SES'S L.S.RAHEJA COLLEGE OF ARTS AND COMMERCE

Course: SYBCOM Business Economics IV Unit: III Prepared by: Samiksha Jadhav

LSRC/ TUTORIAL

1. **Public expenditure** is spending made by the government of a country on collective needs and wants such as pension, provision, infrastructure, Public expenditure refers to Government expenditure i.e. Government spending. It is incurred by Central, State and Local governments of a country.

2. **Public debt** refers to a part of the total borrowings by the Union Government which includes such items as market loans, special bearer bonds, treasury bills and special loans and securities issued by the Reserve Bank. It also includes the outstanding external debt.

3. **Solvency** is the ability of a company to meet its long-term financial obligations. Solvency is essential to staying in business as it demonstrates a company's ability to continue operations into the foreseeable future. Solvency, in finance or business, is the degree to which the current assets of an individual or entity exceed the current liabilities of that individual or entity. Solvency can also be described as the ability of a corporation to meet its long-term fixed expenses and to accomplish long-term expansion and growth.
4. **Internal Public Debt**: Internal debt or domestic debt is the part of the total government debt in a country that is owed to lenders within the country.

5. **External Public Debt**: External debt is the portion of a country's debt that was borrowed from foreign lenders, including commercial banks, governments, or international financial institutions. These loans, including interest, must usually be paid in the currency in which the loan was made.

Q1. Choose the correct option and rewrite the sentences.

1. Which of the following is the cause of growth of public expenditure?
   i. Rising population
   ii. Democratic form of government
   iii. Urbanization
   iv. All of the above

2. Public debt includes ___________
   i. Currency and money deposits
   ii. Internal loans and government securities
   iii. External loans incurred by the government
   iv. All of the above

3. In which of the budget the existing programmes or activities may not be automatically funded?
    i. Zero based budget
    ii. Traditional budget
    iii. Executive budget
    iv. Programme budget

4. When the size of the budget is less than optimum, then ____________
    i. Marginal Social Sacrifice < Marginal Social Benefits
    ii. Marginal Social Sacrifice > Marginal Social Benefits
    iii. Marginal Social Sacrifice = Marginal Social Benefits
    iv. Net Marginal Benefits is zero

5. ___________ Burden of debt on the government is from foreign borrowings.
    i. Internal
    ii. External
    iii. Both
    iv. Non of the above

6. __________ is the ability of a government to meet its long-term financial obligations.
    i. Public Debt
    ii. Fiscal Solvency
    iii. Public Expenditure
    iv. Non of the above

Explain the concepts (2 marks each)

1. Public expenditure
2. Public Debt
3. Fiscal Solvency
4. Departmental Classification of Public expenditure
5. Internal Public debt
6. External Public Debt

Answer in detail for the following (10 marks each)

1) Discuss the meaning and canons of Public expenditure.
2) Discuss the meaning and classification of Public expenditure.
3) Discuss the meaning and causes of growth in Public expenditure.
4) Explain the Wagner's Law of Increasing State Activity and Wiseman-Peacock Hypothesis.
5) Discuss the meaning and classification of Public debt.
6) Explain the meaning of Public debt and forms of burden of Internal Public debt.
7) Explain the meaning of Public debt and forms of burden of External Public debt.
8) Explain the social security programmes in India.
9) Discuss the criteria for fiscal sustainability of government.

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SES'S L.S.RAHEJA COLLEGE OF ARTS AND COMMERCE

Course: SYBCOM Business Economics IV Unit: IV Prepared by: Ms. Samiksha Jadhav

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1. **FISCAL POLICY**: It is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. Fiscal policy is the use of government revenue collection (mainly taxes) and expenditure (spending) to influence the economy. It is often used to stabilize the economy over the course of the business cycle.

2. **COUNTER-CYCLICAL FISCAL POLICY**: A counter-cyclical fiscal policy refers to strategy by the government to counter boom or recession through fiscal measures. It works against the on-going boom or recession trend; thus, trying to stabilize the economy. Understandably, countercyclical fiscal policy works in two different direction during these two phases.

3. **FUNCTIONAL FINANCE** : It refers to an economic theory which hopes to put an end to business cycles through appropriate government policy. It was developed by British economist Abba P. Lerner during the Second World War. Lerner proposed that the taxation, borrowing and spending decisions of the government be actively targeted at upholding economic growth and controlling inflation while ignoring other concerns. For instance, a government that hopes to boost growth by increased spending and cutting taxes should worry only about the policy's effect on growth, not about the rise in debt due to such a policy.

4. **BUDGET**: A budget is an estimate of costs, revenues, and resources over a specified period, reflecting a reading of future financial conditions and goals. A government budget is an annual financial statement showing item wise estimates of expected revenue and anticipated expenditure during a fiscal year." Just as your household budget is all about what you earn and spend, similarly the government budget is a statement of its income and expenditure.

5. **DEFICIT:** A deficit is an amount by which the expenditures in a budget exceed the income. A Government Deficit is the amount of money in the set budget by which the government expenditure exceeds the government income amount. This deficit provides an indication of the financial health of the economy.

6. **BUDGETARY DEFICIT**: It is the difference between all receipts and expenditures in revenue and capital accounts. This is a very narrow concept of deficit which reflects only a part of the resource gap in current fiscal operations.

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7. **FISCAL DEFICIT**: It is the difference between total revenue and total expenditure. It indicates the total borrowing needed by the government. It occurs due to either revenue deficit or a major increase in capital expenditure. It is the excess of total expenditure including net lending. Thus fiscal deficit refers to the excess of total expenditure excluding repayment of debt over total receipts excluding debt capital receipts.

8. **MONETISED FISCAL DEFICIT**: Monetised deficit means the increase in the net RBI credit to the central government, such that the monetary needs of the government could be met easily.

9. **REVENUE DEFICIT**: Revenue deficit is the excess of revenue expenditure (the government expenditures which do not result in capital formation) over revenue receipts. This occurs when the actual amount of revenue received or the actual amount of expenditures do not correspond with the predicted revenue and expenditure figures

10. **PRIMARY DEFICIT**: It refers to difference between fiscal deficit of the current year and interest payments on the previous borrowings. Primary Deficit = Fiscal Deficit – Interest Payments.

11. **FISCAL FEDERALISM**: It deals with the division of governmental functions and financial relations among levels of government of an economy. Fiscal Federalism refers to the division of responsibilities with regards to public expenditure and taxation between the different levels of the government.

12. **FISCAL DECENTRALIZATION**: It means devolution of power and responsibilities of national (central), government towards sub-national (local), governments. Fiscal decentralization involves shifting some responsibilities for expenditures and/or revenues to lower levels of government.

Q1. Choose the correct option from the following and rewrite the sentences:

1. What is the appropriate Fiscal policy during recession?
   i. Expansionary fiscal policy
   ii. Contractionary fiscal policy
   iii. Surplus budget
   iv. Deficit budget
2. Fiscal Policy is also called as __________.
   i. Budgetary policy
   ii. Monetary policy
   iii. Both i and ii
   iv. None of the above

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3. Which of the following refers to Fiscal deficit?
    i. Total Expenditure – Total Receipts
    ii. Total Expenditure – (Revenue Receipts + Non borrowing capital Receipts)
    iii. Total Expenditure – Revenue Receipts
    iv. Total Expenditure – Capital Receipts

4. Primary deficit means_________.
    i. Fiscal deficit – Interest payments
    ii. Revenue deficit – Interest payments
    iii. Fiscal deficit + Interest payments
    iv. Revenue deficit + Interest payments

5. The ____________Act is for regulation of public expenditures and overall fiscal and budget management in India.
    i. FEMA Act
    ii. FERA Act
    iii. FRBM Act
    iv. RERA Act

Explain the Concepts (2 marks each)

1. Fiscal Policy
2. Balanced budget
3. Revenue deficit
4. Primary deficit
5. FRBM Act
6. Fiscal Federalism

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Answer in detail for the following (10 marks each)

a) Discuss the meaning and objectives of Fiscal policy.
b) Explain any one of the principles of finance:
    i. Sound Finance
    ii. Functional Finance
c) Discuss the types of government budgets.
d) Discuss the types of Fiscal policy.
e) Explain the meaning and objectives of government budget.
f) Discuss the features and limitations of FRBM Act (2003).
g) Discuss meaning of budget and the structure of Union Budget.
h) Explain any one of the principles of finance:
    iii. Sound Finance
    iv. Functional Finance
i) Explain the various concepts of Deficits.
j) Explain the meaning and key issues in Fiscal federalism.