B A PART 2 PAPER 4TH HOME SCIENCE

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BUDGET

A budget is an estimation of revenue and expenses over a specified future period of time and is usually compiled and re-evaluated on a periodic basis. Budgets can be made for a person, a group of people, a business, a government, or just about anything else that makes and spends money. A budget is a microeconomic concept that shows the trade-off made when one good is exchanged for another. In terms of the bottom line—or the end result of this trade-off—a surplus budget means profits are anticipated, a balanced budget means revenues are expected to equal expenses, and a deficit budget means expenses will exceed revenues.

To manage your monthly expenses, prepare for life's unpredictable events, and be able to afford big-ticket items without going into debt, budgeting is important. Keeping track of how much you earn and spend doesn't have to be drudgery, doesn't require you to be good at math, and doesn't mean you can't buy the things you want. It just means that you'll know where your money goes; you'll have greater control over your finances.

A personal budget or home budget is a finance plan that allocates future personal income towards expenses, savings and debt repayment. Past spending and personal debt are considered when creating a personal budget. There are several methods and tools available for creating, using, and adjusting a personal budget. For example, jobs are an income source, while bills and rent payments are expenses. A third category (other than income and expenses) may be assets (such as property, investments, or other savings or value) representing a potential reserve for funds in case of budget shortfalls.

Depending on the feasibility of these estimates, Budgets are of three types -- balanced budget, surplus budget and deficit budget.

1. **BALANCED BUDGET.**
2. **SURPLUS BUDGET.**
3. **DEFICIT BUDGET.**

BALANCED BUDGET

A government budget is said to be a balanced budget if the estimated government expenditure is equal to expected government receipts in a particular financial year. Advocated by many classical economists, this type of budget is based on the principle of “living within means.” They believed the government’s expenditure should not exceed their revenue.

Though an ideal approach to achieve a balanced economy and maintain fiscal discipline, a balanced budget does not ensure financial stability at times of economic depression or deflation. Theoretically, it’s easy to balance the estimated expenditure and anticipated revenues but when it comes to practical implementation, such balance is hard to achieve.

MERITS OF A BALANCED BUDGET

- Ensures economic stability, if implemented successfully.
- Ensures that the government refrains from imprudent expenditures.

DEMERITS OF A BALANCED BUDGET

Unviable at times of recession and does not offer any solution to problems such as unemployment.

- Inapplicable in less developed countries as it limits the scope of economic growth.
- Restricts the government from spending on public welfare.

SURPLUS BUDGET

A government budget is said to be a surplus budget if the expected government revenues exceed the estimated government expenditure in a particular financial year. This means that the government’s earnings from taxes levied are greater than the amount the government spends on public welfare. A surplus budget denotes the financial affluence of a country. Such a budget can be implemented at times of inflation to reduce aggregate demand.

DEFICIT BUDGET

A government budget is said to be a deficit budget if the estimated government expenditure exceeds the expected government revenue in a particular financial year. This type of budget is best suited for developing, such as India. Especially helpful at times of recession, deficit budgets helps generate additional demand and boost the rate of economic growth. Here, the government incurs the excessive expenditure to improve the employment rate. This results in an increase in demand for goods and services which helps in reviving the economy. The government covers this amount through public borrowings (by issuing government bonds) or by withdrawing from its accumulated reserve surplus.

MERITS OF A DEFICIT BUDGET

- Helps in addressing public concerns such as unemployment at times of economic recession.
- Enables the government to spend on public welfare.

DEMERITS OF A DEFICIT BUDGET

- Can encourage imprudent expenditures by the government.
- Increases burden on the government by accumulating debts.