STUDY MATERIAL

LESSON -5

PUBLIC EXPENDITURE AND PUBLIC REVENUE

1. What is called Public expenditure ?
   The expenditure incurred by the government is known as public expenditure.
2. Mention two types of public expenditure ?
   a) Developmental expenditure :- The expenditure incurred by the government for constructing roads, bridges, harbours. Starting up new group enterprises and setting up educational institutions are considered as developmental expenditure.
   b) Non – developmental expenditure :- Expenditure incurred by government for spending war, interest and pension are considered as non- developmental expenditure
3. Point out important reasons to increase public expenditure ?
   - Increase in population
   - Increase in the defence expenditure
   - Welfare activities
   - Urbanisation
4. How does an increase in population increases the government expenditure ?
   As population increases, facilities for education, health, shelter, etc. for more people have to be provisioned for. For this, the government has to spend more money.
5. What do you know about Public Revenue ?
   - The income of the government is called Public Revenue.
   - Classification of Public Revenue : Tax revenue and Non tax revenue
   - Taxes are the main source of income for the Govt.
   - The person who pays tax is called tax payer.
   - Classification of Tax revenue : Direct tax and Indirect tax
6. Differentiate direct tax and indirect tax ?

Direct Tax	Indirect Tax
• Tax is paid by the person on whom it is imposed	• Tax is imposed on one person and paid by another
• Tax burden is felt by the tax payer	• Tax burden is not felt by the tax payer
• Comparatively high expenditure is incurred for tax collection	• Comparatively low expenditure is incurred for tax collection

7. What are the major direct taxes ?
   Direct taxes : Personal income tax, Corporate tax
   <u>Personal income tax:</u> The tax imposed on the income of individuals. Income Tax is imposed on income beyond a certain limit. Tax rate increases with income.
   <u>Corporate tax:</u> It is the tax imposed on the net income or profit of a company.
8. What are the major indirect taxes ?
   Indirect taxes : Excise duty, Service tax, Customs duty
   <u>Value added tax</u> : A product reaches the consumers through different stages. Value is added at each stage. Taxes which are imposed on such value is called value added tax.
   <u>Excise duty:</u> Tax imposed at the production stage of a commodity.
   <u>Service tax:</u> The tax imposed on services is called service tax. Tax imposed on telephone services is an example.
   <u>Customs duty:</u> Imposed on import and export of products. These are known as import duty and export duty respectively.
9. What is the difference between Surcharge and Cess ?
   Surcharge :- Additional tax imposed by the government on tax for a specific period
   Cess :- Additional tax imposed by the government on tax for certain specific purpose. It will be discontinued when enough money is received.

10. Tabulate the taxes imposed by the central, the state, and the local self governments ?

Central government	State government	Local self government
• Corporate tax • Personal income tax • Union excise duty	• Value added tax • Stamp duty • State excise duty • Land tax	• Property tax • Professional tax • Entertainment tax

11. Tabulate different sources of non tax revenue ?

Fees	Fees is the reward collected for the government's services. License fees, registration fees, tuition fees, etc. are examples.
Fines and penalties	Fines and penalities are punishments for violating the laws.
Grants	Grants are the financial aid provided by one government to another. For example, grants are provided by central and state governments to local self governments.
Interest	Interest is the amount received for the loans provided by the government to various enterprises, agencies, and countries.
Profit	Profit is the income received from the enterprises operated by the government. For example, profit from the Indian Railways.

12. What is called public debt ? Public debts are loans taken by the government.

13. Differentiate internal debt and external debt ?

Internal debt : These are the loans availed by the government from individuals and institutions within the country.

External debt : These are the loans availed from foreign governments and international institutions.

14. List out the reasons for the increase in India's public debt ?

- Increased defence expenditure - Increase in population
- Social welfare activities - Developmental activities

15. What is called public finance ?

It is the branch of economics that relates to public income, public expenditure and public debt. Public finance is presented through the budget.

16. What is budget ? Mention different types of budget ?

Budget is the financial statement showing the expected income and expenditure of the government during a financial year. It is from April 1 to March 31 in India.
When income and expenditure are equal, it is called a <u>balanced budget</u>. When income is more than expenditure, it is called <u>surplus budget</u>. When expenditure is more than income, it is called <u>deficit budget</u>.

17. What is fiscal policy ? What are the goals of the fiscal policy ?

Government's policy regarding public revenue, public expenditure and public debt is called fiscal policy. Attain economic stability, create employment opportunities, control unnecessary expenditure are the goals of fiscal policy.