is the formula for calculating it.

Where B.D = Budget deficit,

B.E = Budget expenditure, and

B.R = Budget revenue.

2. Fiscal deficit: The difference between the government's total expenditure, revenue revenues, and accrued capital receipts is known as the fiscal deficit.

F.D = B.E – B.R (B.E > B.R except for borrowings) is the formula.

Where F.D. stands for fiscal deficit, B.E. stands for budget expenditure, and B.R. is for budget receipts.

3. Revenue deficit: The difference between government revenue expenditures and revenue revenues is known as the revenue deficit.

R.D = R.E – R.R.

Where R.D denotes revenue deficit, R.E denotes revenue expenditure, and R.R denotes revenue receipts.

4. Primary deficit: The fiscal deficit that is removed from interest payments is known as the primary deficit.

P.D = F.D. – I.P. is the formula

Where P.D = Primary deficit,

F.D = Fiscal deficit, and

I.P = Interest payment.

**Ans 4:** The key goals of the government budget are listed below.

1. Activities to ensure resource reallocation - The government must reallocate resources while taking social and economic factors into account.

2. Redistribution activities - To eliminate inequities, the government redistributes income and wealth.

3. Stabilizing actions - The government seeks to keep the economy stable by preventing business swings.

4. Management of public enterprises - Through its public enterprises, the government engages in commercial activities such as natural monopolies, heavy manufacturing, and so on.

**Ans 5:** The following are non-tax revenue receipts:

1. Postage payments, tolls, interest on funds borrowed from the government, credit corporations, railways, and postal department, as well as electrical services, are all examples of commercial revenue.

2. Dividends and interest

3. Fees, penalties, fines, and other administrative revenue

## Long Answers-

**Ans 1:**

1. Fiscal deficit = Total expenditure – Revenue receipts – Non debt receipts

= 3, 75,223 - 2,31,745-(15,164+12,000)

= Rs. 1, 16,314 billion

2. Revenue deficit = Revenue expenditure – Revenue receipts

= 3, 10,566-2, 31,745

= Rs. 78,821 billion

3. Primary deficit = Fiscal deficit – Interest payments

= 1, 16, 314-1, 12, 300

= Rs. 4014 billion

**Ans 2:** The overall difference between government receipts and spending is known as the government budget balance, also known as general government balance, public budget balance, or public fiscal balance. Simply said, a balanced budget is one in which spending does not exceed earnings. This term can be applied to any budget, including that of a company, a non-profit organisation, or even a family. The term is, however, most commonly linked with a government budget. An effectively balanced budget displays fiscal health by demonstrating that expenditure remains in line with costs.

The following are the multiplier effects of a balanced budget:

1. The balanced-budget multiplier is a metric that estimates the change in aggregate production caused by a change in government taxation on its own.

2. This multiplier comes in handy for analysing fiscal policy changes that include both government purchases and taxes.

3. The multiplier for a balanced budget is one. The "good" impact of a change in government purchases on aggregate production is large, although not entirely, countered by the "negative" impact of a change in taxes.

4. The first injection's purchase of aggregate production is the only element of the impact of the change in government purchases that is not compensated by the rise in taxes. As a result, the initial change in government purchases is equal to the change in aggregate production.

**Ans 3:** The budget is prepared by the government to achieve specific objectives. The government's economic, social, and political policies are directly responsible for these objectives.

1. Resource reallocation: The government's budgetary policy attempts to reallocate resources in accordance with the country's economic i.e., profit maximisation and social interests i.e., public welfare. To stimulate investment, the government might provide tax breaks, subsidies, and other incentives to producers.

2. Reducing income and wealth disparities: The government's fiscal policy strives to reduce income and wealth disparities. The government seeks to impact income distribution by imposing taxes on the wealthy and spending more on the poor's welfare.

3. Economic Growth: A country's growth rate is determined by its savings and investment rates. Budgetary policy tries to achieve this by mobilising adequate resources for public sector investment.

4. Reducing regional disparities: The government budget attempts to eliminate

regional inequalities by supporting the establishment of manufacturing units in economically underdeveloped regions through its taxes and expenditure policies.

5. Public Enterprise Management: There are a big number of public sector industries that are developed and managed for the public's social welfare. The budget is created with the goal of establishing various provisions for operating such businesses and giving financial assistance.

**Ans 4:** The term "public income" or "public revenue" refers to the government's total income from all sources.

Tax Revenue: Taxes are mandatory contributions placed on citizens by the government to cover its general expenses for the common good, with no commensurate benefits to the taxpayer. A tax is levied to cover the government's public spending in the national interest. It is remuneration for a government-provided indirect service to the entire population. In today's public finance, taxes account for a major portion of revenue. Taxation has a macroeconomic impact. The amount and style of consumption, the pattern of production, and the distribution of income and wealth can all be influenced by taxes.

Administrative Revenue: Public authorities can raise funds through fees, fines and penalties, and specific assessments under public administration. Fees are levied by the government or public bodies in exchange for providing a service to the public. This includes court fees, passport fees, and so on. Similarly, licence fees are levied by the regulating authorities to confer authorization for anything, such as a driving licence price, an import licence fee, a liquor permit fee, and so on. As a form of punishment, lawbreakers are subjected to fines and penalties, which are assessed and collected. The major goal of these levies is to prevent the commission of crimes and violations of the country's laws, rather than to generate revenue.

**Ans 5:** When a government's entire expenditures exceed its total revenue, excluding money borrowed, it has a fiscal deficit. The deficit is distinct from debt, which is the result of a series of annual deficits. The fiscal deficit is said to be the difference between the total revenue and total spending of the government. It's a figure that sums up the government's total borrowing requirements. Borrowings are not taken into account when calculating total revenue. The budget deficit in India for the fiscal year ended March 2018 was 3.53 percent of GDP. In February, India raised its fiscal deficit target for the 2017-18 fiscal year from 3.2 percent to 3.5 percent of GDP. The government of the country expects to reduce the deficit to 3.3% of GDP this fiscal year.

The following are the consequences of a fiscal deficit:

1. It denotes the government's borrowing needs.
2. It also denotes the government's high interest payments.
3. It denotes a high level of inflation due to high government spending.
4. It suggests that the economy is becoming more reliant on overseas markets.

## Case Study Answer-

1. Answer:
    1. b) Infrastructure development
    2. b) False
    3. c) Retirement pension
2. Answer:
    1. c) Social welfare is high
    2. a) True
    3. c) Subsidies

## Assertion Reason Answer-

1. c) Assertion (A) is true and Reason (R) is false.
2. a) Both Assertion (A) and Reason (R) are true, (R) is correct explanation of (A).