**JAIPURIA INSTITUTE OF MANAGEMENT, INDORE**

**PGDM**

**SECOND TRIMESTER (Batch 2021-23)**

**END TERM EXAMINATION, JAN-2022**

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| Course Name | **Emerging Economic Environment** | Course Code | **40402** |
| Max. Time | **2 hours** | Max. Marks | **40** |

**INSTRUCTIONS: All questions are compulsory**

**Q: 1**

**RBI Monetary policy highlights: Lending rates unchanged amid Omicron scare**

**Excerpts from Business Standard dated December 8, 2021**

The Reserve Bank of India's (RBI's) six-member monetary policy committee (MPC), headed by Governor Shaktikanta Das, decided to maintain key interest rates for a ninth straight meeting, retaining an accommodative stance amid the threat surrounding Omicron virus variant. Repo and reverse repo rates currently stand at 4 per cent and 3.35 per cent, respectively.

The RBI will continue to manage liquidity that is conducive to entrenching the recovery, fostering macro-economic and financial stability, Das reaffirmed.

**Growth outlook**

Growth Outlook: The Indian economy grew 20.1% in the first quarter of the current financial year and 8.4% in the second. With the economy reopening and high-contact services resuming, the output is expected to remain strong in the third quarter. Supply disruptions, higher commodity prices and now concerns caused by the new Covid-19 variant Omicron has, however, added uncertainty to the outlook. Taking all these factors into consideration, projection for real GDP growth is retained at 9.5% in FY22. Real GDP growth is estimated at 6.6% in Q3 FY22, 6% in Q4 FY22, 17.2% for Q1 FY23 and 7.8% for Q2 FY23.

**Inflation outlook**

CPI inflation is now projected at 5.3% during FY22. It is seen at 5.1% in Q3, and 5.7% in Q4 of FY22, with risks broadly balanced. It is then expected to ease to 5% and remain there for the first two quarters of the next financial year.

**A.** Analyze why RBI maintained the status quo (kept the policy rates unchanged) as per the article? What impact RBI is expecting in the economy because of this stand? Are there any risks also associated?

**B.** Explain the term real GDP. Is it different from nominal GDP? Can you cite the reason why Indian economy grew by 20.1% in Q1 of FY22 and then grew only by 8.4% in Q2 of FY22?

**C.** What is CPI inflation? How is it measured? Why RBI mentioned it is going to go up in Q3 and Q4 but will then come down during the first two quarters of FY23?

**D.** Suggest two monetary and two fiscal policy decisions which can help the economy revive from current situation.

**[2 + 2 + 3 + 3 = 10 Marks]**

**Q:2 Explain with reasonable justifications: [10 Marks]**

**a.** Impact on economy, if there is deflation

**b.** Impact on investments, if rate of interest goes down

**c.** Difference between FDI and FPI

**d.** Impact on AD-AS equilibrium if labor wages go up.

**e.** Impact on government borrowings if there is fiscal deficit in the country

**f.** Impact on money supply if RBI adopts expansionary monetary policy

**g.** Impact on INR if inflation in India goes up and inflation in USA remains stable

**h.** Which is better according to you? Demand-pull or Cost-push inflation

**i.** Impact on exports and imports if INR depreciates

**g.** Impact on current account if crude oil prices go up

**Q: 3** An economy is characterized by the following equations-

Consumption Function = 100 + 0.75Yd; Investment = Rs. 350 Crores; Tax = Rs. 200 Crores; Government Expenditure = Rs. 250 Crores; Exports = Rs. 200 Crores; Imports M = Rs. 250 Crores

**Compute:**

1. The equilibrium level of income
2. Comment if there is trade deficit/ surplus.
3. Find the final value of consumption in the economy. Explain what is MPC.
4. The increase in government expenditure required to ensure that the economy reaches the full employment level of income of Rs. 2200 crores. **[4 + 1 + 2 + 3 = 10 Marks]**

**Q: 4**

**China’s aggressive behavior on the global stage is an ‘immense danger,’ says analyst**

**Excerpts from CNBC dated June 30, 2021**

As the Chinese Communist Party celebrates the 100th year since its founding this week, an analyst has warned of the “immense danger” from Beijing’s increasing aggression on the global stage. Orville Schell, the Arthur Ross director of Asia Society’s Center on U.S.-China Relations, said China’s aggression — coupled with the rise of its military — could result in a “military accident, even a military clash.”

China has been flexing its geopolitical muscles over the past year, when much of the world was grappling with the Covid-19 pandemic. That has caused its relationships with several countries to deteriorate.

Among other things, China slapped trade sanctions on Australia, had a military clash with India along the border the two countries share, and has effectively taken control of parts of the disputed South China Sea, where China and several Southeast Asian countries have overlapping territorial claims.

“And that’s why this is such an immense danger, that China’s wolf warrior diplomacy — its aggressiveness which seems bent on doing what it wants to do regardless of what anyone else thinks — is such a danger”, an expert commented.

**A.** Critically examine China’s aggressiveness in terms of becoming super power both geographically and economically. Comment on the impact on India due to these aggressive moves of China.

**B.** Contrast between frontier economies and economies like India and China? Is there any global shift happening in context to these economies? Comment. **[7 + 3 = 10 Marks]**

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