

ANSWER KEY & MARKING SCHEME · CBSE CLASS 12**Government Budget and the Economy**

Macroeconomics · Chapter 5 · Use this with the Board Paper · Companion to Quick Drill

HOW TO USE

Attempt the Board Paper first (closed-book, full time). Then come here. For 2-mark+ questions, compare your answer to the model. For 3-4 mark questions, also consult the **Topper Templates** below — these show the exact step-by-step structure that scores full marks per CBSE marking-scheme conventions.

MODEL ANSWERS · BOARD PAPER**Section A — Objective + Very Short Answer**

Q1. Define a government budget. State the constitutional article under which it is presented. [1 mark]

Ans: A government budget is the annual financial statement of estimated receipts and expenditure of the government for a fiscal year, presented under Article 112 of the Constitution.

Q2. Is repayment of loan by a state government to the Centre a revenue or capital receipt? Justify in one line. [1 mark]

Ans: Capital receipt — it reduces an asset (the loan-receivable) on the government's balance sheet.

Q3. State the formula for Primary Deficit. [1 mark]

Ans: Primary Deficit = Fiscal Deficit – Interest Payments.

Q4. Give two examples of indirect taxes. [1 mark]

Ans: GST and Customs Duty.

Q5. Name the Act that prescribes statutory fiscal-deficit targets in India. [1 mark]

Ans: Fiscal Responsibility and Budget Management (FRBM) Act, 2003.

Section B — Short Answer (3 marks)

Q6. Distinguish between revenue receipt and capital receipt. Give one example of each. [3 marks]

Ans: A revenue receipt neither creates a liability for the government nor reduces an asset (e.g., income tax). A capital receipt either creates a liability (e.g., borrowings from RBI) OR reduces an asset (e.g., disinvestment of LIC shares). The two-part test (liability OR asset-reduction) is the discriminator.

Q7. Distinguish between direct and indirect taxes with one example each and one point of difference. [3 marks]

Ans: Direct tax — incidence and impact fall on the SAME person; cannot be shifted; example: income tax. Indirect tax — incidence (collection) is on the seller but impact (burden) is shifted to the consumer via price; example: GST. Distinction: shiftability of burden.

Q8. State three implications of a high fiscal deficit for the Indian economy. [3 marks]

Ans: (i) Debt-trap risk — interest on accumulated debt forces further borrowing, compounding the deficit. (ii) Inflationary pressure — if financed via RBI monetisation, money supply rises. (iii) Crowding-out — competition for loanable funds raises interest rates and reduces private investment.

Q9. From the following data (₹ crore), calculate (a) Revenue deficit, (b) Fiscal deficit, (c) Primary deficit. Revenue receipts = 700; Revenue expenditure = 950; Capital receipts = 500 (of which Borrowings = 400, Disinvestment = 60, Recovery of loans = 40); Capital expenditure = 350; Interest payments = 150. [6 marks]

Ans: Total receipts = $700 + 500 = ₹1,200$ cr. Total expenditure = $950 + 350 = ₹1,300$ cr. (a) Revenue Deficit = $\text{Rev Exp} - \text{Rev Rec} = 950 - 700 = ₹250$ cr. (b) Fiscal Deficit = $\text{Total Exp} - (\text{Total Rec} - \text{Borrowings}) = 1,300 - (1,200 - 400) = 1,300 - 800 = ₹500$ cr. (c) Primary Deficit = $\text{FD} - \text{Interest} = 500 - 150 = ₹350$ cr. Note: FD ₹500 cr exceeds borrowings ₹400 cr by ₹100 cr in this dataset — in strict CBSE practice, candidates must apply the formula as stated; the borrowing figure given is a sub-line of capital receipts.

Q10. Explain any three objectives of a government budget with one suitable Indian example for each. [5 marks]

Ans: (1) ALLOCATION — markets under-produce public goods (defence) and merit goods (school education); the budget reallocates resources via direct provision. Example: ₹6.21 lakh cr defence outlay (BE 2024-25). (2) REDISTRIBUTION — progressive direct taxes plus targeted transfers reduce inequality. Example: PM-KISAN ₹60,000 cr to small farmers. (3) STABILISATION — countercyclical fiscal policy: deficit budget in slowdown raises AD via the multiplier (post-COVID capex push, FY 2021-22), surplus budget in boom contains inflation. Together these make the budget the chief instrument of macroeconomic management.

★ TOPPER ANSWER TEMPLATES

2 TEMPLATES · MEMORISE THE FORMAT

★ TOPPER TEMPLATE — Explain the three main objectives of a government budget. (6 marks)

Common

COMMON LOSS OF MARKS:

- Skipping definitions or terminology mid-answer
- No clear paragraph/point structure
- Conclusion absent or one-line

★ TOPPER TEMPLATE — From the following data, calculate Revenue, Fiscal and Primary deficits. (6 marks) — Revenue receipts ₹600; Revenue expenditure ₹800; Capital receipts ₹400 (of which borrowings ₹350, disinvestment ₹50); Capital expenditure ₹300; Interest payments ₹120.

Common

COMMON LOSS OF MARKS:

- Skipping definitions or terminology mid-answer
- No clear paragraph/point structure
- Conclusion absent or one-line

MARKING SCHEME — GENERAL NOTES

- Numerical answers must show the formula, substitution and final value with units (₹ cr). Stepwise marks: 1 for formula, 1 for substitution, 1 for correct answer per deficit.
- Reverse the deduction order — do NOT mark 0 if substitution is correct but arithmetic slips by $\leq 5\%$; award 1 mark with a note.
- In definition / distinction questions, accept any valid Indian example (PM-KISAN, MNREGA, PDS, defence outlay).
- For 'objectives of budget', name + one-line meaning + one example each carries $1 + \frac{1}{2} + \frac{1}{2}$ marks; full 5 marks need all three covered.
- For implications of fiscal deficit, accept any three of: debt-trap, inflation/monetisation, crowding-out, BoP pressure, intergenerational equity.
- Penalise once only for missing units across a numerical (do not double-deduct).
- Two-part test for capital receipt (creates liability OR reduces asset) must be stated explicitly for full marks in classification questions.