Chapter 10: Government Budget & the Economy

Question 1

In a government budget, the revenue deficit is ₹ 35 crores. If revenue receipts are ₹70 crores and capital expenditure ₹120 crores, then how much is the revenue expenditure.

Solution:

Revenue Defici = Revenue Expenditure – Revenue Receipt

₹35 crores = Revenue Expenditure – ₹70 crores

Revenue Expenditure = ₹35 crores + 70 crores

= ₹105 crores

Question 2

The interest requirement as per the government budget during a year are ₹1,40,000 crores. If total borrowing requirements of the government are estimated at 2,70,000 crores, then how much is a primary deficit.

Solution:

Total borrowing requirements of the government are estimated at ₹ 2,70,000 crores. It means, Fiscal deficit = ₹ 2,70,000

Primary deficit = Fiscal Deficit – Interest Payment

Primary Deficit = ₹ 2,70,000 crores – ₹ 1,40,000 crores

= ₹ 1,30,000 crores.

Question 3

In a government budget, the primary deficit is ₹ 12,000 crores and interest payment is ₹ 7,000 crores. How much is the fiscal deficit?

Solution:

Primary deficit = Fiscal deficit – Interest payment

₹12,000 crores = Fiscal Deficit – ₹ 7,000 crores

Fiscal Deficit = ₹12,000 crores + ₹ 7,000 crores

= ₹ 19,000 crores

Question 4

As per the government budget, the interest payments are estimated at ₹ 10,000 crores, which is 40% of primary deficit. Calculated fiscal deficit?

Solution:

Let, Primary defict = x

₹10,000 crores = 40% of x = 0.40 x

x= ₹10,000 crores / 0.40 = ₹25,000 crores

Primary Deficit = Fiscal deficit – Interest payment

₹25,000 crores = Fiscal defict – ₹10,000 crores

Fiscal deficit = ₹25,000 crores + ₹10,000 crores

= ₹35,000 crores

Question 5

Find (a) Fiscal deficit and (b) Primary deficit from the following:

Particulars	(₹in crores)
Revenue Expenditure	70,000
Borrowings	15,000
Revenue Receipt	50,000
Interest Payment	25% of Revenue Deficit

Solution:

Revenue deficit = Revenue expenditure – Revenue receipt

Revenue deficit = ₹70,000 crores – ₹50,000 crores = ₹20,000 crores

Interest payment = 25% of revenue deficit = ₹ 20,000 crores x 25/100 = ₹5,000 crores

1. Fiscal deficit = Borrowings = ₹ 15,000 crores
2. Primary deficit = Fiscal deficit – Interest payment

Primary deficit = ₹15,000 crores – 5,000 crores

= 10,000 crores

Question 6

From the following information, determine: (a) Capital Expenditure (b) Total Expenditure (c) Interest Payments

Particulars	(₹in crores)
Fiscal Deficit	12,000
Revenue Deficit	9,000
Primary Deficit	5,000
Revenue Receipts	6,000
Non- debt Capital Receipts	10,000

Solution:

(a) Fiscal deficit= Revenue deficit + (Capital expenditure – Non-debt creating capital receipts)

₹12,000 crores= ₹9,000 + Capital expenditure- ₹10,000)

Capital expenditure= ₹12,000 crores – ₹9,000 crores + 10,000 crores

= ₹13,000 crores

(b) Total expenditure = Revenue expenditure + Capital expenditure

Revenue expenditure = Revenue defici + Revenue receipt

= ₹9,000 crores + ₹6,000 crores

= ₹15,000 crores

Total expenditure = Revenue expenditure + Capital expenditure

=₹15,000 crores + ₹13,000 crores

= ₹28,000 crores

(c) Primary deficit = Fiscal deficit – Interest payments

₹5,000 crores = ₹12,000 crores – Interest Payments

Interest Payments = ₹12,000 crores – ₹5,000 crores

= ₹7,000 crores