Comprehension Test Questions for IBPS Clerk, IBPS PO Pre, IBPS SO Pre, SBI Clerk, SBI PO Pre, RRB Scale I Pre

Passage No 92

Directions: Study the following passage and answer the questions given beside.

The fiscal position of states deteriorated in 2017-18 over 2016-17 as revenue deficit for most states widened whereas states with revenue surplus witnessed a decline in their surplus, according to a Care Ratings report. Stating that the states have increased their focus on asset creation, which is crucial for future growth and development, it said that 14 out of 24 states analysed in the report witnessed an increase in expenditure towards asset creation in FY18.

As states have been termed to be treading on the fiscal **consolidation** path, the report pointed that the gross fiscal deficit to gross state domestic product (GFD to GSDP) ratio has been within the 3 per cent norm for most states. Though most states managed to keep it under 3.5 per cent, some that breached it include Punjab, Himachal Pradesh, Jammu & Kashmir, Nagaland and Bihar. "In FY17, 10 states had a fiscal deficit ratio of over 3 per cent. In FY18, 14 states exceeded the 3 per cent mark, of which five were higher than 3.5 per cent, which is a concern," said the report. However, the report pointed that majority of the states adhered to the fiscal deficit norms stipulated by the Finance Commission.

On a consolidated basis, the states have seen a rise in their revenue expenditure. Bihar, Odisha, Chhattisgarh and Uttar Pradesh, which had a revenue surplus in FY17, saw them narrow down in FY18 . Assam, Punjab, Rajasthan, Tamil Nadu and Maharashtra that had registered revenue deficit in FY17, saw it widen in FY18. J&K, Jharkhand and Gujarat improved on their revenue surplus. States like Andhra Pradesh, Kerala, West Bengal and Haryana reduced their revenue deficit.

As per the 14th Finance Commission, all states are required to maintain a zero revenue deficit. The prevalence of revenue deficits is indicative of the fiscal pressure faced by 10 states that recorded revenue deficit in FY18. Most states managed to keep their debt levels (as a percentage of GSDP) stable. While 11 out of 19 states maintained their debt below the **stipulated** norm of 25 per cent of GSDP in FY18, 10 out of 21 states have their interest to revenue receipts ratio below the 10 per cent norm. Punjab and West Bengal are among the most indebted states as over 20 per cent of their revenue receipts are spent towards interest payments which pressurises their ability to spend on development purposes. The interest burden for Punjab, West Bengal and Tamil Nadu accounted for over 15 per cent of their revenues.

However, in absolute terms, Maharashtra and Uttar Pradesh have the highest debt levels at over Rs 4 lakh crore. On the other hand, Karnataka, Chhattisgarh, Odisha and Telangana have efficiently managed their debt obligations and have low debt to GSDP and interest to revenue receipt ratios i.e. within the stipulated norm of 25 per cent and 10 per cent, respectively.

While capital expenditure for the government is important and adds to the capital stock of the regional economy and provides a foundation for future growth and development, the report says that the consolidated expenditure by states towards asset creation continues to be under 15 per cent of their total expenditure. While the expenditure **incurred** towards capital projects by states at the consolidated level stood stable at 14.2 per cent of total expenditure, it said that at the state level, there has been a focus on creation of capital assets. Higher expenditure towards capital outlay has been incurred by 14 out of 24 states in FY18 from a year ago. 10 states saw their capital outlay as a percentage of total expenditure decline. While Goa had the highest allocation towards asset creation at 27 per cent of its expenditure, Punjab and Chhattisgarh have the lowest at 4 per cent of total expenditure.

1. As per the 14th Finance Commission the states must adhere to which fiscal deficit norms?

A. States must have their interest to revenue receipts ratio below the 25 per cent norm.
B. All states are required to maintain a zero-revenue deficit
C. 10 out of 24 states do not have to follow the norms.
D. The highest allocation towards asset creation must be 27 per cent of its expenditure, whereas the lowest must be at 4 per cent of total expenditure.
E. Nonre of these

2. What could be a suitable title for the passage?

A. Bihar's fiscal position deteriorates in FY18
B. Importance of capital expenditure
C. Financial year 2018\Care Ratings report for FY18
D. How capital expenditure affects growth and development
E. None of the above

3. What economic indicators does Care Ratings consider while giving its report?

I. Revenue surplus
II. Revenue deficit
III. Interest to revenue receipts ratio
IV. Gross Fiscal Deficit to GSDP ratio

A. Only I and III B. Only II and Iv C. Only I, III and IV
D. Only II, III and IV E. All of the above

4. According to the passage which of the following states saw their revenue deficits widen in Financial Year 2018?

A. Bihar, Odisha, Chhattisgarh and Uttar Pradesh
B. Rajasthan, Tamil Nadu, Assam, Punjab and Maharashtra
C. Haryana, West Bengal, Kerala and Andhra Pradesh
D. Jammu and Kashmir, Jharkhand and Gujarat
E. None of the above

5. Which of the following is/are not correct with respect to the passage?

I. All States need to cap their debt obligations to below 25% of their respective GSDPs.
II. 14 out of 24 states that have been analysed in the report witnessed an increase in expenditure towards asset creation in FY17.
III. All states are required to maintain a zero-revenue surplus as per the 14th Finance Commission.

A. Only I
B. Only I and II
C. Only I and III
D. Only II and III
E. All are correct

6. Why is capital expenditure important for the government?

A. Because the states have to focus on asset creation.
B. Because they must adhere to the fiscal deficit norms stipulated by the Finance Commission.
C. Because all the other states are focusing on capital expenditure.
D. Because it provides a foundation for the future growth and development of the regional economy and also adds to the capital stock.
E. All of the above

7. Which of the following is/are correct with respect to the passage?

I. Most states kept their debt levels, as a percentage of GSDP, unstable.
II. The states saw a rise in their revenue expenditure in FY18.
III. The states' fiscal position has deteriorated in FY18 on account of widening revenue deficit.

A. Only I
B. Only I and II
C. Only I and III
D. Only II and III
E. All are correct

8. Which of these is most opposite to the word incurred **highlighted in the passage?**

A. Acquire
B. Avoid
C. Contract
D. Earn
E. Induce

9. Which of the words below is most similar **to the word 'consolidation' highlighted in the passage?**

A. Validation
B. Contradict
C. Severance
D. Concentrate
E. Redaction

10. Which of these is most opposite to the word stipulate **highlighted in the passage?**

A. Agree
B. Specify
C. Confuse
D. Ponder
E. Predict

Correct answers:

1	2	3	4	5	6	7	8	9	10
B	D	E	B	D	D	D	B	D	C

Explanation:

1.

Refer to paragraph 3:

'…As per the 14th Finance Commission, all states are required to maintain a zero revenue deficit. The prevalence of revenue deficits is indicative of the fiscal pressure faced by 10 states that recorded revenue deficit in FY18. Most states managed to keep their debt levels (as a percentage of GSDP) stable. While 11 out of 19 states maintained their debt below the **stipulated** norm of 25 per cent of GSDP in FY18, 10 out of 21 states have their interest to revenue receipts ratio below the 10 per cent norm..'

Option A is incorrect. As per FY18, States must have their interest to revenue receipts ratio below the 10 per cent norm. This option is incorrect because it says 25 per cent instead of 10 per cent.

Option C is also incorrect because in the passage there is no mention of any states exempt from the norms set by FY18.

Option D is incorrect because the passage says that Goa had the highest allocation towards asset creation at 27 per cent of its expenditure, whereas Punjab and Chhattisgarh had the lowest at 4 per cent of total expenditure. However, nowhere in the passage is it stated that it is a norm set by the 14th FC.

Option B is correct because according to the passage, the 14th Finance Commission set a zero-revenue deficit norm for all states.

Hence, option B is correct.

2.

The entire passage talks about the results/findings of the Care Ratings report for the Financial Year 2018. Options A, B, C and E all depict only a part of the passage and hence, none of these are a suitable title.

Therefore, option D fits best and is the correct answer.

3.

Refer to:
'..As states have been termed to be treading on the fiscal **consolidation** path, the report pointed that the gross fiscal deficit to gross state domestic product (GFD to GSDP) ratio..'

'..The prevalence of revenue deficits is indicative of the fiscal pressure faced by 10 states that recorded revenue deficit in FY18. Most states managed to keep their debt levels (as a percentage of GSDP) stable. While 11 out of 19 states maintained their debt below the **stipulated** norm of 25 per cent of GSDP in FY18, 10 out of 21 states have their interest to revenue receipts ratio below the 10 per cent norm.'

'..The fiscal position of states deteriorated in 2017-18 over 2016-17 as revenue deficit for most states widened whereas states with revenue surplus witnessed a decline in their surplus, according to a Care Ratings report…'

As per the fragments highlighted above, all of the options have been mentioned in the CARE report and are correct.

Hence, option E is correct.

4.

'…On a consolidated basis, the states have seen a rise in their revenue expenditure. Bihar, Odisha, Chhattisgarh and Uttar Pradesh, which had a revenue surplus in FY17, saw them narrow down in FY18 (as per the revised estimates). Assam, Punjab, Rajasthan, Tamil Nadu and Maharashtra that had registered revenue deficit in FY17, saw it widen in FY18. J&K, Jharkhand and Gujarat improved…'

As per the Care Ratings report, the states highlighted in option B showed an increase in their respective revenue deficits in FY18.

Hence, option B is the answer.

5.

Refer to paragraph 5

'…On the other hand, Karnataka, Chhattisgarh, Odisha and Telangana have efficiently managed their debt obligations and have **low debt to GSDP** and interest to revenue receipt ratios i.e. within the stipulated norm of **25 per cent**and 10 per cent, respectively. ...'

Refer to paragraph 1

'…according to a Care Ratings report. Stating that the states have increased their focus on asset creation, which is crucial for future growth and development, it said that 14 out of 24 states analysed in the report witnessed an increase in expenditure towards asset creation in **FY18**. …'

Refer to paragraph 4

'…As per the 14th Finance Commission, all states are required to maintain a **zero revenue deficit**. The prevalence of revenue deficits …'

Hence, only statement I is true while statements II and III are incorrect.

Thus, option D is the answer.

6.

Refer to:

'…**While capital expenditure for the government is important and adds to the capital stock of the regional economy and provides a foundation for future growth and development,** the report says that the consolidated expenditure by states towards asset creation continues to be under 15 per cent of their total expenditure.…'

Out of all the options, only Option D is true- *Capital expenditure adds to the capital stock of the regional economy and provides a foundation for future growth and development.* Therefore, it is important for the government.

Hence, option D is the answer.

7.

Refer to paragraph 4

'…The prevalence of revenue deficits is indicative of the fiscal pressure faced by 10 states that recorded revenue deficit in FY18. **Most states managed to keep their debt levels (as a percentage of GSDP) stable.** While. …'

I is correct.

Refer to paragraph 3

'…On a consolidated basis, **the states have seen a rise in their revenue expenditure.** Bihar, Odisha, Chhattisgarh and Uttar Pradesh, which had a revenue surplus in FY17, saw them narrow down in FY18 (as per the revised estimates). …'

II is correct.

Refer to paragraph 1

'…**The fiscal position of states deteriorated in 2017-18 over 2016-17** as revenue deficit for most states widened whereas states with revenue surplus witnessed a decline in their surplus, according to a Care Ratings report. …'

III is correct.

Hence, statement I is not true, whereas statements II and III are correct.

Option D is the answer.

8.

'Incur*' means to become subject to something as a result of one's own behaviour.*
Acquire, Contract, Earn and *Induce* are all synonyms of incur.
Avoid which means to *keep away from/stop oneself from doing*, is the opposite of incur.

Hence, option B is correct.

9.

'Consolidate' means *strengthen/combine into a coherent whole.*

Severance means *to put an end to/divide* and is the antonym of *Consolidate*.

Validation means confirmation.

Contradict means to disagree with.

Redaction means *editing/censoring something.*

Concentrate means to *come together/increase in strength.* This is the closest to *consolidation*.

Hence, option D is correct.

10.

'Stipulate' here means *'to specify (a requirement), typically as part of an agreement'.*

Agree, Ponder and *predict* are irrelevant.

Specify is the synonym of 'Stipulate'.

Confuse which means something *not easy to understand/unclear* is the opposite of 'Stipulate'.

Hence, option C is correct.