

Girls' High School and College

2020-2021

12th C&D

ECONOMICS

Worksheet 2

Chapter : Fiscal Policy

Introduction :Fiscal policy is defined as the policy under which the government uses the instruments of taxation, public expenditure and public borrowing to achieve various objectives of economic policy. Fiscal policy concerns itself with the aggregate effects of government expenditure and taxation on income, production and employment. In other words it refers to the instructions by which a government tries to regulate or modify the economic affairs of an economy. Fiscal policy is a package of economic measures of the government regarding its public expenditure, public revenue and public debt or borrowing.

The objective of fiscal policy is to maintain the condition of full employment, economic stability and to stabilize the rate of growth. For an underdeveloped economy, the main purpose of fiscal policy is to accelerate the rate of capital formation and investment.

Instruments of Fiscal Policy

The three instruments of fiscal policy are:

- (a) public revenue
- (b) public expenditure
- (c) public borrowing

Public revenue : it refers to the income or earnings of the government. The various sources of public revenue are : taxes(direct and indirect), revenue from government enterprises and deficit financing.

Public expenditure : it refers to the various expenses of the government.

Public borrowing: If expenditure exceeds income, government has to borrow money by imposing new taxes or by selling securities.

Reference book - ISC Economics :D. K. Sethi & Andrews

Websites :

1. <https://www.financialexpress.com>
2. <https://m.economictimes.com>

Note: Parents please ensure that your ward refers to the websites for two days to read the topic.

Answer in brief :

1. State two objectives of fiscal policy.
2. Explain 'impact' and 'incidence' of taxation.
3. Mention two differences between income tax and sales tax.
4. How can public expenditure be used to promote economic growth?
5. Explain any three ways of debt redemption.
6. Define deficit financing.
7. Differentiate between progressive and degressive tax.
8. What is a sinking fund?
9. Explain 'repudiation of debt'.
10. What is a proportional tax?

Answer in detail :

11. How can fiscal policy be used to:
 - (a) maintain economic stability,
 - (b) eliminate price fluctuations,
 - (c) reduce inequalities of income.
12. Discuss various instruments of fiscal policy.
13. Discuss the role of fiscal policy in an underdeveloped economy.
14. State the role of deficit financing in the development of an economy.

END