

CHAPTER 5

# Government Budget and the Economy

CBSE · Macroeconomics · Class 12

## WHAT THIS CHAPTER DOES

Boards prep that builds confidence, not anxiety.

**TODAY'S MISSION**

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# Today's mission

**WHY THIS MATTERS**

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# The 30-second summary

TOPIC

**A**

# Part A - What is the Budget?

**TOPIC**

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# Constitutional and legal basis

POINT 1

POINT 2

TOPIC

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# Quick check before we move on

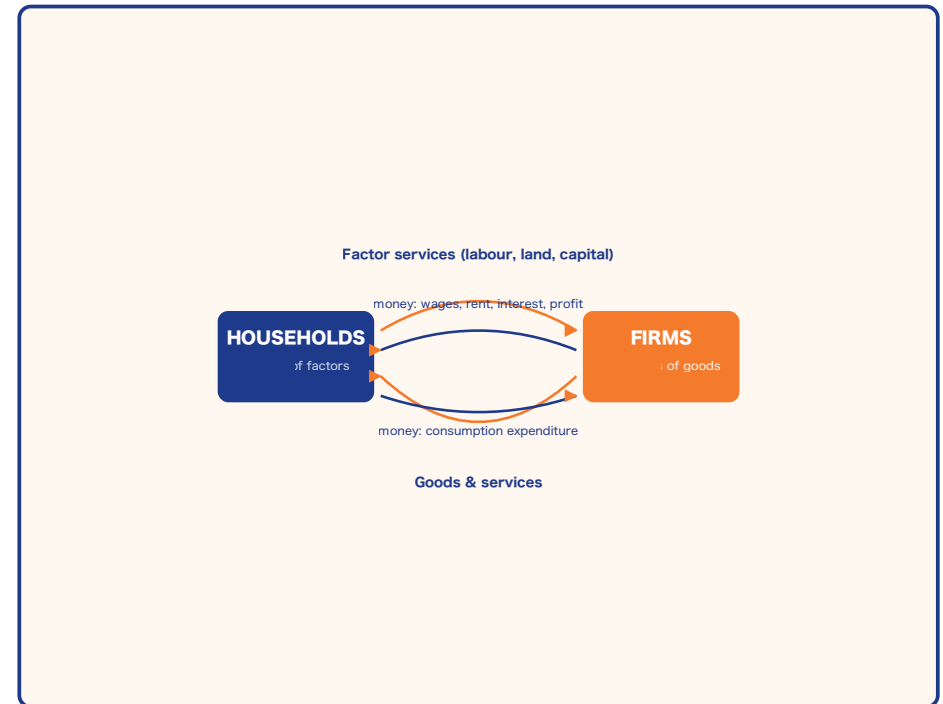
TOPIC

**B**

# Part B . Objectives

WORKED EXAMPLE

# Objective 1 — Allocation function (with circular-flow motif)



TOPIC

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# Redistribution in numbers (FY 2024-25 BE)

**WORKED EXAMPLE**

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# Objective 3 — Stabilisation (the multiplier in action)

TOPIC

C

# Part C - Receipts

TOPIC

# The two-part test for capital receipt

POINT 1

POINT 2

**TRY IT · SOLVE BEFORE YOU PEEK**

# 60-second classifier

Work it out before you flip the answer.

**SOLUTION**

TOPIC

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# Direct vs indirect tax — at a glance

TOPIC

**D**

# Part D . Expenditure

**TOPIC**

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# Revenue vs Capital expenditure

POINT 1

POINT 2

**WORKED EXAMPLE**

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# Subsidies — explicit vs implicit

TOPIC

**E**

# Part E · Three Deficits

**WORKED EXAMPLE**

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# Numerical — calculate all three deficits

**PYQ PATTERNS**

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# Marks-pattern heatmap (last 5 years)

## MARKS DISTRIBUTION

# Where the marks live in this chapter

TOPPER TEMPLATE · MARK-BY-MARK

# Model 6-mark answer — Three objectives of budget

TOPIC

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# Before-exam self-check

## TOPIC

# Trap

## TRAP → TRUTH

× **MISTAKE** Fiscal deficit = Total expenditure – Total receipts

✓ **CORRECT** Fiscal deficit = Total expenditure – (Total receipts EXCLUDING borrowings).  
Borrowings are the gap, not a receipt.

## TOPIC

# Trap

## TRAP → TRUTH

- × **MISTAKE** Disinvestment is a revenue receipt because it brings cash to the government
- ✓ **CORRECT** Disinvestment is a CAPITAL receipt — it reduces the government's asset holding (equity in PSU).

## TOPIC

# Trap

## TRAP → TRUTH

× **MISTAKE** Repayment of loan by states is a revenue receipt

✓ **CORRECT** It is a CAPITAL receipt — it reduces an asset (the loan outstanding) on the government's books.

## TOPIC

# Trap

## TRAP → TRUTH

× **MISTAKE** Primary deficit means the deficit before tax collection

✓ **CORRECT** Primary deficit = Fiscal deficit – Interest payments. It strips out past borrowing's interest cost to isolate THIS year's fresh borrowing need.

## TOPIC

# Trap

## TRAP → TRUTH

× **MISTAKE** All subsidies are revenue expenditure on goods

✓ **CORRECT** Subsidies can be explicit (cash outgo — food, fertiliser, LPG) OR implicit (lower interest rates, concessional fees) — both are revenue expenditure but only explicit ones hit the budget line.

## TOPIC

# Trap

## TRAP → TRUTH

× **MISTAKE** A balanced budget is always the best budget

✓ **CORRECT** A balanced budget is procyclical — it shrinks AD in recession (worse) and overheats in boom (worse). Deficit/surplus must be chosen to stabilise the cycle.

## PYQ PATTERNS

# Top PYQ patterns to drill

#1	Calculate fiscal/revenue/primary deficit from a data table (6 marks)	95%
#2	Classify receipt as revenue or capital with reason (3 marks)	88%
#3	Three objectives of budget (allocation/redistribution/stabilisation) (4 marks)	76%
#4	Direct vs indirect tax	meaning + 2 examples each + 1 distinction (3 marks) — 64%
#5	Implications of high fiscal deficit (4 marks)	58%

RECAP · MEMORISE THESE

## Chapter in 5 lines

**1** Budget = Article 112 annual statement; objectives = allocate, redistribute, stabilise.

**2** Receipts split into Revenue (tax + non-tax) and Capital (borrowings, recoveries, disinvestment).

**3** Expenditure splits into Revenue (recurring) and Capital (asset-creating).

**4** Three deficits: RD = Rev Exp – Rev Rec; FD = Total Exp – (Total Rec –

**5** FRBM Act 2003 enforces fiscal discipline; current target FD/GDP  $\leq$  4.5%.

**WHAT'S NEXT**

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# Coming up next

- Chapter 6 — Open Economy Macroeconomics: BoP, exchange rates, current vs capital account.
- We'll see how a fiscal deficit interacts with the current account deficit ('twin deficits' problem).

# Practise → Master

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