



CHAPTER -16. GOVERNMENT BUDGET AND THE ECONOMY

ASSERTION- REASON QUESTIONS

Question No Question Content

- Q1 Assertion (A). Borrowings by the govt. from general public, RBI and ROW are capital receipts. Recovery of loans by govt. and sale of shares of public sector enterprises to private sector are treated as capital receipts in govt. budget.
Reason (R). Capital receipts are those estimated receipts of the govt. during the fiscal year which affect asset or liability status of the govt. These receipts create a corresponding liability for the govt. or lead to reduction in assets of the govt.
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 and 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.
- Q2 Assertion (A). In govt. budget production of goods which are injurious to health (like cigarettes) is discouraged through heavy taxation and production of socially useful goods (like khadi) is encouraged through subsidies. If private sector does not take initiative in certain activities, govt. directly controls them like water supply, sanitation etc.
Reason (R). The govt. seeks to allocate resources with a view to balance the goals of profit maximization and social welfare. It is allocation function in govt. budget as govt. attempts to provide certain goods and services which cannot be provided through the market mechanism.
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 and 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.
- Q3 Assertion (A). Recovery of loans is Capital receipt.

Reason (R). Revenue receipts of the govt. are those money receipts which do not create a liability for the govt. and as well do not lead to reduction in assets of the govt.

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 and 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.

Q4 Assertion (A). Capital receipts often leave burden on future generations.

Reason (R). Borrowings leave the burden on future generations for the repayment of loans.

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 and 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.

Q5

Assertion (A). There are three ways of managing Revenue deficit-

(i) Borrowing from the general public, RBI or rest of the world

(ii) Disinvestment by way of selling its ownership of public enterprises.

(iii) Cut in govt. expenditure (subsidies in particular)

Reason (R). The govt. in India has cut its expenditure on subsidies by restricting the supply of subsidized LPG cylinders to 9 per family during a year. This might cause hardship to people with low income. Second, the govt. resorts to borrowing from the general public, RBI and ROW. This raises liabilities of the govt. Third, the govt. undertakes disinvestment. This causes a reduction in its assets.

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 and 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.

Q6

Assertion (A): Fiscal deficit refers to total borrowings of government during a financial year.

Reason (R): fiscal deficit creates burden on future generations

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 and 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.

Q7

Assertion (A): The budget is also referred to as Annual financial statement in Article 112 of the constitution.

Reason (R): budget is a statement of actual income and actual expenditure of the government.

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 and 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.
- Q8 Assertion (A): Direct tax have limited coverage.
Reason (R): direct tax do not reach all section of the economy
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 and 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.
- Q9 Assertion (A): revenue receipts are those receipts which neither creates any liability nor cause any reduction in assets of the government.
Reason (R): These receipts are regular and recurring in nature.
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 and 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.
- Q10 Assertion (A): Direct tax is a type of tax where the incidence and impact of taxation fall on same person.
Reason (R): income tax is an example of direct tax.
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 and 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.
- Q11 Assertion: Fiscal deficit = total expenditure > total receipts excluding borrowings and other liabilities of the government.
Reason: because fiscal deficit reflects the borrowing requirements of the government
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 and 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.
- Q12 Assertion: Primary deficit= Fiscal deficit –Interest of payments
Reason: because primary deficit reflects the borrowing requirements of the government other than interest payments
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 and 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.
- Q13 Assertion: Budget is prepared at centre, state and local level
 Reason: State budget is known as Union budget
 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 and 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.
- Q14 Assertion: Disinvestment is a capital expenditure of the government
 Reason: because disinvestment decreases the assets of the government
 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 and 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.
- Q15 Assertion: Public expenditure generates investment-friendly environment in the economy
 Reason: It raises the infrastructural development in the economy.
 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 and 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.
- Q16 Assertion (A): Cigarettes and Whisky are discouraged through heavy taxation.
 Reason (R): These are 'socially useful goods'
 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 and 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.
- Q17 Assertion (A): GST is an indirect tax.
 Reason (R): because it is imposed on goods and services.
 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 and 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.
- Q18 Assertion (A): borrowings are capital receipts but payment of interest on borrowings are revenue expenditure.
 Reason (R): borrowings creates liability but payment of interest does not reduce liability.
 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 and 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.
- Q19 ASSERTION (A): Fiscal deficit is greater than budgetary deficit.
 REASON(R): Fiscal deficit is the borrowing from the RBI of India plus other liabilities of the government to meet its expenditure.
 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 and 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.
- Q20 ASSERTION (A): Fiscal deficit compels the government to issue new currency to finance its borrowings.
 REASON(R): Borrowings are always inflationary in nature.
 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 and 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.
- Q21 ASSERTION (A): Indirect tax is good source of revenue for the government.
 REASON(R): The final consumer bear the entire burden as the impact and incident of Indirect tax falls on him.
 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 and 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.
- Q22 ASSERTION (A): Fiscal deficit shows a better position of the government expenditure in comparison to the budget deficit.
 REASON(R): Fiscal deficit means the borrowing of the government.
 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 and 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.
- Q23 ASSERTION (A): Deficit budget is a good strategy to deals with economic slowdown.
 REASON(R): Deficit budget raise the aggregate demand of the economy.
 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 and 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.

ANSWER

Question No	Answer
Q1	(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
Q2	(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
Q3	(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
Q4	(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
Q5	(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
Q6	(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
Q7	(c) Assertion (A) is true but Reason (R) is false.
Q8	(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
Q9	(a) Both Assertion (A) and Reason (R) are true and Reason (R) is

	the correct explanation of Assertion (A)
Q10	(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
Q11	(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
Q12	(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
Q13	(c) Assertion (A) is true but Reason (R) is false.
Q14	(d) Assertion (A) is false but Reason (R) is true.
Q15	(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
Q16	(c) Assertion (A) is true but Reason (R) is false.
Q17	(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
Q18	(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
Q19	(d) Assertion (A) is false but Reason (R) is true.
Q20	(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
Q21	(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
Q22	(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
Q23	(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

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