



Government Budget & Balance of Payment

GENERAL INSTRUCTIONS:

- This question paper contains two sections:
Section A – Government Budget
Section B – Foreign Exchange Rate & Balance of Payment
- Question No. (1-10) and (18-27) are Multiple Choice Questions of 1 mark each.
- Question No. (11-12) and (28-29) are Short Answer Type Questions of 3 mark each to be answered in 60 to 80 words.
- Question No. (13-15) and (30-32) are Short Answer Type Questions of 4 mark each to be answered in 80 to 100 words.
- Question No. (16-17) and (33-34) are Long Answer Type Questions of 6 mark each to be answered in 100 to 150 words.

SECTION A

- Statement I : Public goods are those goods and services that are collectively consumed by the public.
Statement II : Public goods are excludable and rivalrous in nature.
In the light of the given statements, choose the correct alternative from the following :
(a) Both the statements are true (b) Both the statements are false
(c) Statement I is true and Statement II is false (d) Statement II is true and Statement I is false
- Statement I : Cut down of government expenditure on welfare programmes leads to loss of social welfare.
Statement II : Borrowings from RBI are often linked to high fiscal deficit.
In the light of the given statements, choose the correct alternative :
(a) Statement I is true and statement II is false (b) Statement I is false and statement II is true.
(c) Both statements I and II are true (d) Both statements I and II are false
- The government can achieve its budget objective of 'Redistribution of Income' by
(a) Managing the general price level in the economy
(b) Increasing the Gross Domestic Products (GDP) of the economy.
(c) Bringing the production of goods and services under its direct and absolute control
(d) Rationalisation of taxes in pro-poor direction
- In a government budget, non-debt creating capital receipts are Rs. 200, revenue receipts are Rs. 1,500, borrowings are Rs. 150 while capital receipts and Revenue receipts are respectively Rs. 250 and Rs. 300. What will be the fiscal deficit in this case?
(a) Rs. 150 (b) Rs. 300 (c) Rs. 500 (d) Can't be determined
- Assertion (A) Tax is a main source of government's revenue which is used to provide services, therefore those who pay tax should not use government services.
Reason (R) Public goods are non-exclusive and non-rival in consumption.
Alternatives :
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
(b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(c) Assertion (A) is true, but Reason (R) is false.
(d) Assertion (A) is false, but Reason (R) is true.

6. Assertion (A) In absence of any legal hier of an individual, government distributes its financial assets.
Reason (R) Non-tax revenues of government budgt is categorised under capital component.
- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not th corrcet explanation of Assertion (A).
(c) Assertion (A) is true, but Reason (R) is false.
(d) Assertion (A) is false, but Reason (R) is true.

7. Study the given information very carefully and comput the valu of primary deficit.

Union Budget of India at a glanc

2014-15

(in Rs. crore)

Tax Revenue (net to centre)	9,86,417
Non-Tax Revenue	1,80,714
Capital Receipts	5,96,083
Recoveries of Loans	10,527
Other Receipts	56,925
Borrowing and other Liabilities	5,28,631
Non-plan Expenditure on Revenue Account	11,07,781
Of which, Interest Payment	4,27,011
Non-plan Expenditure on Capital Account	1,00,111
Plan Expenditure on Revenue Account	4,42,273
Plan Expenditure on Capital Account	1,13,049
National GDP	1,28,39,952
(a) Rs. (4,94,463)	(b) Rs. (4,94,642)

(c) Rs. (4,94,436)

(d) Rs. (4,93,463)

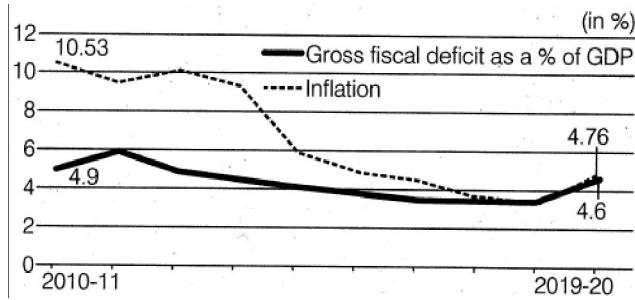
OR

Identify the correct formula to calculate fiscal deficit.

- (a) Total Expenditure - Total Revenue (other than borrowings)
(b) Revenue Expenditure - Revenue Receipt
(c) Capital Expenditure - Capital Receipt
(d) Revenue Expenditure + Capital Expenditure - Revenue Receipt
8. Law & order and defence of the country are the examples of _____.
- (a) Private goods (b) Public goods (c) Economic goods (d) non-economic goods
9. Read the following statements carefully :
- Statement 1 : Low fiscal deficit leads to crowding-out effect.
Statement 2 : High GDP growth leads to high fiscal deficit and vice versa.
In the light of the given statements, choose the correct alternative :
- (a) Statement 1 is true and statement 2 is false (b) Statement 1 is false and statement 2 is true.
(c) Both statements 1 and 2 are true (d) Both statements 1 and 2 are false

10. Statement I : Fiscal deficit is the sum of primary deficit and interest payments.
Statement II : Disinvestment, external grants and dividends and profits are examples of non-tax revenue receipts.
In the light of the given statements, choose the correct alternative from the following :
- (a) Both statements are correct (b) Both statements are incorrect
(c) Statement I is correct and Statement II is incorrect (d) Statement I is incorrect and Statement II is correct.

11. (i) In light of the given figure, explain how fiscal deficit has a bearing on inflationary woes ?



Source Economic survey and CGA; RBI

- (ii) State any three objectives of government budget.

OR

- (i) Is the following, a revenue receipt or a capital receipt in the context of government budget and why?
(a) Tax receipt (b) Disinvestment
(ii) Can a fiscal deficit occur without a revenue deficit?

12. Classify the following as revenue receipts and capital receipts. Justify your answer :

- (a) Profit of public sector undertakings.
(b) market borrowing by the government.
(c) Income from sale of its share in public sector undertakings.

13. Given excerpt has been taken from the article "Why is it important for the government to have a budget?" as published by The Economic Times on 30th December, 2020.

Any political party which forms government at the Centre has certain social, political and economic responsibilities. When it comes to budgeting, identifying areas of weakness helps the government to allocate resources in a useful and sustainable manner. This is one of the most fundamental objectives behind framing a government budget. It's important for the government to ensure that funds reach where they are required the most.

On the basis of the given excerpt and your understanding, explain the importance of having a government budget.

OR

"A fiscal deficit necessarily leads to inflation." Comment.

14. Government has started spending more on providing free services like education and health to the poor. Explain its consequences.

OR

"An increase in tax rates on higher income group reflects an economic value of equality of social welfare". Do you agree with the given statement? Explain.

15. Classify the following statements as revenue receipts or capital receipts. Give valid reasons in support of your answer.

- (i) Financial help from a multinational corporation for victims in a flood affected area.
(ii) Sale of shares of a Public Sector Undertaking (PSU) to a private company, Y Ltd.

16. (a) Distinguish between revenue receipts and capital receipts of the government, with suitable examples.
(b) Distinguish between direct and indirect taxes, with suitable examples.

17. (a) Primary Deficit = _____ - Interest Payment
Fill the missing blank in the equation above along with defining the concept and stating its implications.

- (b) What are non-tax receipts? Give some examples.

OR

- (a) Why are subsidies treated as revenue expenditure?
(b) In the budget (2016), the government has hinted at lowering its expenditure on subsidies. Examine the economic value of this policy.

SECTION B

18. Statement I Capital account records transactions representing foreign financial assets and liabilities.
Statement II Balance of trade means the difference between exports and imports of visible material goods.
(a) Statement I is true and Statement II is false. (b) Statement I is false and Statement II true
(c) Both statements are true (d) Both statements are false
19. Statement I Profit received from investments abroad is recorded in the capital account.
Statement II Import of machines is recorded in the current account.
In the light of the given statements, choose the alternative from the following :
(a) Statement I is true and Statement II is false (b) Statement I is false and Statement II is true
(c) Both statements are true (d) Both statements are false
20. Read the following statements carefully :
Statement 1 : Autonomous items are the cause of BoP imbalance.
Statement 2 : Accommodating items do not involve the movement of goods across the borders.
In the light of the given statements, choose the correct alternative :
(a) Statement 1 is true and Statement 2 is false (b) Statement 1 is false and Statement 2 is true
(c) Both statements are true (d) Both statements are false
21. Balance of payments of an economy records for a fiscal year.
(a) income and expenditure of the government.
(b) inflow and outflow of funds of the government.
(c) inflow and outflow of foreign exchange to/from the economy.
(d) inflow and outflow of loans to/from the rest of the world.
22. Choose the correct statement from given below.
(a) Balance of trade records the exports and imports of invisible items.
(b) A surplus in BoT can rectify the deficit in BoP.
(c) Accommodating items are only recorded in capital account of BoP.
(d) Import of machinery will be recorded in capital account of BoP.
23. If the value of export of merchandise is Rs. 1,500 crore and imports of goods are 20% more than exports, the value of imports and trade deficit will be Rs. crores and Rs. crores respectively.
(a) 1,800, 3,300 (b) 1,800, 300 (c) 1,200, 300 (d) 1,200, 3,300

OR

Suppose that the Balance of Trade (BoT) of a nation, exhibits a surplus of Rs. 20,000 crores.

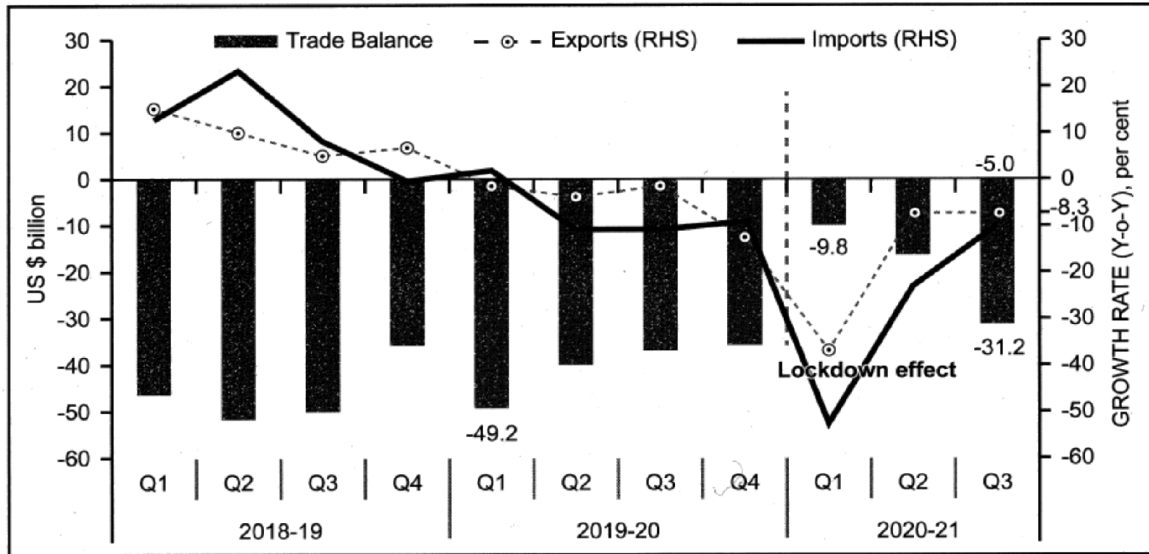
The import of merchandise of the nation is half of the exports of merchandise to the rest of the world.

The value of exports would be Rs. crores.

- (a) 30,000 (b) 40,000 (c) 24,000 (d) 35,000

24. Overall Balance = Current Account Balance + Capital Account Balance + _____
On the basis of the above chart answer the following question:
Choose the correct alternative to be filled in given blank.
(a) Visible balance (b) Errors and Omissions
(c) Invisible account balance (d) None of these

OR



On the basis of above bar diagram answer the following question:

The decline in _____ outweighed that in _____ leading to a smaller trade deficit of US\$ 9.85 billion as compared to US\$ 49.2 billion in Q1 for the year 2020-21.

- (a) import, export (b) export, import (c) BoP, export (d) import, BoP

25. Assertion (A) Managed floating exchange rate system is an amalgamation of fixed exchange rate and flexible exchange rate.

Reason (R) Central bank can manipulate the flexible exchange rate system.

Alternatives

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
 (b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 (c) Assertion (A) is true, but Reason (R) is false.
 (d) Assertion (A) is false, but Reason (R) is true.

26. Assertion (A) Accommodating transactions are undertaken to make equilibrium in BoP account.

Reason (R) Accommodating items are also called above the line items.

Alternatives

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
 (b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 (c) Assertion (A) is true, but Reason (R) is false.
 (d) Assertion (A) is false, but Reason (R) is true.

27. Balance of payments is in equilibrium when :

- (a) Current account balance + Capital account balance > Zero
 (b) Current account balance + Capital account balance < Zero
 (c) Current account balance + Capital account balance = Zero
 (d) all of these

28. Explain any three major functions of foreign exchange market.

OR

State on which side of capital account/current account will the following transactions be recorded and why?

- (i) Interest on loan received from Nepal
 (ii) Import of mobile phones from China

29. Giving reasons, explain whether the given statements are true or false.
- Improvement in exchange rate of the country's currency is always beneficial for Balance of Payment (BoP).
 - Rise in foreign exchange rate cause a rise in its supply.
30. Distinguish between autonomous items and accommodating items.
31. 'Devaluation and depreciation of currency are one and the same thing.' Do you agree? How do they affect the exports of a country?

OR

What is meant by 'official reserve transactions'? Discuss their importance in balance of payments.

32. Why is foreign exchange demanded ? Explain any four reason.
33. (i) In which sub-account and on which side of balance of payments account will foreign investment in India be recorded? Give reasons.
- (ii) What will be the effect of foreign investment in India on exchange rate? Explain.
34. (i) "Many large Multinational Corporations (MNCs) have recently shifted their investments from China and have started their production in India, thereby boosting the Make in India plans of the Government." Presuming other factors being constant, discuss the effects of the given statement on foreign exchange rate with reference to the India Economy.
- (ii) Why demand for foreign exchange increases with decline in foreign exchange rate? Give reasons.

OR

Describe merits and demerits of fixed exchange rate system.