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.