B) SHORT ANSWER TYPE QUESTIONS.

1) What is the significance of Fiscal deficit?

Fiscal deficit measures the borrowing requirement of the Government.Higher fiscal deficit is a sign of Fiscal indiscipline particularly when there is inflationary spiral in the country.High fiscal deficit compounds the rate of inflation.High rate of inflation leads to high rate of interest implying high cost of investment.Accordingly inducement to invest is curved and growth process is hindered due to fiscal deficit.

2) Deficit budget a sign of government inefficiency.Justify.

No, Deficit budget is not a sign of government inefficiency.Infact, budgetary deficit may be a planned strategy of the government during periods of depression when the government needs to increase expenditure.It is only when expenditure increases that there is an increase in aggregate demand which is required to combat depression.

3) Government raises it expenditure on producing public goods.Which economic value does it reflect? Explain.

When the government raises its expenditure on producing public goods.It has two implications in terms of its economic value. First, it raises the level of Social Welfare as the people are provided with more of roads, Park besides better law and order and defence of the country. Second ,it is expected to generate employment so that the growth process become inclusive.

4) Explain the role of government budget in fighting inflationary and deflationary tendencies.

Government budget plays a significant role in fighting inflationary and deflationary tendencies in the country.To combat inflationary tendencies fiscal deficit is reduced by lowering government expenditure and raising the payment receipt likewise deflationary tendencies are combat by increasing the government expenditures and by lowering receipts particularly by way of moderate tax structure.

5) Distinguish between direct tax and indirect tax.

The main differences are as follow-

DIRECT TAX

Direct taxes are those taxes the final burden of which falls on the person who is liable to pay the tax to the government.

The final burden of direct taxes cannot be shifted to other person.

Direct taxes are generally progressive in nature.Their real burden is more on rich and less on the poor.

Example -Income Tax

Corporate tax

INDIRECT TAX

Indirect taxes are those taxes the final burden of which does not necessarily fall on the person

who is liable to pay the tax to the government.

The final burden of indirect taxes can be shifted to other persons.

Indirect taxes are generally regressive in nature and the real burden is more on the poor and less

on the rich.

Examples -Sales tax

Custom duty

6) Explain the implications of Fiscal deficit.

The main implications of Fiscal deficit are as follow-

Fiscal deficit creates inflationary spiral

Implies backlog of national debt for future generation

Creates vicious circle of multiplies borrowing

Erosion of government credibility

Crowding out effect

7) Why public goods/facilities must be provided by the government?

Public goods are those goods which have two characteristics -

First-These goods are non rivalrous.

Second-These goods are non exclusive

These facilities are very significant because these facilities are available for all.All people whether they can pay for it or can't pay for it ,they all can get the benefit of these facilities. For example- street light may be a paid utility service but those who do not pay cannot be excluded from the use or benefit of it.Similarly law and order services- these services are not only available for the rich section of the society but these facilities are available for each and every citizen of the country.

8) What is the difference between plan and non plan expenditure?

Plan expenditure refers to those expenditures which relates to the policies initiated by central government and assistance of the central government to the state government.It includes both revenue expenditure and capital expenditure.However once a particular project is completed plan expenditure of the government is taken to be as over.

Non plan expenditure refers to the expenditure which is not related to the plans of Central Government or for assistance of the central government to state government.It also includes revenue as well as capital expenditure.Broadly any expenditure other than plan expenditure is considered as non plan expenditure.

9) Differentiate between development and non development expenditure.

Development expenditure is related to investment expenditure or which enhances production capacity in the economy.

Example - Expenditure by the government on roads and bridges

It is also called productive expenditure.

Non development expenditure is related to consumption expenditure by the government.It enhanced social welfare in an economy.

Example-Expenditure by the government on food security

Non plan expenditure is also called unproductive expenditure.

10) What are the implications of revenue deficit?State two measures to reduce the deficit.

Revenue deficit is related to revenue expenditure and revenue receipt of the government.

High revenue deficit gives a warning to the government either to cut its expenditure or increase its tax and non tax receipts.

To balance the revenue budget there are two measures-

By increasing taxes-

It is possible when government will impose more direct and indirect tax on people but it is not a helping tool as it is difficult to force the poor people to pay high taxes.

By reducing subsidy

Government can control revenue deficit by reducing subsidy on those items which are not significant for the weaker section of the society.