

CBSE Class–12 Economics
Macro Economics
Chapter 5 – The Government: Functions & Scope
Revision Notes

Budget is a financial statement showing the expected receipt and expenditure of Govt. for the coming fiscal or financial year.

Main objectives of budget are:

- (i) Reallocation of resources.
- (ii) Redistribution of income and wealth
- (iii) Economic Stability
- (iv) Management of public enterprises.
- (v) Economic Growth
- (vi) Generation of employment

There are two components of budget:

- (a) Revenue budget
- (b) Capital budget

Revenue Budget consists of revenue receipts of govt. and expenditure met from such revenue.

Capital budget consists of capital receipts and capital expenditure.

BUDGET RECEIPTS:

1. Revenue Receipts

- **Tax**

a. Direct Tax

- i. Income tax
- ii. Corporate Tax
- iii. Wealth and Property Tax

b. Indirect Tax

- i. Value added Tax
- ii. Service Tax
- iii. Excise Duty
- iv. Custom Duty
- v. Entertainment Tax

- **Non-Tax**

- a. Commercial Revenue
- b. Interest
- c. Dividend, Profits
- d. External Grants
- e. Administrative Revenues
- f. Fees
- g. License Fee
- h. Fines, Penalties
- i. Cash grants-in-aid from foreign countries and international org.

2. Capital Receipts

- A. Borrowing and Other liabilities
- B. Recovery of Loans
- C. Other receipts (Disinvestments)

Direct Tax: A direct tax is one whose burden cannot be shifted to others I.e. the impact and incidence of the tax is on the same person.ex- income tax, wealth tax, gift tax.

Indirect Tax: An indirect tax is one whose burden can be shifted to others or the impact and incidence of an indirect tax falls on different people. ex- excise duty, VAT, service tax.

Revenue Receipts:

- (i) Neither creates liabilities for Govt.
- (ii) Nor causes any reduction in assets.

Capital Receipts:

- (i) It creates liabilities or
- (ii) It reduces financial assets.

BUDGET EXPENDITURE:

1. Revenue Expenditure

- (i) Neither creates assets
- (ii) Nor reduces liabilities.

e.g., Interest Payment, subsidies etc.

Capital Expenditure:

- (i) It creates assets
- (ii) It reduces liabilities.

e.g., Construction of school building Repayment of loans etc.

Budget Deficit:- It refers to a situation when budget expenditure of a govt. are greater than the govt. receipts.

Budgetary Deficit: Total Expenditure > Total Receipts.

Revenue deficit: It is the excess of govt. revenue expenditure over revenue receipts.

Revenue Deficit: Total revenue expenditure > Total revenue receipts

Implications of Revenue Deficit are:

- A high revenue deficit shows fiscal indiscipline.
- It shows wasteful expenditures of Govt. on administration.
- It implies that government is dissaving, i.e. government is using up savings of other sectors of the economy to finance its consumption expenditure.
- It reduces the assets of the govt. due to disinvestment.
- A high revenue deficit gives a warning signal to the government to either curtail its expenditure or increase its revenue.

Fiscal Deficit: When total expenditure exceeds total receipts excluding borrowing.

Fiscal Deficit: Total expenditures > Total Receipts excluding borrowing.

Implications of Fiscal Deficits are:

- (i) It leads to inflationary pressure.
- (ii) A country has to face debt trap.
- (iii) It reduces future growth and development.
- (iv) It increases liability of the government.
- (v) It increases foreign dependence.

Primary Deficit: By deducting Interest payment from fiscal deficit we get primary deficit.

Primary Deficit: Fiscal deficit – Interest payments.

Implications of Primary Deficits are:

It indicates, how much of the government borrowings are going to meet expenses other than the interest payments.

Measures to correct different deficits:-

- (i) Monetary expansion or deficit financing.
- (ii) Borrowing from public.
- (iii) Disinvestment
- (iv) Borrowing from international monetary institution and other countries.
- (v) Lowering govt. expenditure.
- (vi) Increasing govt. revenue.